CHAPTER 1

Why it is Crucial to Create Powerful Brands

SUMMARY

This introductory chapter lays the foundations for the remaining chapters of this book. It summarises the latest thinking and best practice in the domain of marketing and takes a fresh look at the real nature of an organisation's assets, such as market share and supplier and customer relationships, all of which are represented by the brand. It also questions traditional thinking and practice in asset accounting and suggests alternative approaches designed to focus attention on the core purpose of this book – how to create powerful brands.

After almost a century of marketing, it is sad to note that as recently as 2005, the Harvard Business Review reported that of 30,000 new products launched in the USA, 90 percent of them failed because of poor marketing. The other 10 percent went on to become successful brands.

If this seems like a somewhat dramatic way to start a book on branding by three professional, experienced practitioners, researchers, teachers and writers, let us say at once that the reason is that, wherever we go in the world, chief executive officers immediately accost us with questions about either their corporate or product/service brands. Alas, we have to reign in their obvious enthusiasm for branding with some questions relating to the markets they serve, to the segments within those markets and to where they are positioned in these segments vis-à-vis their competitors. Only then can a sensible discussion take place about their brands.

Indeed, even a cursory glance at the work of gurus like Phillip Kotler, Tom Peters, the ex-chairman of Unilever Sir Michael Parry and the like, reveals a very broad agreement that the main components of world class marketing are:

1. A deep understanding of the market place
2. Correct needs-based segmentation and prioritisation
3. Segment-specific propositions
4. Powerful differentiation, positioning and branding
5. Effective strategic marketing planning processes
6. Long-term integrated marketing strategies

CONTENTS

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7. A deep understanding of the needs of major customers
8. Market/customer-driven organisation structures
9. Professionally-qualified marketing people
10. Institutionalised creativity and innovation

The order is important and justifies our belief that it is impossible to discuss branding in isolation from the context to which it belongs, because everything an organisation does, from production through to eventual consumption, all adapt to and converge on the business value proposition that is offered to the customer. This value proposition has to have a name attached to it, so the brand name comes to represent everything a company does or strives to do. Hence the crucial importance of brands.

This chapter begins by reminding readers what marketing is and how it works, then goes on to spell out the growing importance of intangible assets and how success is measured. Finally, it describes what product management is and concludes by spelling out this difference between a brand and a successful brand.

CONFUSION ABOUT WHAT MARKETING IS

We all know that one of the stumbling blocks to those of us in marketing is the cacophony of definitions of marketing that exists. It doesn't help when one of CIM's ex Presidents, Diane Thompson declared: "Marketing isn't a function. It is an attitude of mind". Many will wonder how an attitude of mind can be measured, researched, developed, protected, examined, etc. Of course she was correct in one sense, because marketing as a function can never be effective in any organisation that does not put the customer at the core of its operations. Add to this the hundreds of different definitions of marketing to be found in books and papers on marketing and the confusion is complete. A selection of 30 such definitions are to be found in McDonald's 6th edition of Marketing Plans, most of which involve doing things to customers (2007).

Whilst definitions such as CIM's are admirable and correct, they provide little guidance on what should be included and excluded, with the result that they are difficult to use for a research exercise on what should be measured in marketing. Therefore, let us be unequivocal about marketing. Just like finance, or HR, or IT, it is a function, a specific business activity that fulfils a fundamental business purpose. The following describes marketing in terms of what it actually entails.

Marketing is a process for:

- Defining markets in terms of needs
- Quantifying the needs of the customer groups (segments) within these markets

- Putting together the value propositions to meet these needs and communicating these value propositions to all those people in the organisation responsible for delivering them
- Playing an appropriate part in delivering these value propositions (usually only communications)
- Monitoring the value actually delivered

For this process to be effective, organisations need to be consumer/customer-driven. (McDonald M., 2007) This consolidated summary of the marketing process is shown diagrammatically in Fig. 1.1.

The map of the process in Fig. 1.1 works to simplify what is a complex process, into a series of manageable steps. It provides a practical framework for understanding and tackling the multitude of issues that comprise marketing, leading to sustainable competitive advantage; but in particular, it helps to determine the parameters of measurement and accountability.

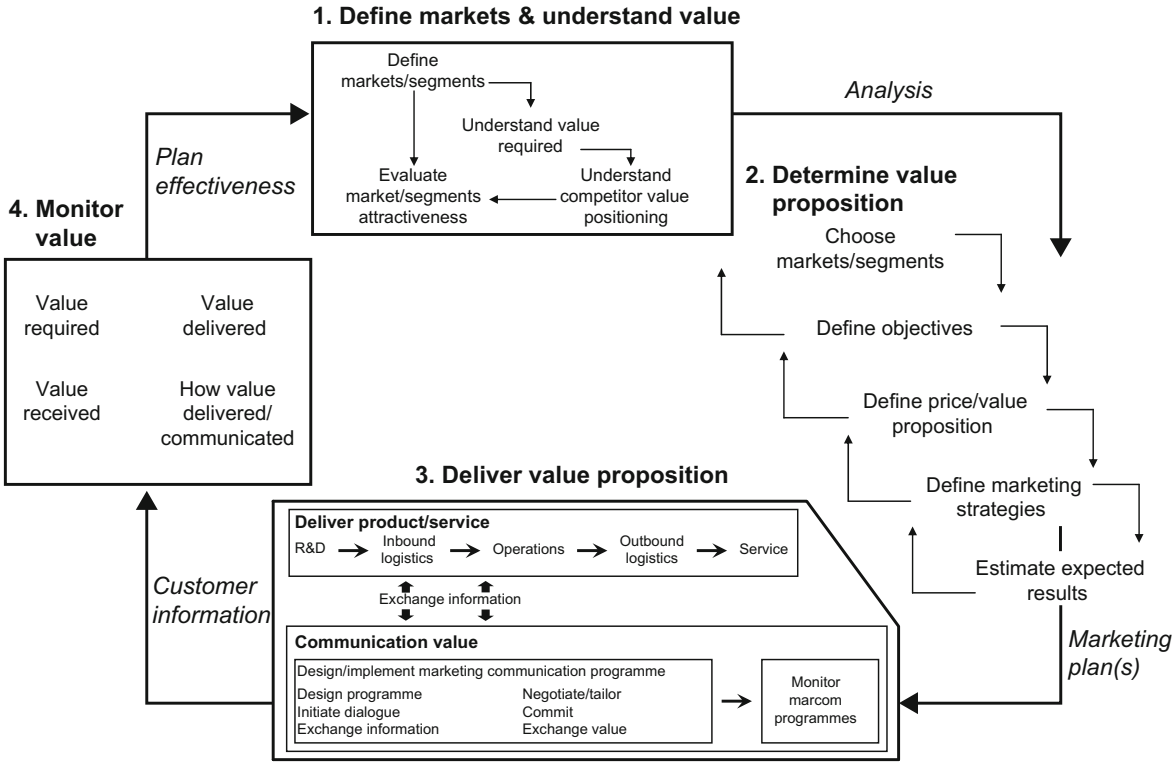


FIGURE 1.1
Summary of marketing map

Steps 1 and 2 are about strategy determination, while Steps 3 and 4 are about tactical implementation and measurement. It is these latter two that have come to represent marketing as a function that is still principally seen as sales support and promotion.

We have used the term 'Determine value proposition', to make plain that we are here referring to the decision-making process of deciding what the offering to the customer is to be – what value the customer will receive and what value (typically the purchase price and ongoing revenues) the organisation will receive in return. The process of delivering this value, such as by making and delivering a physical product or by delivering a service, is covered by 'Deliver value proposition'.

It is well known that not all of these marketing activities will be under the control of the marketing department, whose role varies considerably between organisations. The marketing department should be in charge of the first two sub processes, 'define markets and customer value' and 'determine value proposition', although even these need to involve numerous functions, albeit coordinated by specialist marketing personnel. However, the responsibility for delivering value is the shared domain of the whole company, requiring cross-functional expertise and collaboration. It will include, for example, product development, manufacturing, purchasing, sales promotion, direct mail, distribution, sales and customer service.

The marketing process is clearly cyclical, in that monitoring the value delivered will update the organisation's understanding of the value that is required by its customers. The cycle may be predominantly an annual one, with a marketing plan documenting the output from steps 1 and 2; but equally, changes throughout the year may involve fast iterations around the cycle to respond to particular opportunities or problems.

Choices may be influenced by physical assets and/or the less tangible but substantial value afforded by the organisation's people, brands, financial status and information technology.

The authors make a plea here that rather than arguing incessantly about a suitable definition of marketing, we at least take this one as a starting point for considering the role of brands and how powerful brands create success.

THE GROWING IMPORTANCE OF INTANGIBLE ASSETS

In 2006, Proctor and Gamble paid £31 billion for Gillette, of which only £4 billion was accounted for by tangible assets, as Table 1.1 shows.

Table 1.1 Intangibles

■ Gillette brand	£ 4.0 billion
■ Duracell brand	£ 2.5 billion
■ Oral B	£ 2.0 billion
■ Braun	£ 1.5 billion
■ Retail and supplier network	£10.0 billion
■ Gillette innovative capability	£ 7.0 billion
Total	£27.0 billion

(David Haigh, Brand Finance, Marketing Magazine, 1st April 2005)

Recent estimates of companies in the USA and in the UK show that over 80 percent of the value of companies resides in intangibles. Whilst this has reduced during the recession of 2008/9, intangibles will nonetheless remain a substantial percentage of corporate wealth. Table 1.2 and Fig. 1.2 show some of this research. Fig. 1.3 shows a typical breakdown of intangibles, whilst Table 1.1 above is an example of the breakdown of intangibles in a recent acquisition. Yet very little is known about intangibles by shareholders and the investment community. Traditional accounting methods are biased towards tangible assets, for this is where the wealth used to reside.

Generalising from this, what typically appears in a balance sheet can be seen from Fig. 1.4 below. However, when a predator bids for such a company, it is often forced to pay substantially more than the £100 million shown in this balance sheet.

Table 1.2 Some Market Definitions (Personal Market)

Invisible Business: Some Research Findings

- Brand Finance analysis of top 25 stock markets – $31.6 trillion (99% of global market value)
- 62% of global market value is intangible – $19.5 trillion
- Technology is the most intangible sector (91%)
- The technology sector in the USA is 98% intangible

Source: Brand Finance, 2005

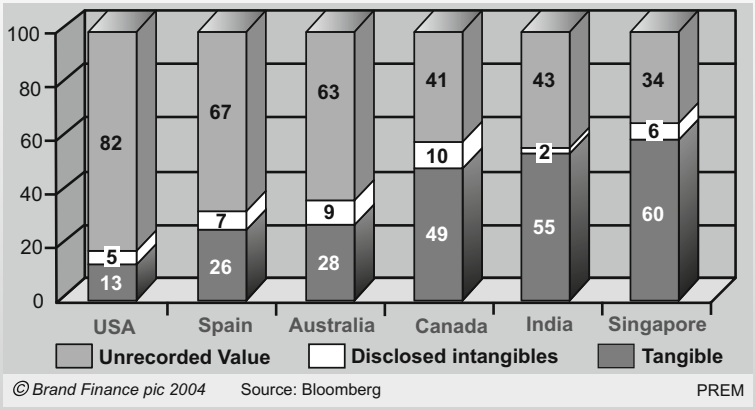


FIGURE 1.2
Asset split across selected economies

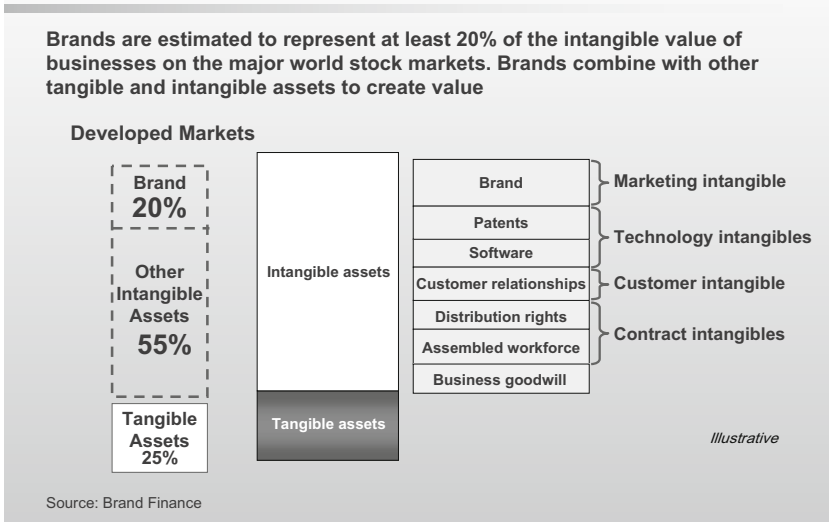


FIGURE 1.3
Brands are key intangibles in most businesses

In this hypothetical example shown in Fig. 1.5, it can be seen that in this case, it is £900 million—£800 million more than is shown in the balance sheet in Fig. 1.4.

The problem is that it leaves a balance sheet that doesn't balance, so this is corrected in Fig. 1.6, which shows a balancing figure of £800 million.

A critic of accounting procedures might be justified in pointing out that this £800 million entry is the mistake made by accountants in valuing this company and that it takes an acquisition (or the threat of an acquisition) to work out how big this mistake is.

Assets	Liabilities
- Land - Buildings - Plant - Vehicles etc.	- Shares - Loans - Overdrafts etc.
£100 million	£100 million

FIGURE 1.4
Balance sheet

Of course this is not true and in any case, the share price of a company is usually a good guide to its worth. There are also clear rules agreed internationally concerning how such intangibles should be recorded and treated, following an acquisition. But this isn't the point.

The point is that incongruously, most large companies have formally-constituted audit committees doing financial due diligence on major investments such as plant and machinery, using discounted cash flows, probability theory, real option analysis and the like; yet few have anything even remotely rigorous to evaluate the real value of the company's intangibles. There is a massive body of research over the past 50 years on how companies carry out strategic planning and much of it verifies that a lot of what passes for strategy amounts to little more than forecasting and budgeting, which are of little value to the investment community in estimating risk; with the result that it uses its own methods and frequently downgrades the capital value of shares, even when the earnings per share have been raised and when forecasts appear to look good.

Assets	Liabilities
- Land - Buildings - Plant - Vehicles etc.	- Shares - Loans - Overdrafts etc.
£100 million	£900 million

FIGURE 1.5
Balance sheet

As readers of this book will know, in capital markets, success is measured in terms of Shareholder Value Added (SVA), having taken account of the risks associated with

Assets	Liabilities
- Land - Buildings - Plant - Vehicles Goodwill £800m	- Shares - Loans - Overdrafts etc.
£900 million	£900 million

FIGURE 1.6
Balance sheet

future strategies, the time value of money and the cost of capital. The role of powerful brands in this assessment of risk is crucial.

First, however, there are some basic concepts relating to risk and return and stock markets all over the world that are best explained here. Fig. 1.7 shows a simple matrix encompassing financial risk and business risk. A combination of high business and financial risks can be fatal.

For example, although there were other factors at play, Sir Freddie Laker's airline in the 1970s involved a high financial gearing. He then chose to compete on the busy, high risk London/North Atlantic route, employing a low price strategy. His high financial gearing/breakeven model subsequently left him open to tactical low price promotions from more global, established airlines, such as British Airways. The result was financial disaster.

Compare this with Virgin's low financial risk entry in the same market, with a highly differentiated marketing strategy. Virgin is now an established and profitable international airline.

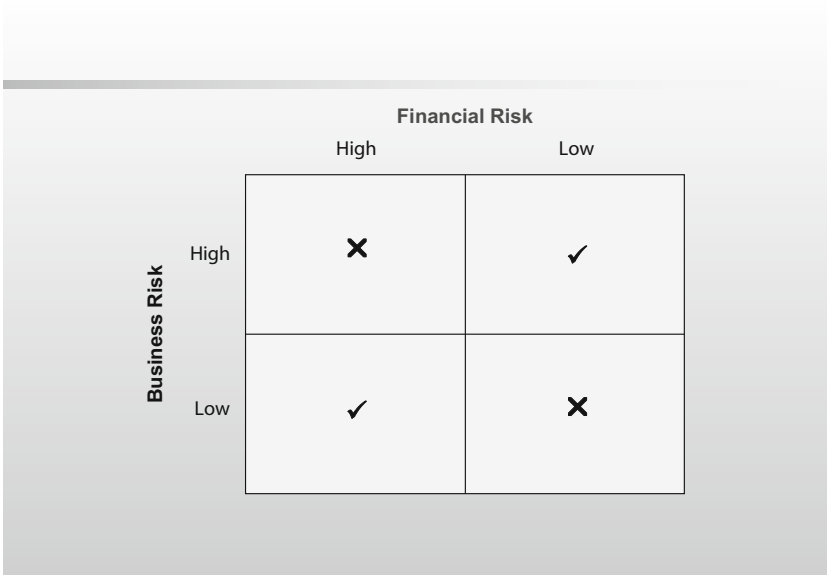


FIGURE 1.7

Fig. 1.8 shows a typical stock exchange, with shares plotted against return and risk. From this it can be seen that a Beta is drawn (the diagonal line).

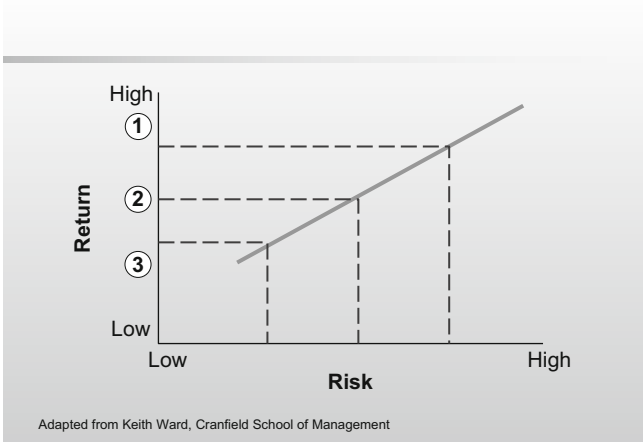


FIGURE 1.8
Financial risk and return

At the low end, investors do not mind a lower return for a low risk investment, whilst at the high end, investors expect a high return for a high risk investment. At any point on the line (take the middle point for example), the point of intersection represents the minimum that any investor would be prepared to accept from an investment in this sector. This weighted average return on investment is referred to as the cost of capital. Any player in such a sector returning the weighted average cost of capital is neither creating nor destroying shareholder value—to return more is creating shareholder value; to return less is destroying shareholder value.

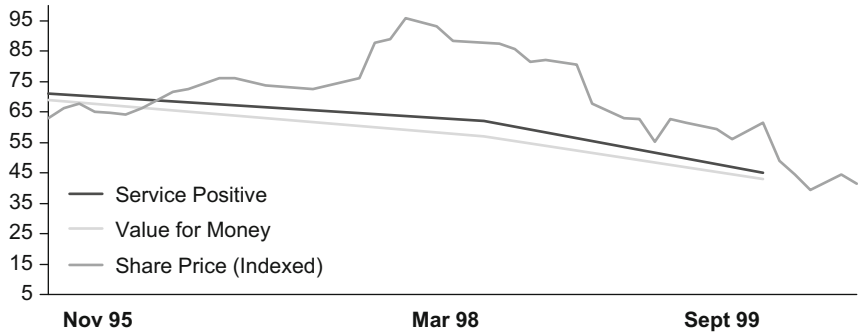
It is interesting to note, however, that the reason the capital value of shares is often marked down after a company has created shareholder value is that the investment community does not believe that such a performance is sustainable. This is often because they have observed that the source of profit growth has been cost cutting, which is, of course, finite; whereas customer value creation is infinite and is only limited by a company's creativity and imagination.

A good example of this is a major British retailer in the mid-90s, shown in Fig. 1.9, from which it can be seen that whilst underlying customer service was steadily declining, the share price was rising.

The inevitable almost terminal decline of this retailer was only reversed after a customer-oriented Chief Executive began to focus again on creating value for consumers, rather than boosting the share price by cost cutting. Shareholders, in the meantime, suffered almost a decade of poor returns.

It is, of course, not as simplistic as this and those readers who would like a more detailed explanation of the technical aspects of stock market risk and return, together with the relevant financial formulae, are directed to Chapter 3 of 'Marketing Due Diligence; reconnecting strategy to share price' (McDonald, Smith and Ward, 2007).

We have gone to so much trouble to explain how stock markets work in relation to risk and return because, as this book will make clear, the most established way to reduce risk is through powerful brands—which is why Proctor



Base: Marks & Spencer Customers

FIGURE 1.9
A major UK retailer

and Gamble paid £27 billion pounds for the intangible assets of Gillette. Also, although brand names per se account for only around 30 percent of intangible assets, they are without doubt the most valuable and – according to Rita Clifton, Chairman of Interbrand (2009) – account for a quarter of all global corporate wealth.

Indeed, in the case of Proctor and Gamble's acquisition of Gillette (Table 1), it is clear that their excellent relationship with their channels is only possible because of the strength of their brand names. Equally, their innovation capability can only be effective if it has an outlet through powerful brands.

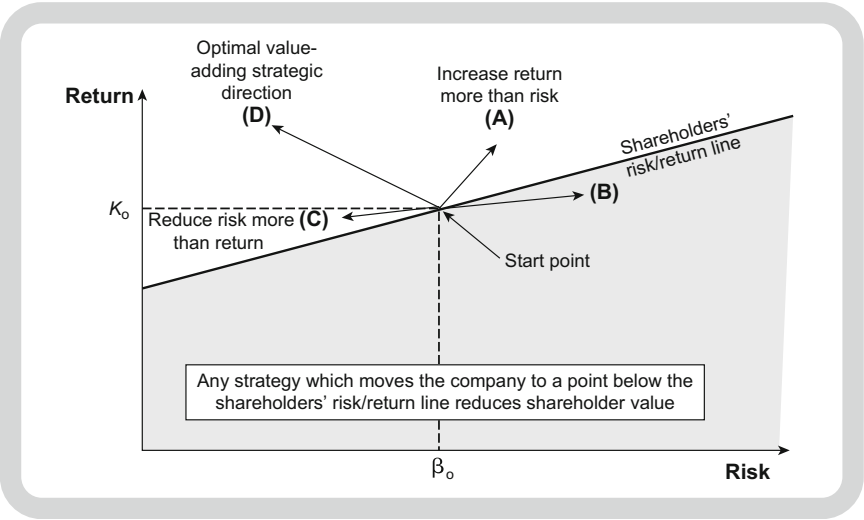


FIGURE 1.10
Shareholder value-adding strategies

Most marketing strategies are aimed at generating growth in sales revenues and profits but, for many mature products and markets, such strategies increase the risk profile of the business; indeed, the word 'growth' can normally be taken to indicate a risk-increasing strategy. This does not automatically mean that these strategies cannot be shareholder value-enhancing; but it does mean, as can be seen from directions A and B in Fig. 1.10, that the return from the more risky strategy must increase proportionately more than does the risk profile of the company. Direction B shows an increase in return less than the increase in risk, thus reducing shareholder value. Remember that merely moving along the shareholders' indifference line does not create shareholder value; this is achieved only by moving to a position above the line.

SHAREHOLDER VALUE-ADDING STRATEGIES

More interestingly, direction C in Fig. 1.10 highlights another type of shareholder value-enhancing strategy that is often ignored in marketing plans. A reduction from the current risk profile of the business (diagrammatically shown as a move to the left) means that shareholder value can be created even if the rate of return is reduced slightly. This time, the reduction in return must be proportionately less than the reduction in the risk profile. Since risk is associated with volatility in returns, this means that marketing strategies that make the future returns more stable and predictable can be shareholder value-enhancing, even if these less volatile future returns are slightly reduced. Thus, marketing strategies designed to increase customer loyalty through long-term discounts and so on can, if properly designed, be shareholder value-enhancing, even though the discounts given actually reduce profit levels.

Obviously, the optimal marketing strategy seeks to increase returns while reducing the associated risk levels (i.e., the volatility of these increased returns), see direction D of Fig. 1.3.

Any such strategy must leverage some already established, sustainable competitive advantages or first seek to develop a new, sustainable, competitive advantage, as the overall purpose and focus of strategic marketing is the identification and creation of such sustainable, competitive advantages.

A good example of this, was BMW's launch of the Mini—low-risk, because all the upmarket, hot hatches indicated that a market existed and low share risk because the proposition was highly differentiated and well positioned.

WHAT IS A PRODUCT?

Let us preface our introduction to the topic of brands by asking ourselves 'what is a product?' or 'what is a service?' The central role that the product plays in

business management makes it such an important subject and mismanagement in this area is unlikely to be compensated by good management in other areas. Misunderstanding in relation to the nature of *product* management is also the root of whatever subsequent misunderstanding there is about *brand* management.

A product or a service is a problem solver

It should hardly be necessary to explain that a product or a service is a **problem solver**, in the sense that it solves the customer's problems and is also the means by which the organisation achieves its own objectives. And since it is what actually changes hands, it is clearly a subject of great importance.

The clue to what constitutes a product can be found in an examination of what it is that customers appear to buy. Theodore Levitt (1960) in what is perhaps one of the best-known articles on marketing, said that what customers want when they buy 1/4 inch drills is 1/4 inch holes. In other words the drill itself is only a means to an end. The lesson here for the drill manufacturer is that if they really believe their business is the manufacture of drills rather than, say, the manufacture of the means of making holes in materials, they are in grave danger of going out of business as soon as a better means of making holes is invented—such as, say, a pocket laser.

The important point about this somewhat simplistic example is that a company, which fails to think of its business in terms of customer benefits rather than in terms of physical products, is in danger of losing its competitive position in the market.

We can now begin to see that when customers buy a product, even if they are industrial buyers purchasing a piece of equipment for their company, they are still buying a particular bundle of benefits, which they perceive as satisfying their own particular needs and wants.

More serious real-world examples with disastrous consequences include Gestetner, who genuinely believed they were in the duplicator business, IBM, who thought they were in the mainframe business and Encyclopedia Britannica, whose business was badly affected by new information channels. Unless a company defines its products in terms of *needs*, not only will history repeat itself but any hope for successful branding will not be fulfilled.

Take the insurance industry, for example. A pension is clearly a problem solver yet many insurance companies continue to say that they are not in the pensions business.

In financial services, one very successful company uses the definitions as shown in Table 1.3.

Table 1.3

Market	Need (On-line)
Emergency cash ('rainy day')	Cash to cover an undesired and unexpected event, often the loss of/damage to property
Future event planning	Schemes to protect and grow money which are for anticipated and unanticipated cash calling events (e.g. car replacement/ repairs, education, weddings, funerals, health care)
Asset purchase	Cash to buy assets they require (e.g. car purchase, house purchase, once-in-a-lifetime holiday)
Welfare contingency	The ability to maintain a desired standard of living (for self and/ or dependants) in times of unplanned cessation of salary
Retirement income	The ability to maintain a desired standard of living (for self and/ or dependants) once the salary cheques have eased
Wealth care and building	The care and growth of assets (with various risk levels and liquidity levels).
Day-to-day money management	Ability to store and readily access cash for day-to-day requirements

An international publisher until recently classified its business as books—in this particular case, Marketing book. Having drawn a market map of the market for Marketing books, the authors then challenged them on their market definition, i.e., "books". They eventually realised that they were in the knowledge promulgation business. The total difference between the market maps shown in Figs. 1.11 and 1.12 indicates how this transformed their entire thinking and strategy making.

What this different kind of logic and thinking leads to is a firm foundation, not only for brands but for the whole of marketing, in terms of measuring market share, market size, market growth, the listing of relevant competitors and the delineation of marketing strategies.

We can now begin to appreciate the danger of leaving product decisions entirely to engineers, actuaries, R&D people and the like. If we do, technicians will sometimes assume that the only point in product management is the actual technical performance or the functional features of the product itself. These ideas are incorporated in Fig. 1.13 and appear right at the very centre of the circle.

We can go even further than this and depict two outer circles as the 'product surround'. This product surround can account for as much as 80 percent of the added value and impact of a product or service. Often, these only account for about 20 percent of costs, whereas the reverse is often true of the inner circle.

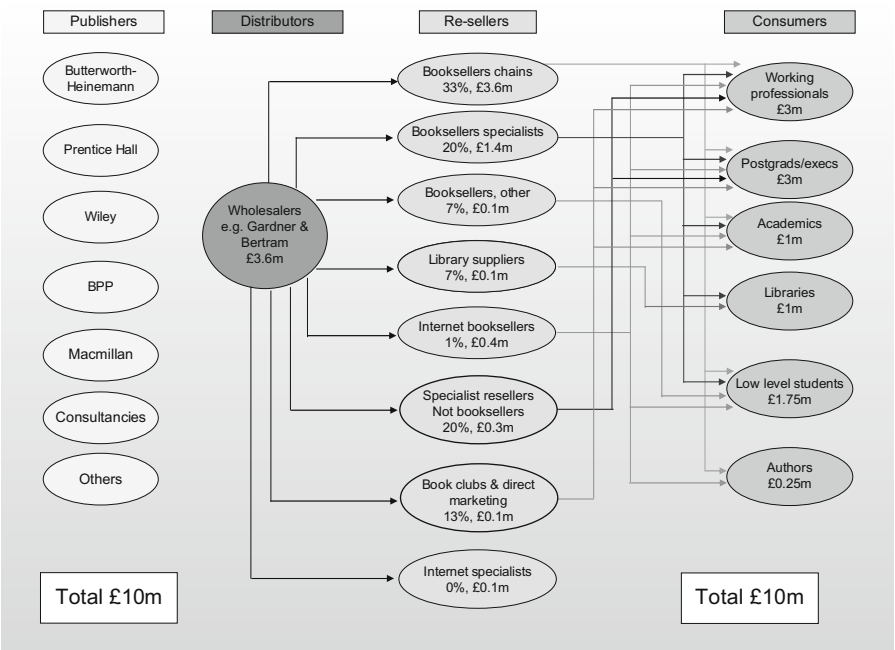


FIGURE 1.11
Original product-based market map

So far we have said little about service products, such as banking, consultancy, insurance and so on. This is because the marketing of services is not very different from the marketing of goods—the greater difference being that services cannot be stored. Thus, an airline seat, if not utilised at the time of the flight, is gone forever.

THE IMPORTANCE OF THE BRAND

It will be clear that here we are talking about not just a physical product but a *relationship* with the customer—a relationship that is personified either by the company's name or by the **brand name** on the product itself. IBM, BMW and Shell are excellent examples of company brand names. Persil, Coca-Cola, Fosters Lager, Dulux Paint and Castrol GTX are excellent examples of product brand names.

Most people are aware of the Coca-Cola/Pepsi-Cola blind taste tests, in which little difference was perceived when the colas were drunk 'blind'. On revealing the labels, however, 65 percent of consumers claimed to prefer Coca-Cola. This is one of the best indications of the value of what we have referred to as the 'product surround'. There can be little doubt that it is a major determinant of commercial

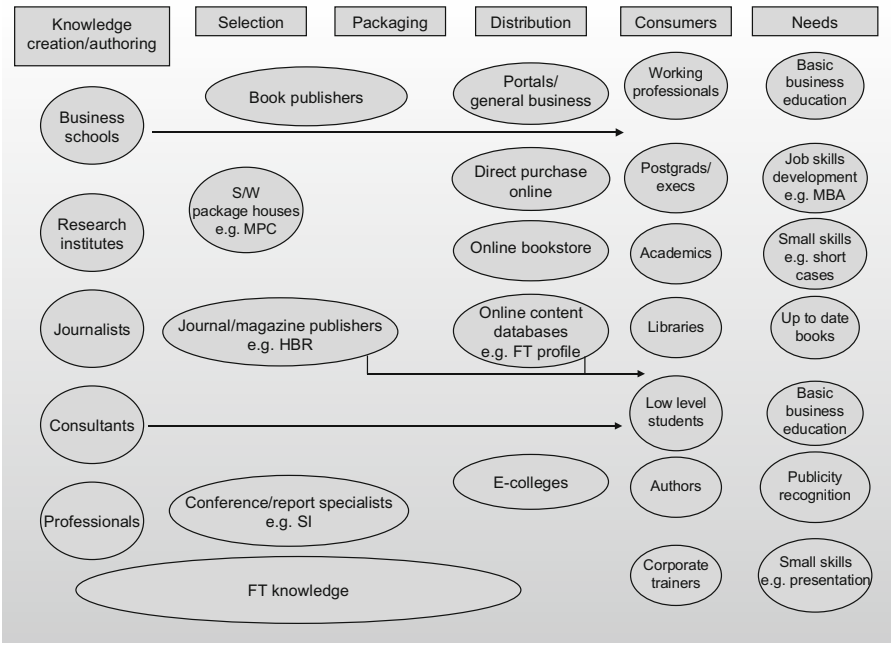


FIGURE 1.12
New needs-based market map

success. When one company buys another, as in the case of Nestle and Rowntree, it is abundantly clear that the purpose of the acquisition is not to buy the tangible assets which appear on the balance sheet (such as factories, plants, vehicles and so on) but the ***brand names*** owned by the company to be acquired.

This is because it is not factories which make profits but relationships with customers; and it is company and brand names which secure these relationships.

The example shown in Table 1.1 is Proctor and Gamble's purchase of Gillette for £31 billion, of which only £4 billion was for tangible assets. It is only one of thousands of examples of the value of brands and the associated link with strong customer relationships.

Philip Morris bought Kraft for £12.9 billion—four times the value of their tangible assets. Grand Metropolitan bought Pillsbury for £5.5 billion—a 50 percent premium on Pillsbury's pre-bid premium. RHM, taking its cue from this, more than trebled its asset value when it voluntarily incorporated its own brands into its balance sheet.

It is also a fact that whenever brand names are neglected, what is known as 'the commodity slide' begins. This is because the physical characteristics of products are becoming increasingly difficult to differentiate and easy to emulate. In

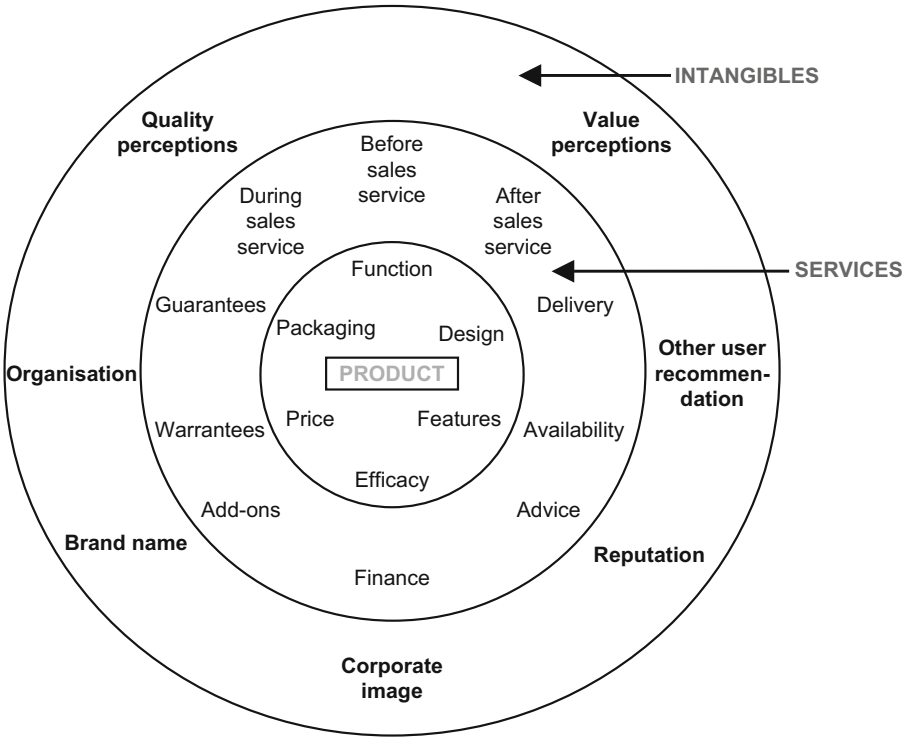


FIGURE 1.13
The components of a product

situations like these, one finds that purchasing decisions tend to be made on the basis of price or availability in the absence of strong brands.

Business history is replete with examples of strong brand names which have been allowed to decay through lack of attention, often because of a lack of both promotion and continuous product improvement programmes.

The fruit squash drink market is typical of this. The reverse can be seen in the case of Intel, which is a fantastic branding success story in a highly competitive global market.

Fig. 1.14 depicts the process of decay from brand to commodity as the distinctive values of the brand are eroded over time, with a consequent reduction in the ability to command a premium price.

The difference between a brand and a commodity can be summed up in the term 'added values', which are the additional attributes or intangibles that the consumer perceives as being embodied in the product. Thus, a product with a strong brand name is more than just the sum of its component parts. The

Coca-Cola example is only one of thousands of examples of the phenomenon.

Research has shown that perceived product quality, as explained above, is a major determinant of profitability.

It is the difference between successful and unsuccessful brands.

Successful brand building helps profitability by adding values that entice customers to buy. They also provide a firm base for expansion into product improvements, variants, added services, new countries and so on. They also protect companies against the growing power of intermediaries. Last but not least, they help transform organisations from being faceless bureaucracies to entities that are attractive to work for and deal with.

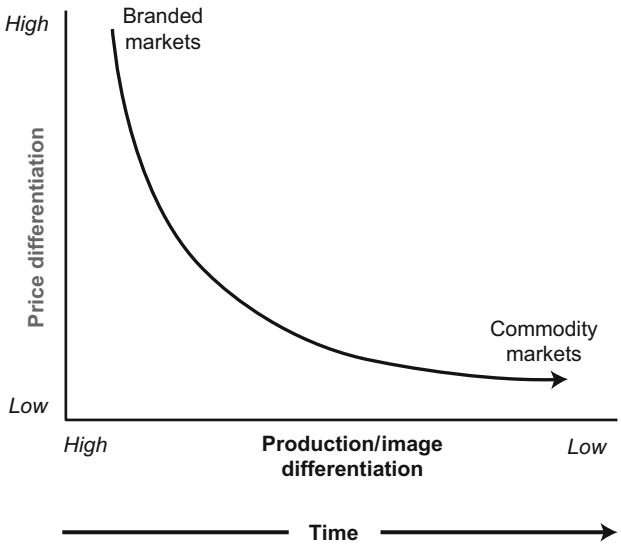


FIGURE 1.14

We must not, however, make the mistake of confusing successful and unsuccessful 'brands'. The world is full of products and services that have brand names but which are not successful brands. They fall down on other important criteria.

A successful brand has a name, symbol or design (or some combination of these) that identifies the 'product' of an organisation as having a sustainable, competitive advantage; for example, Coca-Cola, IBM, Tesco. A successful brand invariably results in superior profit and market performance (PIMS). Brands are only assets if they have sustainable, competitive advantage. Like other assets, brands depreciate without further investment; for example, Hoover, Singer, MG, Marks & Spencer and so on.

There are many 'products' that pretend to be brands but are not the genuine article. As the Director of Marketing at Tesco said, 'Pseudo brands are not brands. They are manufacturer's labels. They are "me-toos" and have poor positioning, poor quality and poor support. Such manufacturers no longer understand the consumer and see retailers solely as a channel for distribution' (reported in *Marketing Globe*, Vol. 2, No. 10, 1992).

Seen in this light, pseudo brands can never be mistaken for the real thing, because the genuine brand provides added brand values. Customers believe that the product:

- will be reliable
- is the best

- is something that will suit them better than product X
- is designed with them in mind.

These beliefs are based not only on perceptions of the brand itself relative to others, but also on customers' perceptions of the supplying company and their beliefs about its reputation and integrity.

The title 'successful brand' has to be earned. The company has to invest in everything it does, so that the product meets the physical needs of customers, as well as having an image to match their emotional needs. Thus, it must provide concrete and rational benefits that are sustained by a marketing mix that is compatible, believable and relevant.

By dint of considerable effort, IBM, despite its trials and tribulations over a decade ago, has succeeded in building a substantial world market share and that three lettered logo is still very powerful.

Often, the added values of brands are emotional values that customers might find difficult to articulate—for example, the prestige someone might feel in using their American Express Platinum card. These added values result from well thought through marketing strategies, which develop a distinctive position for the brand in the customers' mental map of the market. In commodity markets, competing brands, because they are undifferentiated, are seen by the customer as occupying virtually identical positions; and thus to all intents and purposes they are substitutable. The more distinctive a **brand** position with favourable attributes that the customer considers important, the less likelihood that a customer will accept a substitute.

Fig. 1.15 is a simplified version of Fig. 1.13, which illustrates that it is successful brands and the 'product surround' that create 80 percent of the market impact—hence the substantial premiums paid over tangible assets. It might be argued that if it is possible to value a company for sale, then surely it should be possible to do so on an ongoing basis and specifically to recognise the worth of marketing assets as represented by brands.

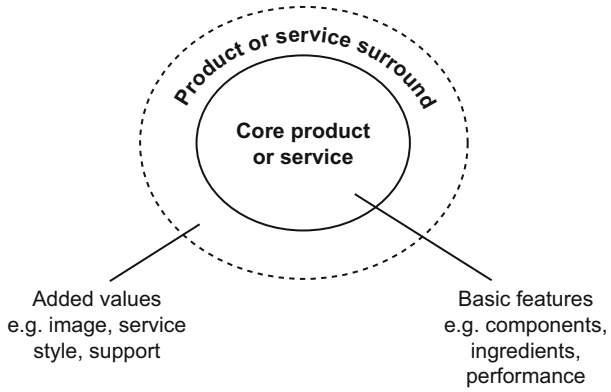


FIGURE 1.15
The importance of added values

The question of asset protection and development is in a sense what marketing is all about. The 'stewardship' of marketing assets is a key responsibility which is recognised in many companies by, for example, the organisational concept of brand management. Here, an executive is given the responsibility for a brand or brands and acts as its 'champion', competing

internally for resources and externally for market position. It is but a short step from this organisational concept to a system of 'brand accounting', which would seek to identify the net present value of a brand, based upon the prospect of future cash inflows compared with outgoings; indeed a whole industry has grown round this concept in recent years, led by companies such as Brand Finance and Interbrand.

One advantage of such an approach is that it forces the manager to acknowledge that money spent on developing the market position of a brand, is in fact an investment which is made in order to generate future revenues. There is a strong argument for suggesting that for internal decision making and on questions of resource allocation, a 'shadow' set of management accounts be used; this is not the traditional approach whereby marketing costs are treated as expenditure in the period in which they are incurred— but an approach which recognises such expenditure as investments.

There is some interesting evidence from the IPA's analysis of almost 900 promotional campaigns, presented in a report (Binet. L, 2007). In one experimental scenario, the promotional budget was cut to zero for a year, then returned to normal; whilst in another, the budget was cut by 50 percent. Sales

Background

- Live in Braintree in Essex; the family comprises Mum and Dad and three children, the oldest of which is just about to start her GCSEs
- Holidays are an important part of their lives: they book early and enjoy the ritual of preparing for their departure
- Mrs. Sunworshipper and her daughter always book a programme of sunbed sessions in the month leading up to their holiday

Holidays

- Have holidayed in The Med for years, even when the kids were quite young
- They always get a package deal to the same tried and trusted resort and tend not to stray too far from the beach or hotel pool
- Now that their children are a bit older, they want to spread their wings and are planning to holiday in Florida next year

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FIGURE 1.16
The Sunworshippers

recovery to pre-cut levels took five years and three years respectively, with cumulative negative impacts on net profits of £1.7 million and £0.8 million respectively.

Buying a major brand via acquisition nowadays often makes more sense to organisations than launching a new brand, with all the risk and uncertainty that this entails. This is just one of the reasons why brand valuation has emerged as a major issue in recent times and why brands are increasingly sought after as assets.

With the advent of the Internet, particularly in the light of online auctions, it is easier for customers to establish the lowest price of any product. However, the destabilising effect this has on prices affects commodities more than brands. Indeed, it is interesting to note that it is the major brand leading organisations who have embraced e-commerce, not just to reduce transaction costs, but also to create added values for customers. For example, Thomas Cook, the travel

	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
• Recognise					
Exchange potential					
• Initiate dialogue					
• Exchange information					
Negotiate/tailor					
Commit					
• Exchange value					
• Monitor					

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FIGURE 1.17
The Sunworshippers

specialists, have used the Internet to make it easier for customers to contact them, using whatever medium suits them best. This is a far cry from the traditional approach of viewing the customer as a passive entity to absorb whatever the supplier decides to do to them. Indeed, in the electronic age, given that customers today have as much information about suppliers as suppliers have about them, the most powerful brands will be customer-centric. Successful companies will know the customer and will be the customer's advocate.

The following four figures (Figs. 1.16, 1.17, 1.18 and 1.19) heavily disguised for the purpose of confidentiality, shows but two segments and demonstrates how the preferences for media and channels of each segment in relation to the booking of holidays, are totally different in each case.

So, it is wise to remember that e-commerce has given the customer speed, choice, control, and comparability. It is for this reason that branding has become more important than it has ever been. In the past, all marketers thought that the customer was part of a herd. Marketing was more about broadcasting than about building relationships.

Background

- Live in Luton; childhood sweethearts, John and Mary have been seeing each other seriously for three years
- They were planning to buy a house together but put their plans on hold to ensure that they could take a holiday this summer
- John DJs part-time in a local nightclub and would happily leave his job as a mobile phone salesman a to pursue a DJ-ing career in a European beach resort

Holidays

- Feel like The Med doesn't have anything else to offer them and are keen to travel further afield: Mary likes the sound of Tunisia
- Tend to book a holiday on the basis of the facilities available, and are always keen to get involved in watersports and other beach activities
- Wouldn't dream of holidaying anywhere that doesn't have thriving nightlife

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FIGURE 1.18
John and Mary Lively

	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
• Recognise					
Exchange potential					
• Initiate dialogue					
• Exchange information					
Negotiate/tailor					
Commit					
• Exchange value					
• Monitor					

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FIGURE 1.19
John and Mary Lively

CONCLUSION

To summarise this section, a successful brand delivers sustainable competitive advantage and invariably results in superior profitability and market performance.

This introductory chapter began by asserting that the brand is the ultimate manifestation of a company's relationship with its market. This is represented in Fig. 1.20.

This is a model of the value-creating process. It shows a number of cross-functional management processes, two of which relate to understanding markets (the traditional marketing process) and to managing the relationship with markets (the traditional selling and service processes). The three remaining vertical lines represent other key processes involved in creating

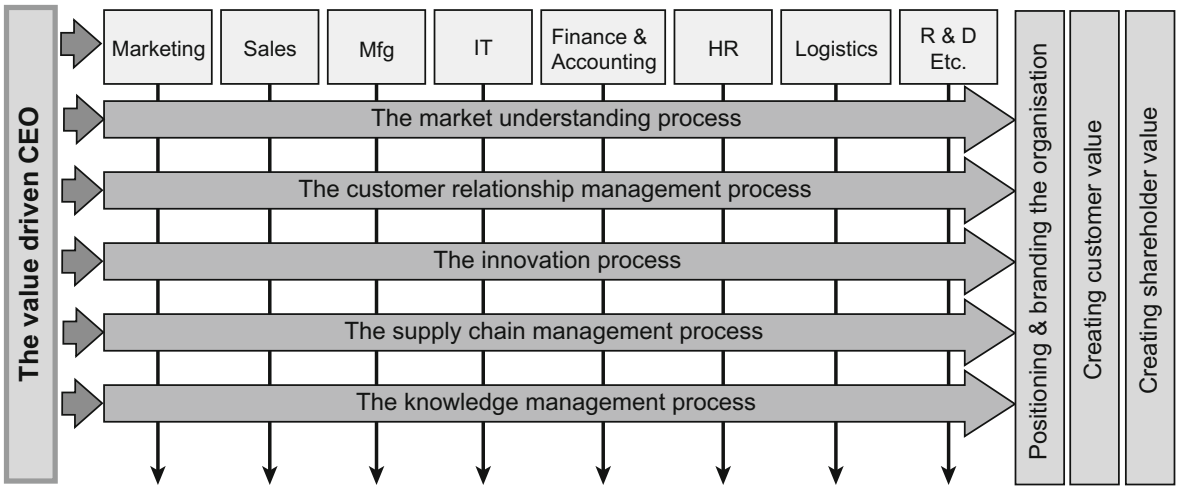

FIGURE 1.20

shareholder and stakeholder value. What is notable, however, in the ultimate creation of shareholder value, is the penultimate vertical box 'positioning and branding the organisation'; for it is this, above all else, that creates value from assets.

BUILDING SUCCESSFUL BRANDS

How brands encapsulate the value-creating capabilities of an organisation.

We hope that we have, by now, been able to give some initial signals about the increasing importance of brands in business success. Later in this book, we refer to the PIMS database (Profit Impact of Market Strategies), which, along with other databases, show conclusively that strong, successful brands enable organisations to build stable, long-term demand and enable them to build and hold better margins than either commodities or unsuccessful brands.

Successful brand building helps profitability by adding value that entices customers to buy. They provide a firm base for expansion into product improvements, variants, added services, new countries and so on. They protect organisations against the growing power of intermediaries. And last, but not least, they help transform organisations from being faceless bureaucracies to ones that are attractive to work for and to deal with.

The following chapters of this book contain an in-depth treatment of aspects relevant to successful brand building. How to create powerful brands is a major

challenge facing all organisations today. It is unlikely that this challenge will be met unless a more rigorous approach is taken to the issues surrounding branding.

We urge you to read on!

BOOK MODUS OPERANDI

Each of the following chapters covers a number of vital aspects of brand management and concludes with an action checklist. Finally, for the convenience of our readers, we have included a further reading list on the more important aspects covered in each chapter.

Further Reading

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