Creating and managing brand value Interbrand

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Managing Value in a Downturn

Branding in a Recession

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If you do not know the value of your brand, you are missing the opportunity to pilot your organisation through challenging economic times.

Current economic conditions are trying, and to more recent generations of company managers may seem unique. However, downturns have been experienced before and there are tremendous lessons to be learned from previous recessions. This paper concentrates on the need to pinpoint brands as potentially the most resilient assets a company can own. Such assets have in the past sustained companies in adversity; and all the evidence suggests that, if they are well-managed, they can continue to do so, now and in the future.

Brands are valuable in good times and in bad. However, if you do not know the value of your brand, the drivers of that value, and the management skills required to guide the drivers – you are missing the opportunity to pilot your organisation through challenging economic times.

The 'Triple Whammy'

One could list scores of impacts that result during a recession; for purposes here we highlight three very clear issues influencing business performance:

- Investors become obsessively risk-averse. They begin to behave as a herd and are quick to criticise companies' performance, resulting in lower valuations of goodwill and plummeting share prices.
- The labour market is quickly and easily depressed causing employees to regard the organisations they work for with a more critical eye.
- Falling consumer confidence leads to contracting demand – heralding either lower prices or sales, but in either case, it would seem, falling profits.

Bucking the Trend

Not all companies fare badly due to these impacts when times get tough. In fact, history reveals many positive examples of companies which have profited during economic downturns. Revlon and Phillip Morris both gained market share during the recession in the 1970s by maintaining intensive marketing spend while competitors pulled back. Taco Bell and Pizza Hut stole market share from McDonald's in the 1990–1991 recession by focusing on the brand attributes that differentiated them from the market leader.

In a recession everyone gets hurt but those organisations with strong brands don't fall as far or as fast as their competitors.

During the early 1990s Nike tripled their marketing spend, resulting in profits nine times higher out of recession than going in. They focused on promoting awareness and relevance and provided a set of aspirations for all those seeking athletic freedom and performance. This had the effect of destroying Reebok's competitive threat and building the platform for Nike's global dominance.

According to a 1998 PIMS study, companies that increased marketing spend during the last recession achieved an average return on capital employed of 4.3%, compared to 0.6% for those that maintained marketing spend and -0.8% for those that cut.

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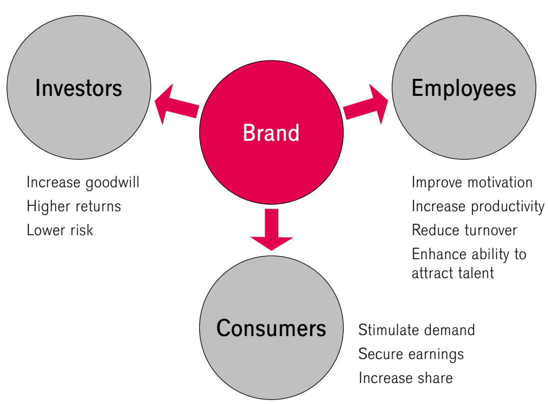
In 2001, brand value accounted for 33% of the market capitalisation of the companies in Interbrand's 100 Top Brands ranking; in the midst of recession, this figure has grown to 38%.

Efficiency Rather Than Expenditure

The primary lesson is not necessarily one of maintaining or increasing marketing investment, but of achieving superior results with more effective brand management. Brands are valuable because they represent a relationship of trust. Traditionally this has been defined in the context of the customer, where brands stimulate demand and help secure future earnings through increased loyalty.

Nowadays, the same argument is just as relevant for employees and investors, and there is evidence that effective brand management results in financial benefits to the owner far beyond the customer relationship. This is equally – if not more – relevant during an economic downturn. Effective brand performance is therefore not just a function of marketing spend, but involves managing the brand to create value for all stakeholders, both external and internal.

Figure 1 – Brand Impacts All Constituents



A Source of Strategic Value

Brand development reaches far beyond traditional forms of consumer advertising. However, most still confuse the discipline of branding with advertising communications. This interpretation ignores the reality that:

- Brands are strategic assets rather than purely symbolic tools.
- Effective branding is a matter of profit, not just market share.
- Competitive advantage branding is a matter of sustained investment rather than cost.

Through their ability to influence consumers, investors and employees, brands are powerful strategic tools – and this is particularly so in a downturn. In 2001, brand value accounted for 33% of the market capitalisation of the companies in Interbrand's 100 Top Brands ranking; in the midst of recession, this figure has grown to 38%.

Delivering Better Returns

In 2000, Watson Wyatt conducted a study showing that organisations where employees had strong confidence and trust in leadership, delivered shareholder returns 40% higher than companies where trust indicators were low. Not only is this trust valuable in itself, but it also reinforces the brand-strength to external stakeholders through employees who trust their company and whose personal values are aligned with those of the organisation.

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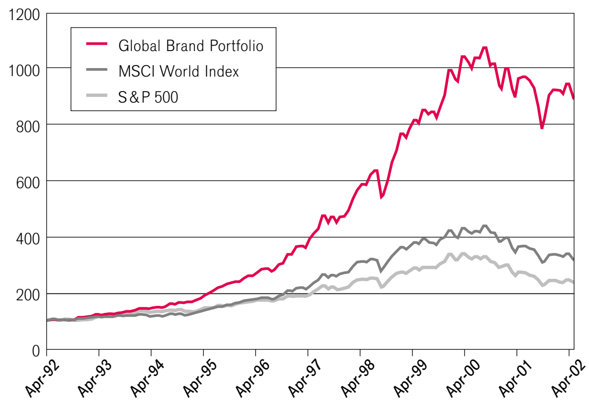
Therefore, not only is the brand asset comparatively more important during a recession but the return on brand investment is also higher. Strong brands also benefit investors; as the figure below shows, companies with strong brands have historically outperformed the market, both in and out of recession.

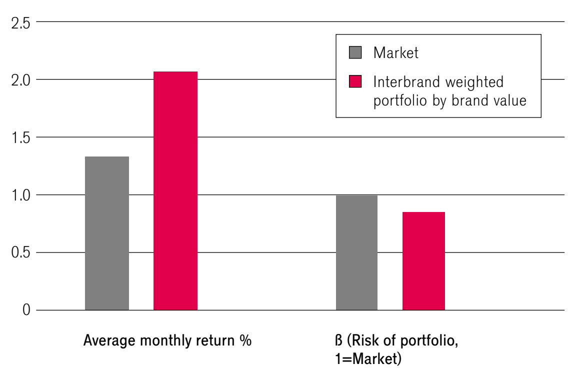
Figure 2 – Market Performance of Brands



The key to maximising the return from this vital asset lies in understanding how valuable it is, how this value is created and consequently how its value can be managed for improvement.

Moreover, academic research from Harvard University and the University of South Carolina into the companies in Interbrand's 100 Top Brands ranking has shown that brands offer higher returns to investors for less risk.

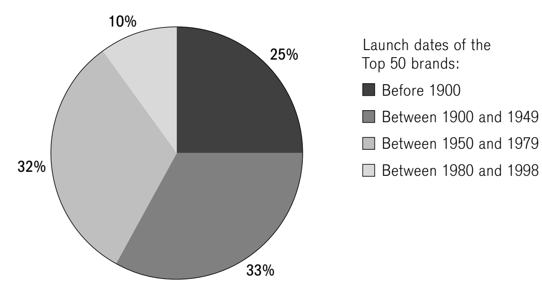
Figure 3 – Risk and Reward



Resilience and Continuity

Recessions force companies to focus on how to create value through concentrating investment activity on those assets with the highest potential return. And if these assets are brands, then recessions can be a necessary evil – it is no coincidence that a quarter of the world's 50 most valuable brands predate 1900, sure confirmation of the resilience they have acquired.

Figure 4 – Brand Resiliency



But herein lies the problem: despite the growing appreciation of branding as a source of competitive strength, very few companies know exactly how much of their company value resides in this asset. The key to maximising the return from this vital asset lies in understanding how valuable it is, how this value is created and consequently how its value can be managed for improvement.

How to Leverage Brand Value

1. Audit Your Brand Investment Portfolio. Audit the brand assets that you have as part of your corporate or line of business brands to determine what is really valuable and what is not; what could be phased out, what could be sold, what should be kept. Take advantage of this time to prune your brand assets to find the greatest opportunities for managed growth.

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2. Focus on Contingency Planning. Develop scenarios just as you would with physical assets – which would be the first to go? Which the second? Which brands are critical to your core business and you would keep at all costs?

3. Enhance Customer Insight. In a downturn, many companies see research as expendable. However, understanding their customers at this moment is even more critical. You should protect your budget and preserve the longer-term projects concerning innovation and trends. Your business must know where your customers are going over a time horizon that will allow you to come through the downturn in a better competitive position.

4. Build Internal Brand Supports. Examine ways in which the stronger brands in the portfolio (or the stronger businesses) could support the marketing efforts of the weaker brands or weaker businesses. Now is a good time to determine if every subtle brand distinction actually matters to customers.

5. Evaluate and Eviscerate. Take a sharp knife to every unnecessary product brand, sub-brand or program brand. Business units have a habit of creating new brands for reasons other than for the benefit of customers or the bottom line. Each extension costs money to support and distracts attention from core issues.

6. Build on Existing Equities. Having identified which brands enjoy the strongest customer loyalty, companies should explore ways of further leveraging these brands. Product line extensions and licencing can be especially powerful as efficient ways of unlocking brand potential.

7. Don't Compromise on Your Brand Promise. There might be temptation to cut back on product quality or service quality in order to squeeze a few extra margin points. Don't do it! If you lose confidence in your brand's promise, your customers will be the first to know.

8. Don't Discount Accrued Brand Value. Resist the temptation to use price discounting to maintain volume targets. Take the risk of losing a few customers in the short-term and focus on revenue rather than volume. It will cost much more to reverse the negative impression of "the deep discount" after the event than what accrues to your business in the short term.

9. Keep Talking. Don't stop communicating with your customers. In a downturn, people don't stop buying; they just buy more cleverly. Take advantage of the general decrease in marketing spending to grab a larger share of voice and define yourself in a less cluttered marketplace. In good times, the best tactic may be advertising, but now is the time to evaluate less traditional ways of communicating with your customers.

10. Define Minimum Standards of Upkeep. It is important to understand what brand investment must be sustained in order to protect your asset. The amount required to retain your brand's value is money worth spending.

Moving Forward

A recession, though economically painful during its term, presents a more acute opportunity to uncover sources of value that once identified and managed, will benefit the company exponentially when the economy recovers.

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Founded in 1974, Interbrand serves the world with 34 offices in 22 countries. Working in close partnership with our clients we combine the rigorous strategy and analysis of brand consulting with world-class design and creativity.

We offer a range of services including brand valuation, research, strategy, naming and verbal identity, corporate identity, package design, retail design, internal brand communications, corporate reporting, and digital branding tools.

We enable our clients to achieve greater success by helping them to create and manage brand value.

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