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The Inaugural Brands Lecture

2000

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ARE BRANDS GOOD FOR BRITAIN?

British Brands Group Inaugural Lecture 2000
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Executive Summary

Most of the objections to brands turn on different expectations of what life should offer. The corporations that own brands are under fire from some quarters: not the concept of brands. So far as economic and social welfare are concerned, brands provide consumer benefits of three kinds: economic (value for money), functional (quality) and psychological (personal satisfaction).

On the other side, British companies do not fully recognise the importance and significance of brands. Marketing is the business of understanding and liberating the sources of cash flow. Brand equity is the upstream reservoir of cash flow before it hits the profit and loss account. The boards of British companies spend only about 10% of their time worrying about marketing and brand equities. They need to put formal measures in place to ensure these matters go to the top of their agenda.

In world terms, British brands are dominated by American. According to Interbrand ratings, 42 of the top 75 are American, eight are British but none of those rank above 46. 73% of the total brand values are American. At 4% Britain is behind Japan and Germany, but ahead of France and other Europeans. In the British market, four of the top ten advertising spenders are British, if Unilever can be said to be British, but none of the other three has any significant presence overseas.

This should be a wake up call to the top management of British firms. Do not look for help from the British government. With the best of intentions, government help is too often counter-productive, apart from ensuring that markets are open and fair. Fair play for brands and consumers alike, freedom of choice and the same rules for all are important for brands in both British and foreign markets.

Many British brands are very successful. Top management has the tools both to make those more successful and to raise their game with the others. Marketing metrics are an intrinsic part of that and so is ambition. The issue is not about keeping shareholders quiet but about brand stewardship. We are talking about the shareholders' greatest assets and they are entitled to know how their companies are going to make them greater still.

for example. You can walk into a shop and buy the *brand*, drink the liquid and throw away the packaging. If you enjoyed the experience, you are more likely to do it again. The brand name is a handy mnemonic for the bundle of Lucozade experiences. If, however, you want to buy the brand *equity*, then you will need many millions and a persuasive way with SmithKline Beecham.

There are a number of ways to regard brand equity:

- What people know and feel about the brand which makes them more likely to buy it and at a profitable price
- Not just human memory but also IT memory
- Formed primarily by brand experience but also by advertising/communications
- The main cash flow reservoir
- Usually valued by Discounted Cash Flow (but see below)
- For most companies, their most valuable asset

Taking these in turn, I have a certain discomfort with the way my mind is programmed belonging to someone else. My memories of Bombay gin were sold by Diageo to Bacardi without consulting me. But that is true of any intellectual property and it follows from being part of society. Other people, like it or like it not, put things into our heads which we do not own. We still have the choice whether to act on those memories. So if I now decide never to buy Bombay gin again despite my favourable memories, that is Bacardi's bad luck. The value of their asset has dropped off quite sharply.

Brand equity is mostly human memory be it in the minds of trade customers, end users, employees or shareholders. Whether I remember something or I outsource memory to the computer, and it is increasingly the latter, brand equity is unaffected. Brand equity is the sum total of our learning about the brand. Like any other learning, it is built more from what we experience than from advertising or the other communications we receive.

The financially minded are uncomfortable with neurons and synapses. They want brand equity expressed in cash. Brand valuation methodologies are flawed but they have their uses, the chief of which is gaining top management attention (Ambler and Barwise 1998). Marketing is the business of sourcing and managing cash flow and so we should be able to 'present value' the money in the upstream brand reservoir. Companytter

same as relationships with people but the metaphor is useful. The brands we use reinforce our self-image and how others see us. Cars are an obvious example. What rational person would want to drive a Rolls Royce in West End traffic? Brand perceptions are moulded just as much by their users as by their marketers, perhaps more so. We are social beings and brands are part of that.

- Brand symbolism is a subtle business because it is not just external to others. I wear Dunhill boxer shorts but do not get too excited: you are not going to see them. My underwear is part of my self identity. People wear Barbour jackets in the country not just to keep dry or to impress others, who are unlikely to notice, but to reinforce their own identification with the country.

Brands are good for the economy?

This heading has a question-mark because one could argue that brands *are* the economy. Maier, of the then EC Trademarks Office, pointed out that, from a public welfare point of view, there is no alternative to branding (1996). One only has to look at the grim econom565.sf vipost-t the gEnat to otlrBh24.931amacc1996wbdrroFn(. Maier)55. do not geae sbdr20 Tw(8sscerdok a 0 7 19io.0259as1amto see

Appraisal probably needs between 10 and 25 metrics per BMS, some financial (sales, marketing investment and profit) and some non-financial measures from the marketplace (e.g. relative satisfaction and perceived quality).

Marketing performance equals short-term profitability adjusted by any change in brand equity. In other words, looking at short-term sales and profits by themselves can be misleading. And this combined performance should be compared with expectations (place should beMarketing perfoHowe.gnormanpani.00doperfo? Not a lot. Right

values. Here we come 4th. Not bad you may think except the UK has 4% against 73% owned by the USA.

Table 3: **Countries behind global brands 2000**

Country	$billion	%
USA	677	73
Japan	54	6
Germany	52	6
UK	39	4
Finland	38	4
Switzerland	17	2
Sweden	14	1
France	14	1

If one looks at the UK marketplace, where the home team should be relatively strong, one can estimate the strength of brands from their relative spending on advertising. Of course it is a rough proxy but it makes a point. Table 4 shows the top spenders by holding company for 1998, the most recent year for data.

Table 4: **UK advertising expenditure by holding company – 1998**

Company	£million	%
Unilever	249	2.7
Procter & Gamble	194	2.1
BT	139	1.5
Ford Motor	133	1.4
Dixons	118	1.3
General Motors	114	1.2
Mars	110	1.2
Nestlé	104	1.1
Kingfisher	91	1
PSA Peugeot Citroën	85	0.9

Source: Marketing Pocket Book 2000, Advertising Association/NTC

The last column shows the percentage of all display advertising. Of this top ten four are British, if Unilever counts as that, and only Unilever has global brands. It is perhaps more instructive to examine global branding failures but to keep this even handed we should learn from successes too. You can probably add to both lists but my global brand balance sheet looks like this:

Table 5: **UK Brand successes and failures**

Successes	Failures
Advertising	Banking
Aerospace	Biscuits
Drinks	Cars
Media	Computers
Oil	Motor cycles
Pharmaceuticals	Some electronics
Professional services	Some engineering
Unilever	
Vodafone	

We should not depress ourselves as the successes column is longer than the failures. Relative to most of Europe, Britain does well in branding terms. Tonight we are questioning how to do better. And even in the successes column there are worries. Will Diageo and Unilever realise their new vision of fewer greater brands?

As well as the foolishness with the Rolls Royce marque, I worry about the aerospace industry. This year they published their state of the art performance metrics. Part of the ‘Lean Aerospace Initiative’ and supported, naturally, by the DTI, these metrics are supposed to establish the strategic path to global success. Unfortunately, they hark back to just the kind of thinking that destroyed British Leyland. Value added is measured by profit divided by employees. Supposedly, outsourcing labour will improve marketplace performance. Why so? Likewise floor space utilisation. Why should any customer be bothered by how much floor space was used in constructing the plane? Customer satisfaction is not measured, as you might expect, by asking customers if they are satisfied but by the number of deliveries that turn up when planned (by the producer). That is like achieving punctuality by adding 30 minutes to the plane's ETA.

This document encapsulates the market- and brand-blindness of so much of British business today. There is nothing in these aerospace metrics which involves talking with customers or comparison with competitors.

The worry is that we repeat our mistakes. Aerospace repeats cars, biscuit brands crumble as their owners give priority to private label, banks fail to achieve empathy with customers both at home and abroad.

Perhaps the most interesting feature of the successes column is advertising. London is arguably the ad capital of the world and WPP could be seen as the best and biggest group of agencies. We will gloss over the extent to which it was formed by buying American agencies: that argument works both ways. It is interesting because advertising is one of the primary, if not the primary, builder of brands. We have a case of cobblers' children. We know more than anyone of how to build brands and yet our brands are too often unshod.

So what should we do about it?

For a start, no more Government initiatives please. The DTI and other ministries work hard to help British business but, sadly, these good intentions turn out to have the opposite effect. The aerospace metrics, Rover cars, subsidising our arms industry and numerous other interventions are cases in point. Relative to the rest of Europe and the USA, British business is done up in red tape. The British government should do nothing at all beyond ensuring that British and foreign brands do not cheat, that markets are transparent and that everyone plays by the same rules, both in the UK and overseas. Consumers and brand-owners are entitled to fair play but no more than that.

Business leadership, as ever, has to come from the top of business itself. The Marketing Council was set up to penetrate the doors of non-marketing oriented senior management. Most of those doors remain firmly shut. Ignore the modern marketing-speak in Annual Reports; behaviour reveals the metrics top executive committees consider most important. How they spend their time and energies shows what they care about.

In global brand terms, Britain is good but it can be better. We have to recognise that the marketplace is no longer just between Kings Lynn and the Wash but the whole not-so-wide world. If Britain cannot sell its brands abroad, you can be sure that foreign brands will win here. It has already happened. Look at cars, look at computers, look at biscuits, look at motor cycles. Many CEOs are well aware of this global need, the question is what to do about it. How can they establish global niches? Banks for example have gone international, lost money and withdrawn. Now Barclays, according to the Sunday Times of 29 October, are going to try again.

British brands abroad fail less because their strategies are wrong but because their marketing is. And we build bad practice into what new exporters get told. Take, for example, the guidelines for export proposed by the DTI, now British Trade International. BTI says exporters should plan and research markets extensively. The hugely successful Swedish retailer IKEA, however, gets into the market first and asks questions after. This is in line with the success models from my own research. The Swedes are right and our official guidelines are wrong. Come to that, why does our bureaucracy need two brand names: British Trade International and Trade Partners?

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The three years of the Metrics project revealed great support for improving brand measurement but also unwillingness to change. This is hardly a surprise. Golf, they say, is a matter of faith, hope and charity; and the greatest of these is keeping your head down. Marketing is much the same. It demands faith and hope to invest in unknown campaigns and it demands charity when they fail. Marketers are not going to risk all that by challenging their board's long-held prejudices. No, these changes have to come from the CEO but there is one other constituency that could make a difference.

The City has long been castigated for short-termism. When that was researched (Marsh 1998), my colleagues at London Business School found it was caused by their diet of short-term data. We are what we eat and

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