ISB- Product Management

Week 10: Product Positioning and Branding

Video 1: Learning Objectives

Hello and welcome to the product positioning and branding module of our course on product development and management. Let me take you really quickly through the learning objectives for this module. The first objective is to think beyond the physical product when you're thinking about innovation. So, there's a lot of work that needs to be done beyond the product. The second thing is, I want you to worry about how do we balance product positioning with pricing and with the distribution. So, pricing is not independent of distribution, and distribution is not independent of how the brand is positioned in the marketplace.

I will then take you through multiple examples of how to build differentiated brands. This will be in the consumer markets or what we often call fast-moving consumer goods in India, elsewhere that may be called consumer package goods market. We will also look at the services sector and particularly Fintech as well, and we will also look at consumer durables such as automobiles and washing machines, and so on and so forth. So, we'll cover quite a bit of terrain through examples from which we will derive some principles that we can use to understand what is the role of marketing and brand strategy in enhancing what we call brand equity or the value of the brand. So, these are the objectives.

Now, how are we going to go about doing it? Bit of a reputation out here. We will talk about positioning, pricing and distribution. Innovating beyond the product, and we'll take you through examples from the FMCG industry, from the subscription industry, we'll look at ESPN as a brand, for example. We're going to look at durables. Today, importantly, we also have to worry about branding the ecosystem. And so, we'll talk about that. And earlier, I had talked about the need to decommoditise markets, and so we'll take a crack at how do we go about decommoditising the undifferentiated markets through branding. We will also take a look at what is called component or ingredient branding, like Intel is a component within a computer. So, we'll talk about branding ingredients, and the final thing is, we'll take a look at the financial services sector, which is evolving very quickly. But out of these are going to evolve the principles, and our focus will really be on how do we leverage the pricing power that is derived from the investments that we make in brands? So, brands matter because of the impact profitability, but that profitability does not come for free. So, we have to make the investments before we will be able to extract the value through what I call pricing power.

Video 2: Overview: Product/Brand Positioning, Pricing and Distribution

As I mentioned earlier, it is important to understand why we cannot separate the brand positioning from the pricing strategy and from the distribution system that we are going to use. Very simply, when we think of the brand positioning, typically, it is with respect to what segment of the market we're serving, who are our customers. It is also relative to the competitive products. So, we're trying to position why our brand is better for a particular market segment relative to competitors. So, we have to emphasise on features. We have to understand the services that come with the product. So, we're trying to say why we are better.

However, the pricing cannot be separated from the logic of why we're better. And if we are focusing, for example, on a large volume market and we're willing to give up on pricing, then, of course, that is related to the broader market segment that we're targeting. But the idea really is if we're trying to be exclusive, then our pricing is going to be different compared to if we are trying to hit the mass market, as an example. And that again cannot be separated from the distribution. How you sell a product at a convenience store is very, very different from how you will sell the product in a mall, where the real estate is a lot more expensive, and the distributors, the retailers who are selling the product, will want a larger payoff in terms of price.

So, of course, when we look at the whole thing, the brand positioning is dependent on how we are doing relative to the competition, how we meet the needs of the customers. Pricing is again related to that, is the value proposition to the customer that we're targeting. And finally, the distribution is really taken into account the price dynamics, etc., that are in the marketplace. Now, all these three things are going to be channelled into developing the brand equity, developing the brand positioning in the marketplace.

But the flip side of that is customer engagement. Why? Because the brand is between the ears of the customer, and it's the customer perception of the brand that is also going to be related to customer satisfaction, the engagement that the customer has with the brand and together, the two sides of the coin, the brand and the customer are going to result in the growth and profitability, but also the resilience. We have seen in the context of a pandemic. We've seen in the context of economic slowdowns that it is important for brands to be able to survive, and this is what brands help us do. The brands not only help us thrive; they also help us survive.

Now brand benefits are going to be very different across the value chain. So, if I look at a manufacturer and the service partners that come along with the manufacturer, what are they interested in? They're making money in the future. And they are interested in things like consumer loyalty. What is the protection, the price protection that we're getting from a brand? How is it going to impact the shareholder value in terms of the continued well-being of the brand? So, this is what the brand owners, manufacturers and service partners are interested in.

On the other hand, if you're a retailer, what you want is, you want turnover. You want brands that sell quickly. You don't want to be holding a lot of inventory. As a retailer, the distributor, we want better margins and literally, when we talk about return on investment to the manufacturer, for the retailer, it is literally a return on inventory. Because their investment is in the inventory. And the faster they can move the product from the shelves, the more money that they make in terms of the inventory turnover. So, that is how the retailers and distributors are thinking.

On the other hand, what does the brand mean to the customers? To them, it's a question of trust. Do we trust you? Can we put some faith in this thing? Are we getting what we expected? It's going to, of course, impact their choice. And finally, it is going to impact their perception of the quality and the performance of the brand. So, these three parties, manufacturer service partners, relative to retailers, relative to consumers themselves, they want different things out of the brand. And the brand strategy must take into account all these three imperatives. So, when we look at the metrics that we often use in measuring brand equity. But again, different strokes for different folks.

If I talk to the creative types, the people who are in advertising and so on and so forth, they are interested in "Oh, what is the image? What is the reputation? What's the level of awareness? Okay, do they trust us? Is this a product that appears trustworthy? Is this advertising communicating that?" So, the creative types and the advertising types will think of it in one way.

On the other hand, if you have people who are brand managers, people who are expected to manage the brand through the marketplace. They are concerned about what will be a market share. Okay, if we implement the strategy, is the price premium really worth it? Are customers willing to wait for a product? In case there's a slowdown in supply, are we buying time with the brand? If we want to use the brand from one category into another category. So, for example, it may be that the same company that makes luxury products. Let's say luxury sunglasses might also be the company that is making briefcases, luxury briefcases. So, can you carry the brand name from one category to another? So, that's what we mean by the trial of extensions. Can the brand accelerate a march through the marketplace? So, one of the benefits that we get is that well-known brands are more easily and more quickly acceptable in the marketplace. And amazingly, they are also referred to the customer to other customers, friends of the first customer. They are referred to other customers more quickly. So, these are the things that a product manager, a brand manager is interested in.

What is it that the corporate managers want? People from the finance area, what they're interested in is cash flow and profitability. What they're interested in, is this brand going to make us less vulnerable to the competition? Is it a barrier to the competition? And does the brand provide us some growth potential in the marketplace?" Again, these are all interrelated. But a creative person and advertising person is thinking of the brand one way, the brand managers thinking of it in another way, and the finance manager and corporate executives may be thinking of another way. So, what is the role that we're looking at is, we want to understand what is the role of brand marketing to make a brand more noticeable, more acceptable to the customer, more preferred by the customer. How does it impact the market performance in terms of price and share premium, in terms of the speed by which it penetrates the market? And ultimately, what does it mean to the corporate managers who are looking for profitability?

Video 3: Innovating Beyond the Product

There's much more to brand positioning than what meets the eye, or that is related to touch and feel. We have to look beyond the physical product. If I look at what the brand

and product development community often focus on, and this is some very good work done by the Dublin group. And what we find is that product development people are focusing on the physical product itself. On the other hand, if we're going to be succeeding with this brand, we have to worry about what is the Profit model; how are we going to be able to extract the margins with the distribution system? We also have to figure out how is the customer going to be engaged?

So, while the focus is very often on the physical product development, what we find in terms of success factors that the success is often coming through customer engagement, in having the profit model, in looking at what are the services that will be available with the product and consequently, a lot of the value is going to be in the brand investment. A lot of the value is going to be coming through access and support by the distribution network. And, of course, the most important thing is the ultimate Customer Engagement. So, these factors are very important, and we must take them into account as we develop the brand strategy.

Video 4: Building Consumer (FMCG) Brands

Building brands is a lot of hard work. It requires creativity, and it takes time. In building the brand, we have to not only communicate the value but we also have to build the ultimate trust with the customer. Because one way to think of it is that the brand is giving the customer their peace of mind, and sometimes they don't know what is the right choice to make. And they go with the brand because the thinking is, "I'm paying for the right thing. I am, after all, buying what is already supported by the marketplace." So, this peace of mind is an important component, and we often tend to forget about it. Let me talk about it in the context of a very well-known Indian brand called Tanishq. I remember, when I was 11 years old, my older brother, who was 14 years older to me, was getting married. And as we have it in India, a lot of preparation for the wedding, and obviously getting jewellery for the bride to be, etc. So, what did my family do? What did my mother do? She went to the same jewellery store that her mother had gone to and the family had been going to for generations. Why was that? Because the logic was, look, if I want to return something, if something is not of the right quality, then the jeweller knows me, and this is probably the best way to handle it. So, we reduced our uncertainty by going to people who we trusted and whom we were familiar with.

Fast forward, what did Tanishq do? Tanishq came up with this idea that they're going to give a certificate of authenticity, that this diamond or this 22 Karat gold, whatever is guaranteed, it is guaranteed to the point that we will accept it. Not only will we accept it from the store that you purchased it from, but you could go to another Tanishq store in another city. And for a small fee, restocking fee, we will take the product back, no questions asked, as long as you have the certificate with you. As long as we know, it is our product. So, what were they doing? They were de-risking your decision, which made it easier for you to buy because there was less anxiety associated with that. And another thing to remember is that the word brand itself comes from the Latin root to burn. And when I was a youngster, I used to love to read Western novels; why? Because they were all these outlaws and so on and so forth. And the logic was that if somebody was rustling your cattle, meaning you're stealing your cattle, you could identify it and say, "Hey, this is my product, and this fellow needs to be hanged." Well, actually, it turns out, that was not the real issue. The real issue was that if I had livestock, I was in the livestock business, and I sold 100 head of cattle to somebody, and three of them killed over and died in the next month, the person who bought it from me could come to me and say, "Hey, I bought goods from you, these are faulty goods you need to make up." So, the brand that we did was really a symbol of trust to the promise on the part of the seller to deliver to the buyer what the buyer had paid for. So, we must remember the trust element, and so branding really comes from branding livestock and those of you who are interested in a little bit of history.

If we look at successful brands such as Nike, what have they done? The first thing they do is, "Look, who's the customer?" So, supposing the customer group could be adults, it could be teenagers, it could be couch potatoes instead of athletes. So, let's say we're looking at teenagers. Then the question is, what product are they interested in? When I was growing up, we had two pairs of shoes. One was the pair of shoes I wore to school, and the other was a pair of Canvas shoes that we call Kids. Now, I'm guaranteeing you, if anyone of you opens your closet at home, you will find 10, 15 pairs of shoes, one for dress shoes, one for running, one for jogging, etc. One for playing tennis and in India, of course, we have to play cricket. So, if the target market is teenagers, who are shopping for shoes to play cricket in, then the shoe has to have certain characteristics. For example, it's got to have spikes in the sole, so you will not slip. So, what that leads to if it's a teenager who wants to play cricket? What should be the weight of the shoe? What should be the durability? What should the sole look like? What should be the fasteners? What will be the colour, the styling, etc., etc.? And as we know these days, if you look at the team from Chennai, they were yellow, and we look at the team from Mumbai, they were blue, and of course, we have to be colour coordinated. And then obviously we also need a brand ambassador, in this case, Virat Kohli. So, we could say, "All right, this is how we're segmenting the market, how we are positioning the brand and the product and how we are relating it back to the product attributes." That brand name can obviously be extended to other types of shoes. It could also be extended into clothing. So, the brand doesn't have to be restricted to shoes. And also, ultimately, it's not only men in India who are playing cricket; it's also women in India who play cricket. So, you could also take it to a different gender. So, this is an example of what Nike, for example, is doing in India, and this gives them a somewhat better position in the marketplace compared to a company that is perhaps spending less time, energy and money in positioning, such as Bata. When I was growing up, Bata was the leading brand, but I don't think teenagers today are as enthused about Bata as I was when I was a teenager. Let me take you to a third example, and I tend to bring out things that have influenced my own way of thinking.

So, BlackBerry was launched in 1999. I was actually a user since 1998 because the University of Texas was a Beta customer if you will. Now, why did I love BlackBerry? One thing was, rather than my dialling a number to retrieve messages those days, that's what you had to do, you dial the number to retrieve your emails, BlackBerry was using push technology, the emails came to me automatically. Now, why was that important? I was pretty busy, and I used to host, head up a lot of committees, but with a BlackBerry, I could hold it below my table, and I could read the emails while all this chatter was going on, and I could save myself 10-15 minutes per meeting, and that saved me an hour at the end of the day. So, the push technology was very important. The other feature that was very important to me was the keyboard. So, a lot of people who are addicted to BlackBerry, sometimes called the CrackBerry, were because of the keyboard. And another feature was the tracking wheel on the right-hand side of the phone, and this allowed me to drive with one hand while looking at my messages with the other hand. When BlackBerry took that tracking wheel off, I was an unhappy customer.

Now, I stayed a BlackBerry customer for the longest time, and a brand, a product has to keep up with technology by loyalty only for so long. And the last BlackBerry I used for the BlackBerry Priv, which actually ran on the Android system, not on the BlackBerry system. So, that was my history with BlackBerry. That was then replaced with my engagement with Samsung, and many of you today are actually engaged with the iPhone. So, it's important to remember that the brand will buy you time. The brand will buy you loyalty, but it will not be forever, and we will undergo brand transitions.

So, what have we learned from these three examples? First is, you build the initial relationship through tangible features and components why we are better. Those features then get converted to benefits like in the case of BlackBerry for me, I was saving time, and that's the benefit I was looking for. I was not talking about push technology. I was saying, "Hey, this device helps me save time." That's the benefit. Then when I started talking about the tracking wheel and the fact that they took it away, I was emotionally engaged with it and taking away the tracking wheel did not make me happy, but ultimately it was about the brand essence and the brand persona. It's the value system. And if we go back to pre-2008, BlackBerry was in a very similar position to where Apple is today. It was an aspirational brand, and people were willing to pay more for that aspirational brand that gave them something about themselves and how it was embedded in the product. When we talk to experts in the ad business, they will talk about four dimensions that are important for brands.

Number one is Differentiation, followed by Relevance. So, you can have a great brand, but if somebody is not willing to pay for it, and if it's a small number of people who can afford to buy it, it's not very relevant to the marketplace. The third dimension is Esteem; how well is it regarded in the marketplace? And the fourth dimension is Knowledge. How knowledgeable are people about it? It turns out Esteem and Knowledgeability are correlated. It also turns out Differentiation and Relevance are also correlated. But if I were to pick two attributes, I would focus my attention to; it would be Differentiation and Relevance. But if you asked me, "Pick one attribute that you think is critical." Without question, my answer will be Brand differentiation. How you are distinct and different from other competitors in the marketplace.

Video 5: Building Subscription Service Brands

It's important that when you're thinking of brands, you have to worry about investing in the brand. You don't make money right away. It takes a lot of time and a lot of energy, as I mentioned earlier. But the investment is going to be needed for you to be able to develop the channel. We call this brand access. Does the brand have access to the end customer? And how are we going to get there?

So, let me go back in time to a brand called ESPN when they were getting started. ESPN started out in 1978, and at that point in time, they made an investment in the NCAA, which is the football in a side of athletics, at US universities. And at that point in time, they actually had to pay the distributors, in this case, the cable operators, to carry the video. So, they had to pay the distributor. It is not that people were distributing it by themselves. If we looked over time, they had a little bit of success, two years later with the NCAA tournament, it's very important, and collegiate athletics and the NFL draft, and I will fast forward to some of these, but over a period of time they built up the ESPN SportsCenter, the ESPN radio. They came in with the second channel, ESPN 2. They developed the sports zone. Then they also started publishing with Sports Illustrated. And then, in 1997, they came up with an ESPN magazine, and they even started ESPN's stores, where you could go and buy merchandise. So, as you can see, as they build the brand, they are getting more and more users out of the brand by expanding into adjacent markets. And in 1997, this is almost 20 years after they got started, they got a very major contract for $84.8 billion to create content. So, this was history.

I want you to remember that in the beginning, they were having to pay cable operators. In 1983, they were in financial trouble, and they tried to sell themselves. And Time Warner had an opportunity to buy them for $200 million, and Time Warner said no. So, obviously, the company was worth less than $200 million. A few years later, in 1987, they were able to start getting about 20 cents per customer per month, and that was what they were able to charge the cable operators. So, they started getting some money. And in 1990, they were able to sell themselves to ABC/Capital Cities for $850 million. So, you can see, in 1983, they were not even worth $200 million and by 1990, had climbed up in value to approximately $850 million. Five years later, Disney purchased ABC/Capital Cities and on the books of Disney, the estimated value was recorded at $5 billion. Over a period of time, they increased the channel pricing from 20 cents to 62 cents. And then, by the time it was 2003, they had increased their pricing to $2.45 per month per customer, and two years later, they increased the pricing to $3 per month per customer. So, as you can see, they were losing money upfront. But it is the patience that ultimately paid off, and I believe the value for ESPN in 2021 is $14 billion. So, they've gone from less than $200 million in 1983 to roughly $14 billion over these decades. So, the brand has value, but it required investment.

They also then expanded into China. Basketball became very popular in China because they had a Chinese player who started playing in the National Basketball League, and then a few years later, they acquired something called Cricinfo, that we're in India, are all familiar with and ESPN then expanded into the cricket market. So, it is now literally a global brand. And if we think of what can be done in sports marketing, it is embodied by channel management.

So, and this is a story that has been laid out by the National Football League, and the Indian Premier League has been pretty much copying the playbook from the National Football League from the US. They're using multiple channels. They make money from TV commercials. They make money from newspaper ads. They make money from selling tickets in the stadium. They make money in the Coca-Cola that you drink in the stadium. So, all of this has been laid out over a period of time. And if you look at how the National Football League, and correspondingly the Indian Premier League, have been extracting value, it's by building the clientele and making money from advertising, making money from sales, making money from merchandising T-shirts, and we can go on and on.

And if we look at the value of the Indian companies that are in the Indian Premier League, it is definitely running into millions of dollars. And Virat Kohli, for example, who is one of the leading proponents, is also worth several million dollars. So, this to how you can extract money from the brand in sports.

Video 6: Building Consumer Durable Brands: Honda

In an earlier part of the programme, I remember talking about Honda and how the Honda brand was built across multiple areas, motorcycles, mopeds, so on and so forth. And, I don't want to re-emphasise what we were talking about in the case of Honda. But take it a step or two further. So, I want to look at this notion that building an enduring brand asset takes time, and you have to do it one step at a time. It's like building a house, so you build it, and you keep strengthening it over time. If you recall, we talk about how do you park six Hondas in one garage. It could be a car. It could be a motorcycle. It could be a moped. It could be a lot more. And we talked about it in the context of how you could have multiple products supporting the development of Small Engine Technology. In this case, a real asset to Honda was the Small Engine Technology, and the focus was on building the Honda brand in the context of reliability, quality and innovation. So, what they wanted to do; innovative, produce quality products, and they're reliable. So, that was the Honda brand. Now, what they did is marketing research as said. Well, these are good attributes. And but people thought of Honda perhaps, as a little bit too reliable, a little bit too high quality, but not enough bizaze, not enough excitement. How do you add excitement to the mix?

So, if you look at what they decided to do is, they said, "look, all our engineering design people. Instead of sitting in the lab, we want them to go and spend three to six months in the automobile showrooms, talk to the customers, find out from the customers what do they want and just figure out what is it in terms of features, what it is in terms of performance, that the market is demanding?" Well, they came back, and that led to saying, "All right, there's a part of the market that wants economy, fuel economy and so on and so forth," and that was embodied in Honda Civic. So, that is what was reinforced. They talked to other people who wanted a little bit more comfort, so that was reflected in the Honda Accord and also in the CRV, which is more of a family-oriented vehicle. In terms of people who wanted a little bit of class, they came up with the Acura that was focusing on the class, but it still did not have the performance desires. So, Honda actually developed a racing team, and they launched the racing team in the Grand Prix. And for about a five-year period, Honda was dominating the Grand Prix sixth circuit, and after that, they bowed out. Once they had established that, yes, we can do it. And Honda, the winner, they bowed out, and what they learnt was then reflected in the prelude and in the Honda NSX. So, that was the performance dimension. So, through this example, you can see how the company slowly kept building one attribute at a time to build their brand image.

This attention to detail in terms of product development and brand development is reflected in this tree, where the trunk of the tree is a small engine with technology. But in the roots of the tree, they've put in a lot of R&D in design. They've got a customer base that has been advising them. And of course, they work with the original equipment manufacturers and distributors and repair shops. So that, as they think of it, is the strength of Honda in terms of people who are supporting the product. That is then reflected in the products themselves, and that is supported by the brands.

So, one point that I want to make is that if we look at the value of Honda today compared to the value ten years ago, compared to a value 20 years ago, compared to a value of 30 years ago, you will find that the value has increased every decade. So, when we talk about assets, we talk about how assets depreciate. This building depreciates over time, and we advertise it over 30-year period or whatever. However, when it comes to brands, they're one of the few assets that appreciate. So, the logic really is that brands are the only assets that actually grow. They grow in terms of profitability. They'll grow in terms of mindset, and they will grow in terms of intangible values. And these are things that we will be reinforcing further on. I just wanted to lay upfront the value of brands, and that and the fact remains that it grows.

Video 7: Building Brand Ecosystems: Microsoft

I'm now going to talk about one of the most valuable brands in the world today. This brand has been developing over four decades. We think of Microsoft as a technology company. It is. But it is also a marketing company. It is the first company, in my opinion, that systematically brought ideas from fast-moving consumer goods business to the tech sector. This they did in the '90s and that's one reason to talk about Microsoft. They set the tone. The second is Microsoft, in my mind, is the poster child for how do you leverage your brand to manage the ecosystem within which your product is working. So, the ecosystem is referring to the original equipment manufacturers such as Hewlett Packard and Dell and Lenovo and so on. It is also looking at the software vendors. It is also looking at the consumers. It is also looking at financial partners and so on.

And the third thing that I wanted to use Microsoft for was how do we use insights from the marketplace to leverage our brand to expand into adjacent markets? So, you develop the brand for this product market. But how do we transition it? How do we leverage it in another product market? So, with that, let me start with Microsoft in 1995. On 24th August 1995 midnight, they launched Windows 1995. How do I know it? Because my son Ramesh was 11 years old, he said "He wanted to go to Barnes and Noble to buy Windows." I asked him why? He said, "I wanted to be the first kid in my class." Remember, he's 11 years old. So, already he's been impacted by advertising and promotions that was going on. And Microsoft had already given away about 400,000 free copies and they were not complaining about piracy. They wanted people to copy the programme and give it to other people to maximise the number of uses.

They had also been working with for example, Apple to develop products such as Word and Excel for the Apple platform. So, they were learning from what would turn out to be their competitors. They were also learning by working with IBM and Operating System/2 which was a competitive product to Windows. Anyways, so what they were doing is learning from their competition; learning about the graphical user interface. And, they were upgrading their customers from the DOS system. They were upgrading them for free and on top of it they gave away about 40,000 new copies. So, this is building the demand side.

People who want to use Microsoft Windows. On the other side were people who are going to help this process. Now, why would anybody buy a Windows Operating System if there weren't any applications running on it? So, they partnered with Intel that became a partner of choice and the Microsoft based PC, the IBM base PC became a Wintel PC, meaning Windows and Intel. They also supported the software developers and these are people who are developing applications. So, what was the promise to the software developers? We're going to support you technologically. We're going to make a success out of you. And don't worry on our platform, we're going to distribute your product. You don't worry about distributing your product. You just worry about making your own product better. Then, they also reached an alliance with companies like Dell and Hewlett Packard and the idea was that "Look, we'll partner with you. We'll give you a master copy and you can burn it into the computers that you're selling and then make the transaction really simple to the master copy." You'll be in control. You just pay us X dollars for every computer that you sell. Now, if they had to pay X dollars every computer they sold, were they're going to put a competing system like OS/2? The answer was No.

Now, if you look at this picture, there are five, six, seven things happening at the same time. You also have competitors such as Lotus 123 and Novell, which owned WordPerfect. They are developing their product, Lotus 123 and WordPerfect to run on the Microsoft platform. So, what's happening out here? If you can persuade even your competitors to advertise you, that is one hell of a journey that Microsoft will strike. Now, what was the competition for all of this?

The competition was actually also Apple. Now, if you were Apple and you were running a proprietary system, how do you come and compete against this onslaught from Microsoft? And, at the time when Microsoft got into this campaign, Apple had probably a 17% market share. Within two years, the Apple market share fell down to 3.5%. So, there was no way to counter this. Now, this is consumer packaged goods marketing that is coming to the tech sector. So, what is important here is to understand that customers and networks are really important. And back in the 90s, I was using the phrase market-based assets. So, brands and customers were market-based assets you didn't own them but you influence them. And today, of course, we call it ecosystem marketing. And there's a new term that has come out, which is called Co-opetition, Cooperation and Competition that has been synchronised together. But customers are really important of balance sheet assets and we need to take them into account when we're managing our ecosystem. The value of customers is further, I would say appropriate it by Microsoft in taking the customer to newer and newer product areas.

So, this is a chart that I quit updating in 2003. As you can see, they started with Windows, the added word and excel as application products. Then they brought in Access. They brought in the Office Suite, and over a period of time, they kept adding newer and newer products. So, what is the platform out here? The platform is the customer and they are up selling and cross selling to the customer. Other applications that would be useful to the customer.

Now what does this mean? It means they have to understand what the customer wants. They have to explore what else they could sell and then if they could, instead of selling the product. If they could move into a subscription service, that was monthly or annual revenue that is coming in and that is very, very valuable. And today, you can automatically upgrade people electronically. You could also provide maintenance services and continue to expand an adjustment market. So, this was a journey that was started by Microsoft. And of course, this is a journey you will see everybody is going. Except instead of calling people independent software vendors, we call them 'Apps'. So, what was the highest OS 25 years ago are called 'Apps', today. If we look at what Microsoft is doing, what Google is doing, they're looking at how do we use the data and analytics to do better target marketing and they're looking at how do we enhance the lifetime value of customers? We acquire a customer today. But it's not all about making money today. You may be better off giving the product away for free. Let the customer get used to it and then they can pay for upgrades. So, the idea is to make money over the lifetime of the customer, not necessarily making this quarter and Microsoft has been very, very good at looking at the lifetime value of customers.

This is the diagram, the picture that saw for Honda. I want to reinforce that Honda and Microsoft are doing very similar things. One may be in the automobile sector, the other in the software industry. If we look at the strength of Microsoft, it is in the customer base; It is an application; it is in distributors. And that has been challenged through the Office and Outlook and they're cross selling a lot of applications on top of it. Today, this cross-selling activity is really in bundling. You can buy a bundle of software and it is hard for any competitor to match the bundle that Microsoft can develop. Or for that matter, that Google can develop. So, it's really selling a solution and then, you can cross sell a lot of different new technologies. So, Microsoft has expanded into cloud computing. We know that Amazon Web services, AWS was the market leader and Microsoft has been able to leverage its customer relationships to be able to work the way into that market. They have also expanded. If you want to call it the placement industry through LinkedIn by managing customer relationships out there. And, of course, the strength that they had through Skype is now being leveraged into a new product called 'Teams', which is positioned to take on Zoom. So, these are the investment that Microsoft has made.

If you look at what we have learned from Microsoft, one of the things that we have learned is your customer installed base, is a critical asset. We think of assets as buildings and trucks and so on. But the real asset are your customers. The second part is, we don't know who your customer really is. For Microsoft, the customer is consumers; It is also the software developers; It is also audience like Dell and Hewlett Packard. And indeed, Intel as a partner is also a customer.

And in this system, for you to win, everybody has to win. And, we need to navigate this whole idea of thinking that for me to win, somebody has to lose. In an ecosystem, if you're going to win, you will have to win. But your partners will also have to win.

So, what we then see is a battle between ecosystems. And, we saw this battle in the computer industry between, let's say, Apple and Windows and we know that Windows won. We see the same thing that is going on. For example, in the cell phone industry, you've got Google and Android and all the partners on one side and you've got apple on the other side. So, we need to see what will eventually happen. It's very important in this kind of an environment, in a network environment to understand how to get to your customers.

So, this KYC that we talk about, 'Know Your Customer', is a very important element and we need to figure out how to better manage our processes for upselling and for cross-selling. The use of customer information means that we need to integrate our internal assets. What are the products and services with the external assets, the customers, the distributors and so on? And that will require, as I mentioned earlier, a strategy where we win and our partners win. The final comment that I'm going to make and I'm speaking as a marketing person. We spent a lot of time on managing marketing, meaning advertising, promotions, pricing, etc., I think it is far more important to manage the market. So, instead of spending all our time on processes like advertising, can we please look at how can we work with our partners? And, how do we succeed as a team rather than optimising just our own marketing and sales efforts?

Video 8: Branding Commodities and PPG Auto Glass

I'm now going to talk about something called Auto Glass and a company called PPG, based in Pittsburgh. And we're going to talk about how you can develop and enhance the value of your business by going online and networking online. Now, this may sound new, but the process I'm going to talk about is something very creative that was done almost two decades ago. If we could do it then, we can do a lot better today.

So, let me tell you a little bit about the Auto glass business. So, if you look at the entire ecosystem for automobiles, it starts from advertising that you see with the dealers. It goes into the network of dealers that goes into financing. It goes into the customisation of services. And, of course, as the cars get older, you have to repair them, and you have to take care of them. And then, of course, there's all the advertising business that is supporting one of the largest industries in the world. My focus for right now is going to be on the market that is there for repair, for insurance, for services.

And so, this is looking at the niche market, if you will. We're not talking about new cars. We're talking about the repair service for automobiles. Now, in this service, the logic in the context of windshields, we're talking about automobile glass, the windshields. What was the market? The market was either companies like PPG or another company I interacted with was the company called Vitro, based out of Mexico. They were selling to original equipment manufacturers such as General Motors, such as BMW. So, that was one market, selling in large quantities to original equipment manufacturers. The other side of the market was really the repair market. And for the repair market, it would be things that would be recommended, the dealerships would be recommended by the OEMs, but it was a linear relationship between glass manufacturers and large customers on one hand and glass manufacturers and small repair shops, at the other hand. When we look at the smaller repair shops, and I'm not talking about replacing broken windows. This was a very fragmented market. It was flat. The Automotive industry was not expanding at that time, and therefore the repair industry wasn't expanding.

You also had a lot of windshield replacement claims. They were costly. They were error-prone. Things would not get in time. It took weeks sometimes to find the right windshield, so it was slow, and it was painful. It also resulted in poor customer service, and the end result of that was that some of the larger repair chains were now coming into the business. And as the larger repair chains came in, the negotiation power, it was increasing. And that further suppressed the margins in the automotive class business. So, what do we do about it?

So, this company, PPG, and I was interacting with them. They said, "Look, let's look at the ecosystem. Who are the people who can best lead us to the customers?" It turned out that the best people to lead you to the end customer, the car owner is really the insurance companies. Why? Because the process was such that my car was insured and if I had an accident or I was on the highway, and a truck kicked off a stone that hit my windscreen, then I had to go to my insurance company and say, "look, I need to get this repaired" and the insurance company would say, "Fine, why don't you go to such and such repair shop which is on our recommended list." So, this was a linear chain, from the customer to the insurance company to the repair shop. Now, the idea that PPG came up with is, let's find out from the insurance companies, what is the market? So, in any given area, whether it is Pittsburgh or New York City, it is possible to estimate, what is the number of cars, say, Toyota Camry vs Jaguar vs the other mix in the marketplace. So, the insurance companies know what is there. From the insurance companies, you can also get the data. In the last year, how many accidents have we had by the make of the car, by year of car, etc. So now, you have a ready database to analyse and say, "How do we manage it?"

What these guys did was then they said, "let's look at the relationship with the repair shops and see how we can help them?" Now, as a repair shop owner, I would have difficulty locating the windshield, and therefore I was not able to do the repairs on time, and therefore I was under utilising the labour that I was employing. Now, if somehow the windshield got to the repair shop quickly, that would make it better. So, it could come from the automobile glass manufacturer. It could also come from other repair shops. So, one of the things that PPG did was to keep inventory on the Web. What in the inventory do we have as a manufacturer? What does the inventory that other repair shops have? And we will facilitate that.

On top of it, they said, "Look, why don't we certify this work? If they're using hourglass, we know what adhesives to use, how to imply, put the glass in etc. And we will certify that through a warranty. So, we will give a warranty to the car owner. And in the future, the insurance company doesn't have to pay for the windshield repair; we will. The Simplest way to do it is to set aside 2-3% of your earnings and put it in a fund that will take care of future repairs.

So, what did these guys do? They came up with an independent network for reporting claims. There was inventory on the Web. They certified the repair shops, which made the end customer a little bit more comfortable. They provided a warranty to the insurance company, and there were benefits, in this case, for the insurer, for the installers, as well as for the end customer.

What did this result in? It resulted in about 2-3% increase in margin, increase in price. But it led to 2 million claims that were processed that year, and they got to about 20% of the market in two years. So, this is the value of using information. But this is also the value of building a brand. It was the PPG brand that was being built through the dealer network and through the insurance companies. Again, I would like to emphasise the value of trust, and that's what the brand is bringing to the table.

Video 9: Building B2B Component/Ingredient Brands

Much of the theory and practice related to branding has come from the fast-moving consumer goods business. There are companies like Procter and Gamble, Coca-Cola, Unilever. These are the companies that were stalwarts of marketing and branding practice. In this realm, you are probably familiar with the term push vs poll. The pull is referring to the marketing and advertising strategies that are used to pull the customer to the retailer. Push is referring to what the retailer can do to push the product to the customer.

So, while we make a purchase, we have something in our mind, we think of maybe a Dell PC, or we may think of a McDonald's burger or something like that. But it is really the service that is being provided by the distributor, by the retailer, that is also important because if I don't have proper access to the brand, then you know I'm not going to buy it. And therefore, the retailer being willing to push the product to the customer is also important. So, we balance in a push and pull. Now that we know all of this in the context of the consumer goods industry, I'm now going to bring the same logic to building the business to business's business. And how can we use it to market products that are components or ingredients in another solution? An example that everybody is familiar with is Intel inside. Intel inside the computer. Now, what we will be talking about is perhaps Lycra outside. Okay, so what is it that I'm referring to? I'm really referring to the value chain if you will. And the value chain looks something like this.

The generic name for Lycra is spandex. Spandex is a stretchable fabric that we use in sports clothing. It starts out, actually, as a plastic chip. Let's say it costs a dollar per kilo. Then the chip gets stretched into a fibre, and at that point time, some value has been added. So, it's gone up from $1 to maybe $2 a kilo. Then the fibre gets spun into a yard, and at that time, the value has gone up furthermore, and it is now $4 at the spandex level, but the branded Lycra yarn is more expensive because it is supposed to commentate quality et cetera that the company is supporting. The yarn gets converted to fabric, and at that point in time, the generic spandex could be selling at $8 a kilo and Lycra is now selling at $15 a kilo.

If I am an apparel manufacturer, why would I pay $15 a kilo, for Lycra, which is almost identical to generic spandex? So, why would I do it? All right, the answer really is because the end customer wants Lycra. So, what was DuPont doing? It was advertising. It was building the business to consumer brand by advertising to the end customer, people interested in yoga pants and this, that, and the other. And then, these people were convinced that Lycra is a better product, and they would rather buy a brand with Lycra as an ingredient compared to that brand with generic spandex.

So now, if I'm a manufacturer and I have limited capacity, let's say 100,000 units per month. I can make the difference between eight and 50, which is 42. I can convert my capacity with an index of 42, or I could make more money by converting my capacity with an index of 100 minus 15, which is 85. So, if I can make more money using Lycra as opposed to generic spandex, it gives me as an apparel manufacturing incentive to put the Lycra tag on the apparel that I'm manufacturing. So, this is the logic behind ingredient branding. If you can brand the ingredient, so it makes more money for your business-to-business customer because the end customer wants your product. Now, this logic is going to work only if the end customer is committed and is willing to pay extra for your product.

We've seen this happen in other DuPont products that I was engaged in. Stain master carpet, Teflon, there's something called Tyvek. Tyvek is used to wrap buildings, so they don't leak to sort of an installation. And so, let me just talk very briefly about Teflon. Teflon, as you know, is sports and pants. And the question was, will the sports and pants market, there are so many competitors the value of the Teflon brand had been eroded, and the question was, which other product category can we take this particular product, Teflon? It turns out that Teflon could also be added to paint. And what would be the benefit of that? The benefit was that the paint became scratch-resistant, just as pants are scratch-resistant. The paint also became washable. So now, let's think, who are the people who want washable paints, and that is scratch resistant. It turned out that there were two segments. One segment was families with young children who write on walls and scratch. The other segment was Industrial use.

Video 9B: Building B2B Component/Ingredient Brands (Continuation)

It turns out that there were two market segments. One segment was families with young children because Children like to write on walls and things like that. The other market segment was actually industrial markets. These were warehouses and factories, where upkeep becomes important. And it also turns out that some factories were using paint on the floor to make it more cleanable. So, it was scratch resistance floor paint; also, that was in the marketplace. So, we looked at rebranding Teflon in the paint industry, and we were looking at Latin America, Europe, North America, China and India. In India, the target B2B customer is a company called Asian paints. Asian paints have an upper-level brand called Royale. And with that particular brand, what DuPont was doing was Co-branding Teflon with Asian paints.

And the logic here was that rather than charging on a cost-plus business, let us look at what the market is willing to pay. It turned out that in the consumer market, the consumers, the families with children, were willing to pay roughly 10-15% more for washable paint that was scratch-resistant. In the industrial setting, companies were willing to pay about 5-8% more. So, the logic was instead of doing cost-plus in the industrial setting, can we split the profit? Can we get 2 or 3% out of that 5-8%? And the same thing in the consumer market. So, the pricing of Teflon in the paint business was based more on value creation as opposed to cost-plus business. And this is a mindset that we need to adopt. This logic has been represented in multiple categories. I'm not going to go through all of them. I do want to talk about a couple. The first one I want to talk about is a project I did very early in my career called NutraSweet. NutraSweet Company at that time was an independent company; it was later acquired by Monsanto. As an independent company, it had two gorilla customers.

The two gorilla customers were Coca- Cola Company and PepsiCo. Now, in those days, you could get a Diet Coke can, and it had a swirl on it and can advertise 100% NutraSweet. So, it was Diet Coke with 100% NutraSweet, Diet Pepsi with 100% NutraSweet. Now, what the NutraSweet company did was to ensure through advertising that consumers believe that it was NutraSweet that brought the good taste. So, the advertising was not only for soft drinks, advertising for Yoghourt with NutraSweet, advertising for cake mixes with NutraSweet, so on and so forth. And that was umbrella advertising; it's NutraSweet that makes all these products taste so good.

Now, what we did was we did some research that showed that Diet Coke without NutraSweet would lose about 8% of the Diet Coke sales, 92% would still stay with Diet Coke, but they would lose 8%. The question was, where would that 8% go to? It was to a much-loved competitor called Pepsi. So, what NutraSweet was able to do was to play the divide and rule game. And the idea was that "Okay if you don't want to use our product and you want to put 100% NutraSweet, we will not sell it to you." Now, if I was the manager at the Coca-Cola Company, and I was going to lose 8%, let me put some numbers around 8%.

It was roughly a $50 billion business. Diet Coke held 8% of that $50 billion business, and that may take a $4 billion business. Now, 8% of that $4 billion is $320 million. So, which brand manager wants to lose $320 million? So, that was the divide and rule game that NutraSweet played on the strength of the brand. If you want a brand, you will put it on your product. It is like Microsoft telling Novell, "If you want to use, have your products available for Windows 95, you're going to have to put on your package designed for Windows 95." Now, you can see where this package good kind of thing came is coming to Microsoft or came to Microsoft.

Another company I roughly want to talk about very briefly is Bose Audio. We all replace the audio systems in a home, but I am willing to bet that, if we change the audio system, the stereo phones, etc., at home, every 10, 15 years, we do replace the car, maybe every five years or so. And a car today has eight speakers. So, if you're going to be selling speakers, whom are you going to sell them to? Turns out, you're going to sell many more speakers through the automobile manufacturers than you're going to sell at the music stores. So, it's important for companies like Bose to be able to go to the BMW of the world, to go to the Toyotas of the world. And then, the question is, how do you negotiate with them?

When somebody is buying 100,000 units, they negotiate you down on price. So now, what companies like Bose were able to do, is to use market research, something called Conjoint analysis, to show that this is the value that the brand brings to the table. So, if people buying a BMW are willing to pay $200 extra for a BMW with Bose audio, armed with that information, can Bose audio go to BMW and negotiate perhaps, $80 or $90, instead of negotiating a sale of speakers at $25? So, that was the logic behind Bose audio.

I want to emphasise the consumer goods business and the B2B business is very similar. What we do is through advertising, advertising product features, quality, etc., we make ourselves more attractive to the consumer, the B2C side of the business, the end buyer. That brings the end buyer to the retailer. We simultaneously are bringing in business partners that make our products more attractive. And on top of it, we are willing to subsidise the distributor or the trade, as we call them. We're willing to subsidise the trade to push our product, compared to the competitor's product. And what do we mean by that? Could you put our brand on the shelf, give us the largest share requirement? Could you please allow us to sell at a price premium? And can you be more loyal to us in terms of our interactions? So, this is what is happening in general. So, I wanted you to know that the strategies that are used by companies like Procter & Gamble to deal with the retailers to get more shelf space are very similar to the strategies of companies like Microsoft, to get the shelf space in this example on the motherboard.

What do we need to do if I'm a manufacturer of microchips? How do I grab more than my share of the motherboard? If I am manufacturing memory, how do I occupy more of the motherboard? So, in many ways, a company like Dell or Hewlett-Packard is actually like a retailer of components. And in this case, the components are hard drives, microchips and so on and so forth. So, the logic behind these markets is very, very similar. In both cases, the end consumer, the end buyer, has to be convinced, "I'm getting something better." Whether it is Microsoft software, or it is a particular type of hard drive, and so on.

Video 10: Building Financial Service Brands

Fintech, in both the marketing and finance circle, is the talk of the town these days. This is, however, not new. Once again, what I want to do is talk about the need to actually invest, in brands, to provide access the brand, access to the brand presence in the marketplace. And, I'm going to talk about a couple of companies. The companies are 'ALIPAY' from China and 'E-TRADE', which was from the US, and subsequently, I will pass on to 'Paytm', which is a company out of India.

So, I want to talk about it, but I want to give a little bit of history. What you see out here is a 'Gecko', and it's the brand mascot for a company called GEICO. And GEICO stands for Government Employees Insurance Company, GEICO. And what GEICO was trying to do, in the '90s, say: "Look, insurance is so simple. You don't have to go to an insurance company office to buy insurance. You can buy it on the Internet." It's really simple to do, and all it was if you want to think of it as an electronic brochure way. But it was such a successful campaign convincing people it was worth the time to save money. The process is very simple. And GEICO started getting about 6% of a very fractionated market. The next competitor was getting less than 1%. This is how fractional the market was. Because in the United States, the markets are under State Regulations. So, that's the reason for fragmentation.

At the next level, I want to talk about the company Charles Schwab, and they moved from the state, brochure way and E-commerce, to what I would call e-retailing. And that's basically what they were doing was marketing. And the logic was, you can do your mutual fund transactions; you can do your stock purchases. You can come to the offices. You can do it that way; you want to do it on the phone; you can do it on the phone, but you could also come to the physical store. So, they were the first company to start using a multi-channel approach in order to get customers on the side. Again, it was very successful because of the customer you typed in on the Internet, and all the stock city we're holding, the values etc., came up instantly. So, you didn't have to talk to the broker, one stock at a time, to figure out what was happening to your stock. So, it is like a cell phone; once you get used to a cell phone, you don't want to walk away from it. Similarly, once you got used to the e-Channel, and for mutual funds and stocks, you didn't want to leave that either. So, Charles Schwab was very successful by saying, "Look, we are using technology to bring the cost down; we will pass a significant amount of the cost." So, the idea was that a $200 transaction, Charles Schwab was doing for $60.

Fast forward three years. Along comes a company called E-trade. And E-trade is saying, "Look, you don't have to pay $60; we'll do the same for you for $12." And what were they doing, they were going through, a customer management strategy. They were doing a lot of analytics in order to actually push the product in the marketplace.

So, I'm going to give you a little bit of a sense of what E-Trade did. E-Trade, like many companies today, they were quote-unquote, burning cash. And people are saying, 'What the hell is this company, go up to?' So, what they did was; they were burning $400 million that they got from an equity offering, and they were going to use that, at about $200 per customer, to acquire new customers. They actually ended up with 2.2 million, almost right on the money. Now, what were they going to do with these customers? They were not going to just sell mutual funds and stocks. They are going to sell insurance; they are going to sell them credit cards; they were going to offer them loan services: for car loans, for home loans. So, the idea is, let's acquire the customer. Then we'll cross-sell everything. I just want to walk you through a couple of numbers to see if this was worthwhile.

Is it worth spending 400 million to acquire two million customers? So, the cost of acquisition is 200; the cost of retention is roughly one-tenth of that, to keep the customer for the next year. Now, what is the money that you were making? They made about nine in a trade per year, and at that time, they were charging $16 a trade. So, 9/16 is $144. They expected to make from a life customer. The margin account to borrow money on to buy stocks, they were expecting to make $120, from the credit card, 30% likelihood that somebody would use the credit card, and the annual fever $60. So, I'll give you $18 per customer estimated. Term life insurance, roughly $200 per customer, but the success rate of only 5% that was asked estimated, for that was $10 per customer. An IRA, Individual Retirement Account, 4% success rate, roughly $400 value, and that gives them $16. You add up all of this; it came to $308. And so, you spend $200: you get $308-$20, which is $288. Is this worth a good deal?

On a single level, perhaps not because there's a lot of uncertainty associated with it. But if you've got the customer, what is the likelihood that the customer is going to be with you the next year? So, you're not only making money the first year but let's say a customer retention rate is 90%. You're making $288, with 90% of the customer the following year, and 90% of 90, the year after that and so on and so forth. So, this is really the logic behind customer lifetime value. You need to look at the value that you're appropriating this year, but also the value that you will appropriate in the future.

Moving on from E-trade to today's era, E-trade was around 2000 and moving forward, 20 years. And, we look at the market, and the market is very, very crowded, and you might notice I've said, 'Market-driven at the bottom, compared to Market-driving'. Up to the tree trade level, you were the one pushing the product in the marketplace. Now, the market is deciding what they will do or not do. So, you're driven by the market: by word of mouth, by social networks, so on and so forth because we are advising our friends what to do and what not to do. So, this kind of market, I want to look at, a company called Alipay. 'Alipay' comes out of China, and I remember making a comment to a colleague of mine that, if Alipay is a bazooka, PayPal, in many ways, look like a toy pistol. And I will talk about why that is the case.

So, moving on to Alipay, which is owned by a company called Ant Financials. And Ant Financials was actually put in place by Alibaba. Why? Because Alibaba encountered the situation that we encounter in other countries as well, where customers were not willing to pay in advance for a product that was yet to be shipped. So, the logic was, let's hold an Escrow account. The customer puts the payment in an Escrow account and receives the product at the other end. When they receive the product, and they sign for it. That is when the amount of money is released to the shipping party. So, it's for the safety mechanism that you're not getting defective goods, and once the customer approves the purchase, the vendor gets paid. So, this logic is used elsewhere in the world, that is there to protect the customer, but also to protect the vendor. Because of the vendor, I don't want to ship to somebody who may or may not have paid up. This way, both parties are happy.

And, what was Alipay doing? A tremendous amount of innovation on the product side. And, about ten years ago, they developed Facial recognition technology, and to approve a purchase, all you had to do: smile at your cell phones. They also came up with mechanisms that could hold your cell phone next to an iPod like a device, and that pod would be able to communicate with the cell phone to do that transaction. At the same time, they were innovating in managing the customer relationship. They were using the Know Your Customer kind of information in order to find out which customers had higher lifetime value, which customers had lower lifetime value. They could also actually run a credit check by using the information they already had. They did not need to go to a credit agency.

Based on the customer information, they could decide their own credit score. Then, on the logistics side, they were accepting E-payments, and they were also managing shipments and so on. So, as you can see, this company integrated product innovation, customer management and logistics with a very similar purpose, compared to what Charles Schwab was doing earlier. And what was the purpose? How can we increase convenience and reduce costs simultaneously? And what they were adding on to it is, like Microsoft, how do we bundle, upsell and cross-sell? How do we take this into adjacent geographical markets and into adjacent product markets?

So, we use the same approach: to sell insurance, as to sell travel services, as to sell transactions at the grocery store. So, the idea was to go into adjacent markets. And finally, what they were also doing, is going into cross-border trade. From my understanding, today, Alipay is transacting in about 115 countries in 21 currencies. So, they started in China, but it is really a global business. This company was going to do an initial IPO at $34 billion for about 10% of the equity, and the Chinese government has just stepped in and said, 'Look, you guys are acting like a bank; you're not a bank. You behave like a bank, and then we will let you go to the IPO'. So, this is our story on Alipay.

Video 11: Building Financial Service Brands (Continued)

We know that in India, there's a big battle going on in the Fintech Arena, and an early player in this game is a company called Paytm. For those of you who are cricket fans, you might remember that the Indian cricket team used to wear Paytm on the jerseys, so this company was spending a lot of money in building the consumer base through advertising. They were also building the other side of the story because, as a consumer, if I'm going to use Paytm to make payments, somebody's got to accept it. So, they spent a lot of time building the Paytm name in the retailer network, so everything from vegetable shops to rickshaw-wala to taxi services etc. The idea was, let's get people to accept Paytm as much as they would accept the Indian rupee or a credit card. So that was the game, and the goal was to make sure that people understood that even God will accept Paytm, so that was the logic.

So, what happens out here? It started about 2015 or so and Paytm, wasn't doing very well initially. It still had 50 million customers or so, but it wasn't that big. Then the company that really helped them was Uber because the Reserve Bank of India came out and said, "Look, you both cannot accept payment until the ride has been completed." So that led to the need for a wallet, a payment wallet, the Escrow account that we just talked about in the context and financials. And for the Reserve Bank of India and Uber did Paytm a favour, and we see that the shot up to quite a bit around 2016. A year later, our Prime Minister Modiji came in and said, "Look, we're going to demonetise. We want people to make electronic payments." "We're going to demonetise, and we're going to change the currency notes etc., to root out certain but potential legitimate money."

Now what that also led to were the demand for electronic services. So, indirectly the Government of India is now helping. Subsequently, we've seen the emergence of mobile payment systems in India, and all of a sudden, a company that was hardly known 6-7 years ago, is now got 450 million customers. I mean, this is probably the fastest-growing company if you want to think of it, and very, very large presence in the marketplace. So, now what they're doing is they're using technology to leapfrog directly into mobile banking. In India, many people do not and will not ever have credit cards. Why? Because we don't need them. I can transfer money from my phone to yours. I can transfer money from my phone to the vegetable vendor. I can transfer money from my bank to your bank. It is all very, very simple. So, the need for credit cards, in my opinion, is going to disappear. And Paytm was in a wonderful position to take advantage of the leap-in technology.

They also took advantage of technology being global to expand into adjacent products, so they were not only making payments; they were also getting into debit cards, they were also getting into automobile loan kind of businesses, and they're also got into the global business by, for example, expanding into Canada. Why? Because a lot of Indian diasporas in Canada and they just followed the Indians wherever the Indians were. Now, this process has been accelerated recently with a lot of new competition coming in. And now, Paytm is no longer just a payment wallet. They are out there in the E-commerce business, they're out there in the insurance business, and out there in the banking business, and it is slowly but steadily becoming a full-fledged bank. And what a position to be in when you have 450 million customers to whom you can sell additional services. So, good play by this company, and lots of news has been very, very positive.

In India, we have something called the India Stack. It's got an element called the Aadhar card that you all are familiar with; in India. There is also something called UPI. And UPI is the system that, behind the scenes, enables the transactions between banks and also between phone-to-phone and so on. So, the technology is there in India, and in many ways, companies like Paytm are doing far more in the technological space than many of the Western banks. I will subsequently talk about a product called YONO. YONO stands for You Only Need One, and it is put in the marketplace by the State Bank of India. So, I will transition to that, and we'll talk about how Fintech is really emerging out of India and can go global.

Video 12: Tech-Fin and Business Innovations in India

Continuing with FinTech. When we hear the word FinTech, the image that comes to our mind is that of a start-up going crazy running overtime, but that's the image that comes to our mind. I want to talk about the State Bank of India, which is often regarded as a stodgy, quasi-government-owned bank. And they came up with a product called YONO. YONO stands for You Only Need One Account. And they have integrated everything. So, your credit card, your debit card, your checking account, your automobile insurance, your automobile loan, your home loan is all integrated into a single account. And in the context of the pandemic, it's online, and the business has grown considerably.

Now, I want to also talk about what has enabled it. What has enabled it is something called the India Stack. What is the India Stack? In the US, we've got Amazon as a platform, and Amazon is selling cloud services, they got Amazon Pay, they've got Amazon Prime, and everything. So, they've got multiple businesses selling on the Amazon platform. But Amazon is a private platform. We talked about Alipay and ANT Financials in China. Now, that is also a private platform. In India, the India Stack is a public platform, meaning a small company, a midsize company, or a large company could use that platform to grow their business. And certainly, one such company has been State Bank of India and YONO.

And what we are going to now look at, how do we bring the financial technologies market and the telecom market together? So, this is a battle that is happening right now as we speak, and how are these markets coming together?

So, going to YONO, the chart I'm going to show you is very similar to what E-trade was trying to do in the year 2000 when we talked about spending $400 million to buy two million customers. Except State Bank of India has not spent that kind of money, and they are acquiring roughly 30-40K customers a day. That is the rate at which they are growing because of this integrated account.

So, what are they doing? They're making integrated services available on the web, available on the mobile phone, and if you want to go to the State Bank of India branch, if you have time, that is also okay. So, they are on multiple channels like E-trade; they're cross-selling mutual funds, checking, and savings accounts. There you can make phone payments, you can get service discounts, you can get E-loans, you can buy insurance, and we can go on and on and on. All of this is on a single platform. Now, these people, like Paytm, also have a few 100 million customers. So, the question is, if you have customers and they're using all these products, and they are loyal to you, how can you leverage them? And how could you make them even more loyal? For if I were a customer, and YONO came to me and said, "Look, Raj, we have done this analysis, and it looks like from your insurance policies, etc., that you might be in the market for a new car. If you're in the market for a new car, once you have negotiated a deal, we can, on your behalf, get you a further 3% discount." Then they go to the automobile dealer or the manufacturer and say, "We will bring this customer to you. But you've got to give us 4%, so we can pass on 3% to my customer." Now I'm cooking this up. So, I actually talked to the managing director. I said, "Have you guys tried this B2C hold that you have in the business-to-business market?" And I gave him the example I was talking about. He said, "That is absolutely the direction that we're going in."

So, what I'm trying to say is that there's been a tremendous impact already in the consumer markets. But now YONO/State Bank of India is in a position to leverage the B2C, the consumer ownership that they have. They can leverage it in the B2B market. So, again, emphasising, particularly in areas like FinTech, you can do the integration across multiple market segments. In this case, B2B and B2C.

A step further is Reliance, again, a very active company out of India, and Reliance was already in the retail space. They're already in the telecom space. In the last six months, as you know, they have come up with a deal with Facebook. And they're going to use the WhatsApp application from Facebook in order to come up with a product that is very similar to Alipay. So, the idea is, can we use WhatsApp as a platform to start selling additional services? All right, so what is going to be the impact of all this? The big players are going to force the smaller players out. This is getting to be a very, very big game. But billions of dollars in play, and Facebook has invested a considerable amount of money to get into the Indian play if you want to call it that.

So, what is happening now is that Jio, which is a reliance product, along with WhatsApp from Facebook, can take on the same kind of business that WeChat and Alipay are doing in China. Except on top of it, they have one other benefit. In China, there's a company called China Telecom that is government-sponsored that managed

China Telecom, China Mobile. And Alipay doesn't have control over telecom. In India, we look at somebody like Reliance and Jio, and these guys are number one in telecom services also. So, it's going to be a very big play. And this is what's happening in India. In e-commerce, you got Amazon fighting Walmart and Flipkart, which have gotten together. And now a big game is coming in with Jio coming in, Jio Reliance, aligned with Facebook and WhatsApp. And they were trying to buy a company called the Future Group. And that would have given them considerably bigger power in the marketplace. And that case is being held up in arbitration right now.

But again, a company to watch because they are doing all the right moves in integrating technology, finance, and telecom is the Jio Group. So, lots of finance games to keep an eye on. But in many ways, the market between the giants is actually in India. So, it's not that Walmart and Amazon are great friends in the US; they're fighting in the US. But in India, they're fighting for fresh territory. So, I am thinking of a title for something like this. And when I was growing up, there was a movie called The Wild Wild West, and I am now thinking of perhaps writing an article or the book titled The Wild Wild East. Lots of fun and games.

Video 13: Why Brands Matter: Pricing Power

We have spent a considerable amount of time talking about the multiple facets of the market that need to be built up. So, we were looking at branding to build the consumer base. The brand has an impact on distribution and, as we saw in multiple cases, for example, in Paytm, that in order to win over the consumers, the retailers and the vendors had to accept. So, you have to develop the market. And so, we have to invest in what I call Brand Access. It's not just about brand image, about some of the access that the brand has into the marketplace. So that is what we're focused on many, many examples that we've dealt with. I also want to talk about why is it all worth it? Okay, why are we going through all this trouble? And the reason why it is worth it is because what the brands bring to the table is something I call Pricing Power. It's the power in the marketplace. It is the brand that is giving you the ability to appropriate value in the marketplace. So, that I label as pricing power.

Now, we talked earlier on about moving as we build the brand, moving from tangible features to benefits to emotional benefits and then to the very essence of the brand, what does the brand mean. Now, as we're doing this, what we're actually doing is saying, "All right, how do we communicate our differentiation? How are we different and better?" The second thing we said, "How do we improve the accessibility to the consumer?" The third thing we talked about is engaging the customer, getting the customer emerged emotionally engaged with us. And then the final thing, if we did all of this right, is ultimately the trust, and it is going to be the trust that is actually influencing buyer behaviour. So, the value of the brand is because it impacts the buyer, the behaviour of the people. So, let me just talk about it very briefly.

Why do brands matter? It's because we, as consumers, make choices. Some of the choices we make on functional features, battery life for a cell phone, or how heavy a track shoes we want light track shoes if you're going to be running. So, those are the functional features. The second part of it is experience. We bought this product. How long did it last? Was it good enough? Did it live up to the promise? And that ultimately translates into aspiration and trust like, "This is the kind of brand I would like to own." Now, a competitor can capture the functional features. So, if we're talking about cell phones, they can capture, they can regenerate a similar kind of battery life. Or, if it was a five-inch screen that can come up with a five and a quarter-inch screen, those kinds of things. So, if I now go back to what we talked about earlier, we talked about the BlackBerry. The position that BlackBerry was in, in terms of customer preferences, has now been taken over, perhaps by an iPhone or a Samsung. Certainly, if you look at my portfolio that way. Now, what this is doing? It is the experience and trust that is creating the market imperfection that we talked about at the beginning of this course. How do we generate loyalty in the market? So, we are able to protect our share, our slice of the pie, from the competition?

If you can do that through the brand, what it is providing you is the ability to extract more from the market. We pay more for Nike shoes. We pay more for Apple phones. And it is also, in my opinion, related to the country of origin. So, we attribute certain high-level qualities in India. For example, we talk about German engineering. Obviously, the idea is the country-of-origin effect is that products coming from Germany have higher performance, perhaps higher reliability and quality. So, there is a country-of-origin effect. Now, it is not only between BlackBerry and iPhone or Bata and Nike. We can see the same thing happening in the automobile market. So, this is not a specific phenomenon; it is a general phenomenon.

And if you're able to do that, what are some benefits that come to the table? The benefits that come to the table are; frankly, you convert a low equity brand into a high equity brand, and this is what we talked about at the beginning of the course to make markets more imperfect to extract more value. And that means we can either extract a Price premium for the same share or a Share premium for the same quantity and for the same price. So, what does that translate into? Higher profits and higher revenues.

The brand also gives you the power to negotiate with the retailer because if you own a great brand that is bringing traffic to the store and it is the traffic that the retailer is making money on, that gives you the negotiation power, so we can lower the cost of distribution. We also know that customer retention means we'll make money not only this year but next year. There's also plenty of research in hundreds of papers that document if you have a strong brand, you have to spend less money in the future. So, the idea is, you spend more money now to save money in the future. So, if you build a strong brand, your advertising, for example, is more effective. And finally, we know that if you have a strong brand, your market penetration is a lot faster. So, you can save time. For all these things are very, very well documented, and they would lead to the contribution of the brands to financial value. And again, I want to emphasise that brands are the only assets that appreciate.

So, we will be looking at what is the contribution of brand through financial performance. And before I move to that part of this module, which is looking at the impact of brand on pricing and distribution, I would just like to spend a few minutes on what are the lessons that we have learned in this module.

Video 14: Module Summary

So, we spent a considerable amount of time in this module really talking about the intertwining of brand positioning with the distribution. For example, how distributors help us build a brand. And we will be transitioning over more to pricing power, as I promised.

But the idea is that branding pricing distribution goes hand in hand. You cannot separate them. Today we were focusing more on the building. I wanted to emphasise that a lot of value from the perceiver's side, a lot of value from the manufacturer side, a lot of value from the distributor side is coming in things that we do beyond the physical product. Whether it is the services that are accompanying, whether it is the trust, our willingness to take our product back if the customer doesn't like it, so, it is all of these things that matter. And this is saying, let us look at our relationship with the customer that goes well beyond the physical product that we can hold in our hand.

Now, in the context of building brands, we covered a lot of territories. In consumer goods. We looked at Nike, we looked at Tanishq. We also look at subscription services like ESPN. It's amazing how they were able to build one of the best-known brands in the world by actually having to pay their distributors to carry that product or carry that service for them. We looked at Honda. Emerging from small engine technology to see how the one product at a time, once a brand at a time, they generated the Honda image all the way from Honda Civic to Honda NSX, which was running on the Grand Prix. We looked at Microsoft, and this is probably one of the most important examples because a lot of past thinking was based on how do we win? And that winning was, for me to win, somebody has to lose. One of the things I wanted to understand from Microsoft is, for you to win, your partners have to win along with you. Otherwise, you're not going anywhere. That was further emphasised to some extent when we talked about PPG Auto glass. So, for PPG to win, they had to be a value proposition to the car owner, there had to be a value proposition to the automobile audience, and there had to be a value proposition to the repair shops. So, again it is working together that kind of matters. We then looked at component branding. We talked about Lycra, but we also talked about Bose audio. And we talked about a company that really made me a believer in business-to-business marketing. And that was a NutraSweet. I worked on that project when I was pretty young, and I learned a lot from that company. The final we spent time on the emerging battles in FinTech, in financial services. But the same battle is going on into right services like the battle between Ola and Uber. And so, a lot of technological play. And we often ask the company the question, when will this companies ever make any money?

And I gave you the example of E-trade. How by investing $400 million, they almost got all of that back in year one. So, continuing with all of this is going to be a focus next on why brands matter. And they matter because they bring power to the marketplace to you, the pricing power.