

Connecting brand strategy to business results

Creating and managing brand value™

Interbrand

Making the business case for brand change

Connecting brand strategy to business results

by Mike Rocha

Competitors are gaining ground. The look and feel of products within your company's portfolio needs a refresh. Employees are uninspired and disengaged. Your brand has outgrown (or underutilized) its current identity or positioning. Whether the realization came about as a result of formal analysis or your personal observations, you know your brand isn't working hard enough for your business—and something's got to change.

However, to make the kinds of changes that will drive your business forward, you also know that investment and support from the top of your organization will be required. As you prepare to make the business case for brand change, you will probably have questions to answer:

- How should the brand be positioned?
- What is the optimal brand architecture?
- What kind of investment will be needed?
- What value will this create for customers?
- What impact will this have on customer behaviors and revenues?
- What ROI can we expect?

Answering these questions requires a very diverse set of skills, from developing strategy to consumer research, analytics and financial modeling, determining the investment required and, crucially, the articulation of a compelling case. It requires a holistic view of a brand that can connect the dots between the way your brand functions, how its expression influences customer perceptions and behaviors and, ultimately, how the strength of your brand impacts financial performance.

By bringing together market, brand, competitor, and financial data, the brand valuation model provides a framework within which strategic options can be assessed and business case modeling conducted. In addition to brand value, business case modeling will include estimates of top and bottom line improvements, as well as expected changes in business value.

To fully harness the power of your brand to drive choice, win loyalty and command a premium, specialist skills must be brought together and combined with a strategic

overview. The goal, of course, is to secure future earnings and increase market share, but to arrive there, your brand must stay relevant. What will the future look like? Is the total experience of your brand one that is likely to create identification, differentiation and value next quarter, next year, or five years from now? Knowing how your brand impacts financial results is critical to maximizing brand and business value and staying competitive—and profitable—in the long-term.

Interbrand's approach to business case development

Many firms claim to be able to evaluate strategic branding options. However, very few have the range of skills needed to tie the impact of branding to financial results (and therefore brand and business value). In order to do this, you must first establish the key value drivers for the business. In the telecom sector, for example, the biggest driver is typically subscriber turnover or churn, but ARPU (average revenue per user) and subscriber acquisition rates are also important. In financial services, the drivers include customer numbers, average products per customer, or balance on account. In the automotive sector, the drivers are typically unit sales volumes, average selling price and dealer incentives.

To fully appreciate how value is generated, it is critical to understand the relationship between brand perceptions and the value driving customer behaviors we want to model. Using retail as an example, if we are able to create a more engaging in-store

Base

Case

Increased

Crossselling Increased

Acquisition

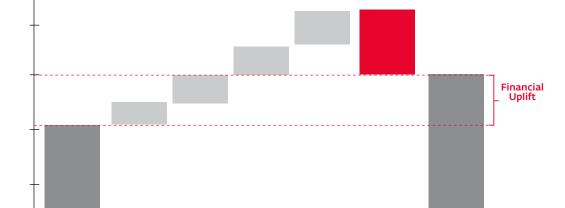
experience, we can expect that customers will spend more time shopping and enjoying the atmosphere. When encouraged to experience a retail environment at their leisure, customers tend to purchase more, and potentially higher-value, items. However, in order to gain any real advantage regarding revenue generation, it's not enough to know that this sort of change is generally beneficial—you need to know how to make it happen and exactly where you might need to invest.

Before committing resources to brand changes, businesses want to know if the changes will be worth making and what the nature of those changes might be. To that end, a range of research and analytical techniques are available to help organizations better understand the connections between customer perceptions and value driving behaviors. At Interbrand, we deepen our understanding of these relationships by connecting existing data from across the business (such as data from market research, CRM, and financial systems) and also

commissioning new research (which may involve testing new concepts or brand propositions).

Once research and testing have helped identify what kinds of changes might be necessary and how the brand might benefit from implementing them, a commitment to invest is the next step. In most cases, upfront investment is usually needed to get improvements underway. This may also be followed by ongoing operational costs to, for example, deliver certain hallmark experiences to support a revitalized brand proposition.

To help inform decision-making and make the case to upper management and the board for investment, we examine the variables in a financial model of the business, compare the potential upside with the cost to deliver, present strategic options for brand change, and show how each approach is expected to impact brand and business value.



Higher

Retention

Brand

Extension

Figure 1. Scenario modelling - illustrative output

"Investing in your brand is not just a nice 'extra.'
Brand change can deliver significant returns,
boosting both perception and your bottom line—
but it has to be done right."

Cost to

Final

illustrative

Case study 1: A premier international hotel and resort brand

Building an authentic, relevant and differentiated brand to drive enhanced business performance

Interbrand was engaged by an upmarket hotel brand with a smaller global footprint relative to key competitors like Hilton and Marriott, meaning that its brand needed to work harder to attract and retain customers worldwide.

After assessing the hotel chain's objectives and the competition it was facing, we knew we needed to address a number of key areas to strengthen the brand:

- Identify an authentic, relevant and differentiated brand proposition
- Identify the key touchpoints through which the new brand would have the most impact on customers
- Create a business case to demonstrate the expected financial impact of the new proposition
- Creatively execute the new proposition across key touchpoints

At the time, the brand was perceived as a business traveler-focused chain. However, our analysis identified clear space and opportunity in the marketplace: a niche between high-end luxury hotels like Ritz-Carlton and Four Seasons and large business-focused chains like Hilton and Hyatt. We also felt that the brand had the potential to offer something different, a luxurious yet accessible alternative for those who would be travelling for business as well as pleasure.

We conducted extensive market research and found what really distinguished the brand's target audience was their attitude to travel:

- Worldly They shared an interest in other cultures
- Discovery They had a willingness to try new things
- Authentic They sought authentic, enriching experiences
- Optimistic They looked forward to travel and its pleasures

What these globe-trotters (or aspiring globe-trotters) ultimately had in common was a heightened level of sophistication—they wanted to be "in the know." It was this key insight that inspired our brand proposition.

We wanted to ensure that the hotel chain became the go-to brand for people who wanted to be in the know, and help establish the proposition and strategy for a hospitality brand that went out of its way to deliver authentic and enriching experiences that make the traveler's world feel bigger, and the journey more rewarding.

To figure out where the new brand proposition would have the biggest customer impact, we employed quantitative touchpoint analysis (see Figure 2). While "value" turned out to be the most significant driver of overall customer advocacy, staff and in-room experience were also very influential factors.

Once we had a clear sense of what was driving customer preferences and perceptions, we then examined the relationship between customer advocacy and hotel performance. Through this analysis, we were able to demonstrate

how our suggested brand proposition and strategy would not only improve customer experience, but also increase bottom-line profit (by tens of millions of dollars).

With a strong financial case as the foundation for our recommendations, we developed a strategy and creative execution for each of the most impactful touchpoints. Starting inside the organization, we created an internal branding engagement and communication program to build understanding and excitement among employees for the new proposition. To deliver a higher level of personal attention, a locally-tailored concierge concept was developed on-site and online.

Building on the new proposition, we also created a philosophy for room design and experience that provided a real sense of location inside the room including, for example, local intelligence guides and TV welcome imagery. Today, this concept has been taken even further. Tapping into their target market's love for travel and cultural curiosity, the hotel invites visitors to explore the world through cuisine by offering a culinary mobile app that features the hotel's chefs in various regions sharing local recipes and engaging the senses.

The impact? The first year post-launch saw a 10 percent increase in brand consideration among the target audience, revenue per room increased 12 percent, and the hotel owner's share price rose by 26 percent.

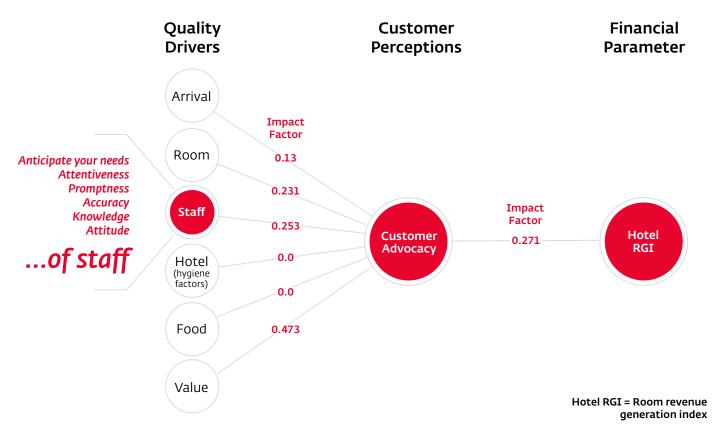


Figure 2. Quantitative touchpoint analysis

Case study 2: A global technology brand

Scenario modeling to support a critical brand portfolio and divestment decision

A technology brand approached us in the midst of considering spinning off one of its larger divisions just as a change of senior leadership cast doubt on the viability of the deal. The management team did not have a clear perspective on the best brand scenario going forward, and lacked adequate information on customer preferences, loyalty and purchase drivers.

Interbrand helped cut through the clutter by clearly articulating the choices available and communicating the rationale behind the optimal strategic option. An Interbrand team spanning three offices delivered an econometric model and global study of 3,600 respondents in just three weeks. Our findings demonstrated that, if the brand owner proceeded with the decision to divest, the brand would have to produce massive growth in the next five years in order to pay back rebranding costs and make up for anticipated customer attrition.

Interbrand not only helped highlight the best strategic option and scenario for the brand, but we also exposed the crucial need for innovation to build equity and long-term shareholder value—regardless of the choice management made. We also identified the need for active employee engagement in order to rebuild trust and generate loyalty.

Our work was leveraged not only within the marketing department, but also at the CEO-level, showing that Interbrand delivered exactly what was required to support the decision-making process. Our analysis helped the brand change course, strongly influencing the future of shareholders, consumers and thousands of employees, making a memorable mark on the brand's timeline and paving the way for its growth and continued success.

Case study 3: An iconic photography brand

Quantifying the market volume and value potential of the brand to support brand extension strategy

Potential investors wanted to better understand the volume and value potential of a heritage photography brand, both in its existing market as well as other potential markets.

Interbrand assessed the market potential of the brand using a quantitative choice modeling study in its target markets. This allowed us to simulate different scenarios for each of the sub-segments of the market into which the brand wanted to launch and calculate the overall volume and value potential for the brand. Combined

with qualitative insights from indepth interviews with professional photographers and distributors, the equity of the brand within and outside its existing core business was determined, allowing us to quantify the financial opportunity and support the business case for further investment in the brand.

Based on our analysis, our venture capital client acquired the brand and unveiled a brand re-launch strategy at the world's largest photography exhibition, Photokina.

As these projects illustrate, investing in your brand is not just a nice "extra." Brand change can deliver significant returns, boosting both perception and your bottom line—but it has to be done right.

By consulting with experts who have the strategic and analytical capabilities to deliver maximum business impact plus the insight, talent, and diverse range of skills required to make the business case and then execute a winning creative strategy, organizations can leverage the power of their brands to deliver real business impact.

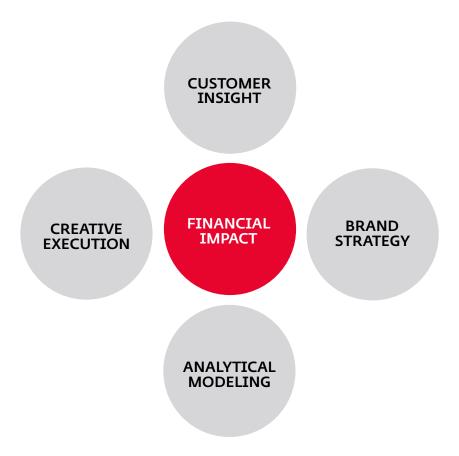


Figure 3. The diverse skill set required to generate and execute the business case for brand change

1. Strategic options 4. Business case 2. Research and insight 3. Scenario modelling evaluation articulation Overview Overview Overview Overview • Build financial model and • Establish strategic • Develop fact base to • Determine optimal, options and develop initial inform evaluation of conduct scenario value-enhancing, business and brand options and scenario strategy and bring the analysis impact hypotheses modellina analysis together to tell a compelling story and make the business case **Typical Activities Typical Activities Typical Activities Typical Activities** Qualitative assessment • Review a range of data Working session to craft Consider potential sources and benchmarks: of strategic options investment requirements story for maximum Existing and desk impact at board level • Shortlist of options research Brand development and · Newly commissioned implementation to be taken into • Presentation to the board research · Employer brand/ internal quantitative analysis · Case studies engagement · Management · Physical and digital • Establish key value re-branding interviews drivers for scenario model. · Media and PR This will vary by industry · Measurement Current ("Base Case") (e.g. churn, acquisition, · Operational/IT/ Brand Strength and Role and ARPU in telecoms, Legal of Brand analysis¹ frequency of visit, and average basket size in • For each scenario, Establish relationships grocery, etc.) determine the expected between customer impact on Brand Strength, perceptions and value Role of Brand, value driving behaviors drivers, revenues and margins into the future • Combine inputs in financial model to determine brand and business value impact

Figure 4. How Interbrand approaches business case development

¹ Brand Strength and Role of Brand are tools within Interbrand's brand valuation methodology. For more details please read the whitepaper "Brand Valuation. A versatile strategic tool for business".



Mike Rocha
Global Director, Brand Valuation
mike.rocha@interbrand.com

Mike leads Interbrand's brand valuation practice globally, providing overall strategy, thought leadership and consistency across its network.

He has over ten years of experience in understanding and measuring the value of brands, their impact on business performance and in uncovering insights from the valuation process to drive brand value growth.

