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The Best Asian Brands Issue

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Interbrand

Creating and managing brand value™

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A note from Jez Frampton, Interbrand's Global CEO

If there is one thing I would like you to feel after browsing this issue of IQ, it is a sense of marvel at how far and fast we have come in recent years. The scope and scale of change we're experiencing worldwide—technologically, demographically, and philosophically—is astounding. It's easy to lose perspective while immersed in it all, but we are living in a period of radical transformation.

From the mobile revolution highlighted in this issue's Best Asian Brands report to the reinvention of the retail store, new ideas are igniting around the globe. Exciting new business models are emerging, economies are evolving and expanding—and brands are at the vanguard of it all.

Everything, no matter how fundamental or deeply rooted, is now viewed through the lens of globalization and the digital revolution. Everything, from everyday tasks like shopping to more intricate matters such as mergers and acquisitions, is being questioned and reimagined. And as power shifts away from countries, brands, and traditional institutions that have failed to deliver progress, visionary entrepreneurs, brand leaders, and consumers are co-creating an exciting future. As you will see in the stories in this issue, that future may well exceed our wildest dreams for a thriving global economy and a more prosperous world for all.

Jez Frampton
Global Chief Executive
Interbrand

Opening up

IQ Editor-in-Chief Daniel Diez and Interbrand Global CEO Jez Frampton discuss one of the biggest challenges facing brand marketers—leveraging product brands to enhance the corporate brand, without losing focus on the customer.

Daniel Diez and Jez Frampton

“If you have built a very powerful brand it gives you a bit of protection in case the products don’t go as well as you thought.”

Daniel Diez: It strikes me that a lot of technology companies today are making big bets on devices, and it seems that the brand’s image and personality are encapsulated in this one device. Do you think it's a good idea or do you think they’re putting too many eggs in one basket?

Jez Frampton: When you first build a brand, quite often it does happen on the back of an individual product. If you take a look at a company like Apple, their first big breakthrough was the iPod and iTunes, and that kind of transformed the way we thought about them. Now, if you have built a very powerful brand it gives you a bit of protection in case the products don't go as well as you thought. The danger of what they’re doing is they are educating consumers into believing that this is the only important thing—that it’s always about the next thing, the next thing, and the next thing. The experience seems to be that the changes between one product and the next release are getting less and less. We saw this in some of the consumer blogs around the time of the release of the last iPhone, and indeed with the Samsung products, that the differences between versions are getting more and more marginal.

DD: This is the Apple syndrome, so it's just iteration after iteration and no great big breakthrough?

JF: There is a lot of discussion about the fact that Apple hasn't released a product for a while. In reality, they've always had a relatively slower release cycle on many of their products. They always get a big fanfare around it, but one of their supposed points of genius is they've been very good editors. They focus very carefully on the products they think are important to the company, and have been well-known for actually putting things on the back burner that they think might get in the way. So on one hand, yes, they've helped to create this trend because they're the ones that created the big song and dance—Steve Jobs standing up and giving us the latest revelation—so, of course, what everyone else has done has followed on that, and it makes you feel like there’s always a new product coming out every other week.

DD: So how does the BlackBerry launch of the Z10 and 7 compare to what Apple's doing, and do you think it's going to have the same effect that the iPhone had for Apple?

JF: Well, I know that’s what BlackBerry is hoping, and interestingly, when you saw the first industry response to the new operating system on the Z10, it was very good. People said that it was an easy-to-use platform, quite straightforward, and of course, BlackBerry does have millions and millions of users around the world. I think the question is whether or not they've slightly gone off the boil. Around two or three years ago, they had this massive influx of consumers buying into the brand. There are shifts going on in the way that companies issue mobile phones and the degree to which they actually want to have people taking their own phones or bringing their own ones in.

Their grip on the business marketplace is definitely not as strong as it was. They got slightly distracted, perhaps, by looking at consumers. Now they've turned their head back to look at the business market, and it’s changed.

DD: Do they have to choose? Do they have to pick one or the other in order to survive?

JF: I don’t think they do. Apple is always focused very firmly on consumers and has a very clear idea of what type of person they are selling to. It's always been about the slightly more creative of mind and “think different.” By building that image of their brand around those kinds of people, interestingly enough, they have actually managed to transcend, quite nicely, into the business market. Historically, in the mobile phone market, the brands that have tended to be stronger were the ones who started off with a very, very strong business base. But I wonder whether or not BlackBerry is going to be able to rush back into their homeland fast enough in order to stop the likes of Samsung, Apple, and the rest of them taking away what was once BlackBerry’s domain.

Microsoft's Big Bet Year

Jeff Hansen, General Manager of Brand Strategy for Microsoft, tells Andrea Sullivan, Executive Director of Client Services for Interbrand, how unified branding and customer experience is strengthening Microsoft's brands and products during its "Big Bet Year."

Jeff Hansen with Andrea Sullivan

Andrea Sullivan: You've got a lot on the hook. Can you tell us a little bit more?

Jeff Hansen: We refer to it as a "Big Bet Year". So this year, we'll do a new release of nearly every product in our portfolio. In most cases, it's a complete re-imagining of what our products can do for our customers. So clearly, software is still at the heart of what we do, but we need to kind of change our mindset in how we operate. There are a number of big bets that we're placing in making that transformation.

Just to give you one example, on the devices side, we've released the Surface product. This is the first time Microsoft has designed and manufactured its own hybrid tablet. And so coinciding with that from a brand perspective, it was logical to also signal that not only is this a kind of re-imagining of our products, but it's a re-imagining of the company. As stewards of the Microsoft brand, we work with all of the product groups in managing their brand strategies and their brands. And so we have a company-wide effort around our brand look and feel to signal to the world that "hey, it's a new day" at Microsoft.

In terms of our brand efforts, we kicked that off in August, where I announced a new visual identity including a new logo for the company, and so this is the first time we've changed the company logo in over 20 years. That was the kickoff to these product launches and the new brand identity that we've released for Windows, Windows Server, Azure, and Office coming up.

We have this incredible opportunity where, as part of this wave of product launches, we've done a pretty dramatic change to the user experience, the look and feel of our products. And it's more coordinated across a range of products than it ever has been.

That means once you know how to use one Microsoft product you're well on your way to knowing how to use another one. It also feeds into customers' increasing desire and expectation that the experiences that they have cut across the screens in their lives. So what I do on my big screen, my TV, my laptop, my tablet, my phone, that kind of experience is seamless across those screens. We have this entirely new design philosophy in our products and we've used that opportunity to take the same principles behind our product design and apply it to the design of our brands. Now, not only do we have coherence or consistency across our products, we have it between our products and what customers hear and see from us in our marketing.

“We’ve done a pretty dramatic change to the user experience, the look and feel of our products, and it’s more coordinated across a range of products than it ever has been.”

AS: I think a lot of marketers struggle with how they bring a brand experience to life more effectively. How have you gotten to that point that you’re starting to integrate these experiences ?

JH: A big part of it is that common design philosophy. We landed on a new approach to that, which is Live Tiles, a living billboard, if you will, that will show you, real-time, interesting or fun information about what’s going in the app. So if it’s a communications application it might show you email, or instant messages that you’ve missed, they’ll come to life on the Live Tile. Or if it’s new photos from your social network, they will show up. And so you can glance and get a sense of what’s new, what’s going on across all of these apps you care about, and then you can choose to engage.

We have taken that Live Tile approach and applied it to all those screens, so we have a Live Tile approach in Xbox, on your TV, in Windows 8, so for both laptops and tablets—and on our Windows Phone device, as well. So that’s one example where you can tie the experience together, from a user experience as well as a branding perspective.

AS: So how are you looking to make sure that you’re driving equity back into the Microsoft brand in addition to building the product brands as well?

JH: Any kind of cross movement across our brands goes through the Microsoft brand. We have a really compelling opportunity—and I think a really unique situation—in this cross-pollination between our corporate brand and our product brands. When people strongly associate Microsoft with one of our products, Microsoft brings unique and beneficial brand perceptions to that product. And conversely, when people strongly associate Microsoft with a product that they’re particularly interested in, again there’s additive value there. It’s similar across products, like the affinity that a Skype user has—transferring that to Xbox, as we make Skype available on Xbox and vice versa. There is a lot of this interconnectedness that we’re really focused on.

AS: Are there any key measurements of success that Microsoft considers, as you’re looking to build strength into the brand?

JH: We’re very much an engineering-driven culture, so quantitative data carries a lot of weight. And so we have really robust market research programs that we execute on a regular basis to understand the health of our brands, the interconnectedness of our brands, how various campaigns that we’re executing, enhance or detract from our brands. And so we do have a plethora of data to help us understand all of these interactions and the effectiveness of the efforts that we pursue.

AS: Are there any brands that perhaps are outside of the technology sector that you look to, to draw inspiration?

JH: There is a long list for me, but let me just kind of stick close to home up here in the Northwest. Starbucks has really nailed the customer experience at their stores. We’ve opened up, over the last two years, Microsoft stores. We want to put a real person, a real face onto Microsoft that customers can come in and interact with. So we have over 20 stores across the country (US) soon to be internationally. Nike is another great one. I’m particularly interested in how they’ve been able to stretch or expand the Nike brand. How they’ve done that, but yet really kept to the ethos and the quality of the brand in place. Again, parallels for Microsoft in terms of the commercial businesses and the consumer businesses, the services and devices and how we expand our brand.

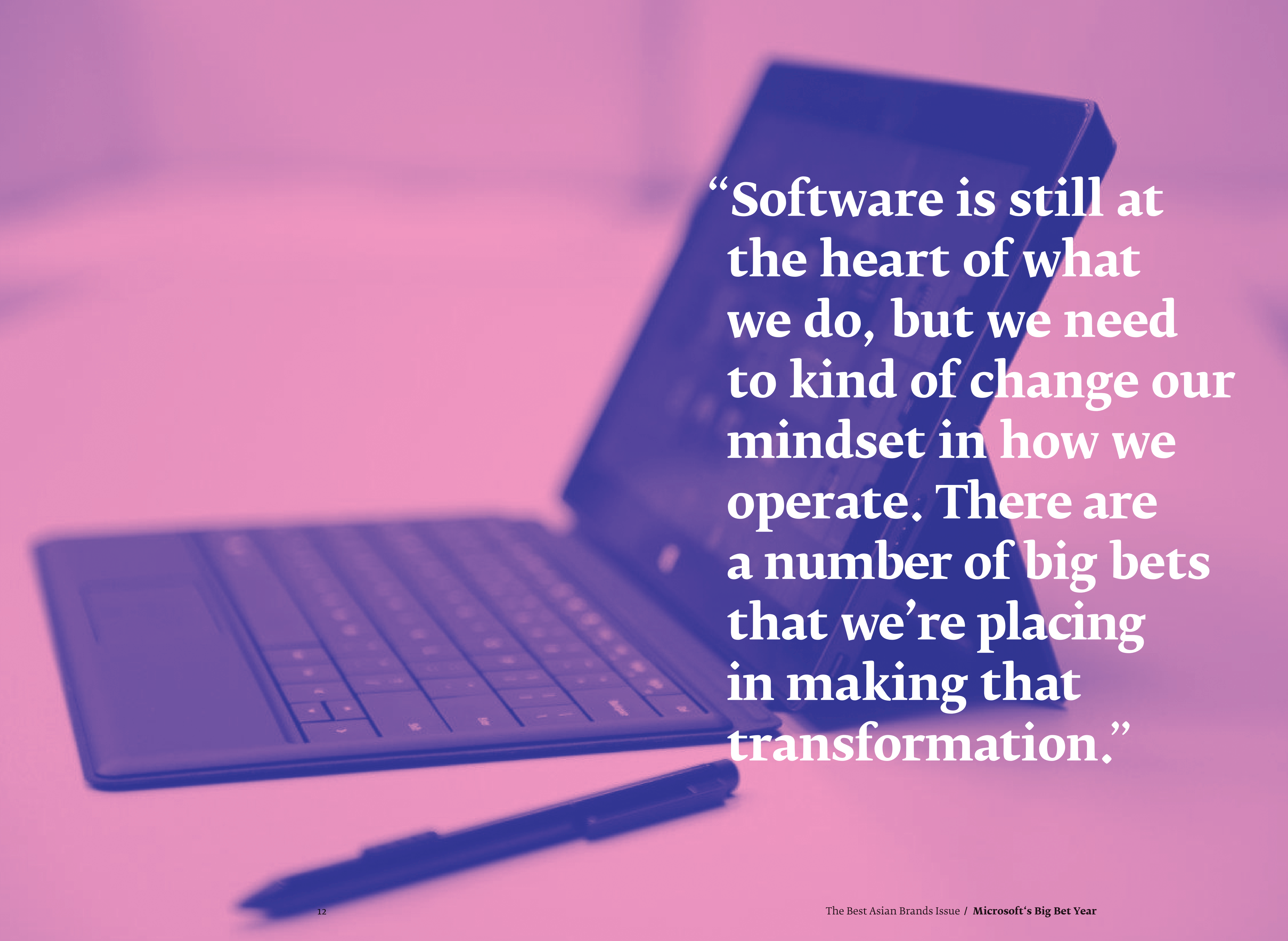
AS: How do you measure the success of your corporate citizenship program?

JH: First and foremost, we do it because it is the right thing to do and, it’s one of the kinds of attractions for a lot of people coming to the company. Not only do they want to change the world with technology, in kind of their day-to-day job, but they are also the same type of people that want to contribute to their community and do things outside their work. Microsoft encourages both of those. And so, we happen to pick up in our research, although it’s the right thing to do, it also has a huge ancillary benefit for our business.

AS: Are you learning anything in terms of the corporate citizenship program leading to greater recruitment efforts or retention of your best and brightest in the organization?

JH: It is such a great galvanizing, energizing factor of our culture. Every year we have a company meeting; in many ways it’s a celebration of what we’ve done in the past year and getting set up for the year ahead. A huge portion of that event is around what we’ve done with corporate citizenship and philanthropy—both at the corporate level as well as among individual employees. You see these stories and it’s just amazing. They’ll [our employees] go out to a village in some emerging market country where we’ve introduced technology training and how somebody who didn’t have a job went from a sustenance existence to having a career.

The company is very generous in a number of categories. Any donation that I give, the company matches it dollar for dollar. They’ll give me access to our technology, our software, very cheaply and I can donate it to a non-profit organization and again, they’ll match that. Any time that I spend out in the community volunteering, every hour that I volunteer, they match with dollars to that organization. It’s just such a great benefit to have with the company. And so yes, it attracts and retains employees.



> **“Software is still at the heart of what we do, but we need to kind of change our mindset in how we operate. There are a number of big bets that we’re placing in making that transformation.”**

The Road to Consolidation

The M&A survival guide

**By Daniella Giavina-Bianchi, Executive Director, Interbrand São Paulo
Beto Almeido, Executive Director, Interbrand São Paulo**

With confidence on the upswing and clouds that hovered over markets for years starting to disperse, merger activity is roaring back to life. From the multi-billion dollar American Airlines and US Airways merger to Berkshire Hathaway's move to team up with Brazilian investors to buy Heinz, chief executives, boards, and investors all over the world are looking for opportunities to grow.

It's no surprise that companies get a touch of "merger madness" when the kind of uncertainty that tends to hamper deal making begins to lift and opportunities to expand and consolidate loom large. In fact, since the late 1800's, mergers and acquisitions deals have allowed many companies to become more profitable—but what happens to a brand in that process?

No matter what motivates a merger, all are trying to maximize value and gain greater market share—yet, sometimes, a merger can leave the business combination in a worse situation than the merger partners were in originally. While some brands will inevitably vanish, new ones will emerge, and still others will be transformed. Shepherding a brand through the transition carefully and strategically can ensure that valuable brands are enhanced, rather than diminished by the process.

Increasingly, brand consultants are called upon—and should be called upon—to offer guidance during major consolidations. Unfortunately, in most cases, we are called in after agreements have been signed and announced to the market. Despite the fact that brands are generally recognized as strategic business assets, brand strategy isn't always deployed as a key tool at the negotiating table from the outset—and that can prove to be a costly decision. From our perspective on mergers and acquisitions at Interbrand São Paulo, we've seen what works to ensure a smooth brand transition and M&A success.

Avoiding an identity crisis

While most companies understand that their brands are more than just names or logos, many fail to make them living business assets capable of generating identification, differentiation, and value. For merged companies in particular, matters such as portfolio strategy, creating a unique culture, and defining corporate citizenship platforms can become key branding issues.

In the heated atmosphere of a merger, a branding project can be tricky. Given the record of equities built up by two or more brands, there may be many variables to consider.

“Since the late 1800’s, mergers and acquisitions deals have allowed many companies to become more profitable—but what happens to a brand in that process?”

When it comes to branding elements, the first and most fundamental task is to decide what to retain, what to consolidate, what to drop, and what to create. At the very least, the name, symbol, visual identity, culture, and communication of each entity involved in the merger must be examined to create a synergistic and complementary way to define the consolidated companies. Synergy, after all, is the logic behind mergers and acquisitions, and an effective brand strategy should reflect the combined strengths of the entities involved—not confusion or an identity crisis.

The branding challenge is bigger than you think

Finding a clear definition that points to a single way forward is imperative, not least because the consolidating parties will want to avoid losing value while definitions are being discussed. Competitors may try to play a faster, more assertive game when a big deal goes through, seizing the opportunity to reposition or invest more. By focusing on integration, staying on top of day-to-day business, and clarifying and defining the brands involved, loss of revenue can be prevented, competitors can be held at bay, and the merger can fulfill the promise each company had hoped for.

In the search for an identity—under pressure and with competing priorities on the table—strategy often falls by the wayside. Yet the branding issues, which may not seem like the biggest priority to those holding complex negotiations, only become more complicated later on if serious discussions are rushed or delayed. Rushing an abstract, collective exercise like strategic brand development is bound to produce an inadequate identity, not least of all because emotion tends to rule the day when decisions are rushed—not logic.

While there are many complex issues involved in M&A, consolidation is ultimately about building a stronger company. Those who are caught up in the thrill of a big deal (or nervously reacting to a changing economic landscape) may think differently, but a successful merger is not a game that is won or lost in a single determinative event. It is the result of a process involving thoughtful planning and strategic action.

An integral part of that process, and a major key to ensuring the success of a merger or acquisition deal, is knowing how to build or maintain a brand that is greater than the sum of its disparate parts—and strong enough to withstand the growing pains that often accompany consolidation.

Points to consider on the road to consolidation:

1. Have a short-term gameplan

Though brand strategy should be a direct reflection of business strategy, in some situations, giving brand strategy consideration before business strategy is consolidated, or even defined, can be a smart move. Brands are often the most visible or tangible aspects of an M&A deal for customers, employees, and other parties (such as the capital market), so working out a temporary brand strategy and launching it before the business strategy is fully developed is sometimes the best response. If done right, it will prevent a business from over-investing in a transition scenario, while allowing opportunity to adjust course as the business consolidates.

Brazil’s Nov. 2011 introduction of anti-trust legislation led to a tsunami of M&A deals in 2012 and prompted many companies to speed up negotiations. Naturally, brand strategy questions came up for these companies after they made an announcement to the market: What will Diageo do with the Ypióca brand? Will there be a change in its positioning or its visual identity? What will come out of the Azul -Trip deal? A new brand? Will they retain their current brands? Questions like these are part of a whole spectrum of possibilities that must be assessed.

2. Don’t rush

Often racing against the clock to meet legal requirements, executives tend to make the name of the new corporate entity the default name of the new corporate brand. Since contractually acceptable names for corporate entities don’t always convey a definite or differentiated message, they are typically not suited for the complex role that a corporate brand name has to fulfill. Remember that a brand name must have meaning for both internal and external audiences in order to serve your organization effectively. A corporate brand name only becomes more important as your organization evolves, so take your time and be strategic when developing one. If you rush matters, your corporate name becomes your brand name.

In Brazil, unlike most other countries, companies were once allowed to announce merger & acquisitions proposals before obtaining full authorization from the antitrust agency, CADE. Because the waiting process took up to two years, it was hard to know what could or should be built in the meantime. In this context, many corporate names became brand names. Recently, new antitrust legislation was introduced which requires prior notification of merge & acquisitions deals and approval from CADE. This reform will make it possible for the parties involved to start gathering input from their employees, customers, and investors, right from the start.

3. Take stock

Because major conglomerates usually own numerous companies—and because consumers are paying closer attention to the relationships between parent companies and brands—a brand's stock ownership structure and its relationship with the controlling portfolio are increasingly matters for concern and analysis for brand managers. Previously restricted to shareholders and the watchful eyes of industry analysts, these relationships are now tracked by a much larger group of stakeholders. Developments related to corporate citizenship, for instance, can directly influence brand perception. Today, it is impossible to build and safeguard a corporate brand without examining how controlling or parent brands relate to other brands in the company’s portfolio.

4. Build on your capital

Brand strategy allows companies to communicate with key stakeholders more effectively, make brand or organizational changes more tangible, and offers real evidence that the company is implementing its business strategy. Because brands have the power to reach and influence the capital market (both analysts and investors), branding projects increasingly involve major investment banks and shareholders and play a role in boosting brand value. Given that brand value is a significant part of a company's net worth, boosting that value is essential to get better market valuations. Brands that consistently meet capital market expectations tend to post even more positive results and earn more preference in investors' minds.

5. Celebrate the engagement

Just like weddings, mergers require planning and agreement between parties. Can you imagine getting married to someone you don't know well or who doesn't share the same values? Of all the assets in play during a merger or acquisition, the one that should be watched most closely is brand culture—and internal brand engagement can and should precede the wedding.

When cultures are being integrated, brand strategy can be of great assistance in avoiding a culture clash. In the initial stages of consolidation, employees may be misinformed, disgruntled, nervous, or confused. To ensure a smooth transition, it is helpful to assure people that the deal is being handled well and carefully. Employees will want to know that there are people keeping a close watch on each legacy asset, and that changes will be made at the right time and in the best way for everyone concerned. By officially noti fying the internal public of decisions, manage ment gets a strategic opportunity to put rumors to rest, allay concerns over decisions that have yet to be made, and establish a relationship of trust and transparency.

Over the last few decades in Brazil, we have seen several marriages that were unexpected given the history and cultures of the brands involved. The latest "odd couple" case was the Sadia-Perdigao deal. These brands were market leaders, direct competitors investing heavily in frontline retailing. To achieve their goals, each created a distinctive culture in the race for customer preference. One was more aggressive and primarily focused on numbers and results; the other was more concerned about building closer relationships with customers. The staff of each organization was proud of their companies' respective approaches and each team saw the rival company as their chief adversary. This doesn't sound like a match made in heaven, but BRF, the company that resulted from this deal, started off on the right track. The leadership stepped forth as "missionaries" prepared to work toward unifying the two companies, and a strategy to accomplish this was prioritized during the planning period.

6. Honor thy founder

When owner-managed companies become professionally managed companies, employees are often unable to differentiate the brand they work for from the personal brand of the entrepreneur who founded the company. Complicating matters, if the company founder stays on as an executive, it makes it hard for employees to embrace change. However, by showing respect for the origins and legacy of all parties and getting founders involved in the creation of a new brand strategy, you'll gain a great advocate and ease the transition.

7. Give back to get ahead

Weighing corporate citizenship during a merger can bring philosophical misalignments to the surface or simply take a backseat to issues that are considered more critical to corporate governance. The good news is that when the philosophies of two corporate cultures naturally align, the consolidated scenario will show gains in terms of robustness and visibility. By taking an integrated approach to these assets and involving brand managers and those responsible for corporate citizenship initiatives, launching the merged entity with a corporate citizenship platform in place will bring cultures together, and generate goodwill for the development of post-merger strategies.

Beginning in 1995, Unibanco—recognized as one of Brazil's most socially responsible corporations—agreed to sponsor one of São Paulo's popular cinemas. Over time, Unibanco expanded the initiative, opening numerous theaters in its name to bring art, culture, and entertainment to the public. When Unibanco merged with Itaú in 2008, the cultural importance of Unibanco's emblematic initiative was acknowledged and not only continued, but also became a positive symbol of the merger. The name of the movie theater chain was changed from Espaço Unibanco de Cinema to Espaço Itaú de Cinema and the experience of these venues was aligned with Itaú's brand identity—without obscuring or diluting the meaning, purpose, or identity of this significant cultural platform, and reinforcing the bank's commitment to communities and to cultural renewal.

8. Think global, respect local

Historically, Brazil has been a land of opportunity for international companies and brands. Like most "developing" countries, Brazil has been economically colonized by foreign powers for decades. But over time, Brazil has learned from those who once called the shots and has come into its own as an economic player. As such, Brazilian companies are extending their reach, growing through mergers and acquisitions, and buying up operations in other countries. However, doing business in foreign markets is not without challenges, specifically, adapting the Brazilian approach to new markets and learning how to be a parent company. Rather than merely exporting the tools, processes, and ideas that have shaped successful brands in Brazil, Brazilian brands that are looking to acquire or merge with companies abroad must be transparent and signal a long-term commitment to make a successful entrance, create synergy, and foster employee trust and engagement.

Brazilians doing M & A deals in other countries have, in many cases, been careful to retain local brands, allowing them to be distinguished from parent brands and the operation itself. However, being new on the international scene, not all situations have been handled sensitively and strategically. Coexistence between brands requires active management from day one—if only to mitigate risks in the medium term. For example, what unfolded when ABInBev bought Budweiser in the United States epitomizes situations in which a lead company's actions elicit unease and antipathy among the locals. A tactless approach to the legacy of the iconic Anheuser-Busch brand led to a liability that will be hard to settle. After arriving in America, ABInBev imposed an unfamiliar style of management on executives and a local community whose lives have been linked to the company for decades. In a country like the United States, where people mobilize around issues that trigger strong nationalist sentiment, the market's quick-fire response may well be reflected in financial numbers.

9. Breaking up doesn't need to be hard to do

The urge to grow, gain market share, and boost revenue may be the key reason for consolidating, but business units and their brands may be wound up or hived off for the very same reasons. Business strategy adjustments—such as ending a joint venture, a decision to specialize in certain offerings over others, or simply the lack of synergy between very different businesses—can all lead to fragmentation. When brands start to travel separate roads and seem to have nothing in common but a name and logo, brand portfolio organization and management should be a top priority. The process of separating brands and defining new ones is not always straightforward, but a great brand can and should always go back to its DNA and defining features. Reviving and revising a brand's true purpose and function, reorganizing brands in a logical way, and communicating the advantages of a split will smooth the deconsolidation process, clarify the new brand scenario, preserve brand equities, and maintain employee morale.

Several years ago, two Brazilian business schools operating under the Ibmec brand started to diverge. The Rio de Janeiro-based for-profit operation was interested in extending its scope beyond business management, adding new courses such as journalism and advertising, while the non-profit operation in São Paulo preferred to focus on business and economics. The two schools had little in common beyond the name and logo—which no longer represented either brand adequately. Ibmec decided to separate the brands so they could operate and evolve independently. After revisiting Ibmec's founding values, the solution became obvious: the school that was more closely aligned with the brand's DNA would use that name, so the for-profit Rio de Janeiro school retained the Ibmec brand name while a new name, Insper, was adopted for the non-profit institution in São Paulo.

10. Forge a clear identity

The process of deciding which logo remains after a consolidation is often so contentious that, as the date for the official announcement of the deal approaches, many companies end up with meaningless acronyms and symbols representing their brands instead of defining powerful, resonant identities. While consolidating companies have several options—maintaining one of the identities, combining both, or creating a totally new one—the decision-making process often triggers a real identity crisis. With pressure ramping up, the final decision is often determined by emotional factors as opposed to rational ones. Of course, a name or a logo alone cannot transform a new company, but a strong verbal and visual identity can be crucial as these elements are tangible symbols of the merger and can effectively set the tone for a new direction. Few companies realize that this tumultuous period is actually a valuable opportunity to evolve and reconnect with their employees, stakeholders, and communities, and reflect on the heart and soul of their brands.

Doing M&A deals right can help brands go further

With the financial crisis increasingly shrinking in the rearview mirror, global economic conditions slowly improving, and banks increasingly willing to provide corporate loans, it's no wonder mergers are making headlines once again. Can Brazilian brands benefit from this upswing? Absolutely—if those brands take the right approach.

In the midst of merger mania, M&A deals are not intrinsically beneficial. Their success depends on the objectives and strategies, market conditions, the inherent potential in the situation, and how the process is managed. In the worst-case scenario, two struggling companies come together to create a larger struggling company. In other cases, a buyout can save a company from going under. More often than not, there is a period of identity confusion and an initial loss of efficiency as the companies involved try to figure out how to meld their cultures and forge a common vision. Some never succeed; others become more successful than ever.

Brazilian brands have the benefit of knowing in advance what multinationals that went global long ago have known for years: branding paves the way to a successful entrance, creates synergy between cultures, fosters employee trust, and informs and guides the transition to a new identity and a new path forward.

A Brazilian M&A Snapshot

In the United States, "The Great Merger Movement" spanned a decade of major consolidations in the United States, from 1895 through 1905. More than a century later, Brazil is undergoing its own process of major consolidation. While there are some concerns about the outlook for certain sectors, "bankers have expressed confidence that a revival is brewing," Reuters recently noted. "There is a long-term commitment from investors," JPMorgan Chase Brazil investment banking head Patricia Moraes stated, "which should ensure that M&A in Brazil continues to do well next year and for the years to come." Whether this is the beginning, middle, or end of Brazil's "Great Merger Movement" is not known, but one thing is certain: companies will change dramatically, whole industries will be shaken, and consumers will have to adapt. Several Varigs will vanish, many telecom companies will be transformed, and next-generation Brasil Foods and Ambevs will emerge. Some of these processes will be rushed, some will be developed more strategically, and only time will tell which brands will survive and thrive.

Brazil's Democratic Brand

Carla Schmitzberger on growing the Havaianas brand

Daniella Giavina-Bianchi, Executive Director, Interbrand São Paulo, and Beto Almeida, Executive Director, Head of Identity, Interbrand São Paulo, in conversation with Carla Schmitzberger, Director of the Sandals Division at Alpargatas, the parent company of the Havaianas brand.

Daniella Giavina-Bianchi: Tell us a little bit about your story and brand, Havaianas.

Carla Schmitzberger: I'm head of the sandals business unit at Alpargatas. It's been exactly seven years that I've had the privilege of managing this brand, a brand that was already successful when I arrived. So now, we've been trying to keep it successful and keep it growing, both in Brazil as well as internationally.

DB: Havaianas is one of the most democratic brands that we have here in Brazil, and this is an attribute that is perceived by almost all the consumers in touch with the brand. Can you tell us a little bit about how you built this, and how you made it fashionable for everyone, in all walks of life, here in Brazil?

CS: That's quite a story. Havaianas used to be worn by poor people in Brazil. In fact, until as late as the 1990's, mostly poor people wore them. However, there was a small group of wealthier people that were wearing the product; but they were wearing them at home, and they were embarrassed to be seen with them because they were considered a poor person's footwear.

The repositioning of the brand in the early 1990's had to do with making the brand more aspirational. It already had very good functional attributes and that's why people wore them—because they are simple, comfortable, durable—they are a good product. And so what we had to do was make them a little more aspirational for other people to want to use them. And we successfully managed to make them aspirational for the upper levels. People were no longer afraid or embarrassed to be seen in Havaianas, and that made it possible for people of all social classes to wear them. The beauty of this is that the wealthy people wear them, and are proud of wearing them as much as the poor people today.

DB: Havaianas is probably one of the first Brazilian brands to become a global success. and actually today is a pretty international brand. Can you speak about the paths and the challenges that you had throughout this process?

CS: Havaianas started becoming international in the late 1990's with people coming to Brazil, taking the product, putting them in their suitcases and literally taking them back (home)...because they have good functional attributes, they're better flip-flops than other flip-flops. They're more durable, “It’s simple, comfortable, durable—it’s a good product. What we had to do was to make it a little more aspirational for other people to want to use it.”

more comfortable, and so people were taking them home.

In the late 1990’s we started putting the Brazilian flag on the Havaianas. We did that for the World Cup in 1998, which in fact, Brazil ended up losing to France. But we kept the style, and renamed the product from “Brazil Cup” to “Brazil,” and today it’s one of our bestsellers. And so people started taking the Havaianas back to their countries, not only because they were good and durable, but also because they were something from Brazil, they had the Brazilian flag. So late in the 1990’s people started taking the product home more and more, and in the early 2000’s, we started working more effectively with distributors worldwide to start exporting the product. We took the product from having something like 1 percent of total net sales from outside of Brazil to, by the end of 2009, we were probably at 12–13 percent of all volume being sold outside of Brazil, in about 85 countries.

Beto Almeida: Let’s talk about how digital is helping Havaianas to grow.

CS: Clearly, digital is critical, so much so that we unified Facebook [because] we had different Facebook accounts in different countries.*

BA: And which languages do you speak in that?

CS: We use multiple languages, but it's one Havaianas official Facebook page. That way, in each country, we are able to post local Havaianas news but it's one global Facebook page; because we need to be consistent in the world, and that is why digital is so important.

Today when you do something right or wrong on one side of the world, two hours later the other side of the world knows exactly what went on; so it's very important that you keep things consistent. So one of the things we have to work with now is making sure that the brand positioning, that the communication, that everything we say about the brand, is consistent globally.

**Note: Havaianas unified its Facebook pages using Facebook’s Global Pages tool, which lets global brands maintain multiple regional pages with local content using the same URL, so facebook.com/havaianas automatically directs users to their local Havaianas Facebook page.*

Asia Rising

The most valuable brands of China, Japan and Korea

By Stuart Green, CEO, Asia Pacific, Interbrand

It's no secret that some economies in Asia have experienced a slowdown—but they are still growing faster than Western economies. With the world's largest population and rapid industrialization underway, China remains a promising and lucrative market. Japan's economy, though challenged on many fronts in recent years, has remained resilient. Korea, with its superstar tech brands and shrewd investment and development strategies, continues to surprise and impress.

While the ebbs and flows of the world economy continue to impact these markets, brands in the region's biggest economies are still striding forward. As China, Japan, and Korea have expanded their global reach and developed in more sophisticated ways, companies native to these countries have increasingly come to view brands as core assets—and have invested accordingly, with remarkable results. Media headlines, consumer preferences, and investor interest all reflect formidable brand strength and, as Chinese, Japanese, and Korean companies continue to nurture and give birth to first-class brands, Interbrand has followed their progress.

From the profiled brands included in Interbrand's 2012 Best Global Brands report and 2013 Best Retail Brands report to detailed annual studies produced by our regional experts, Interbrand has put a deserved spotlight on these three exciting markets and ranked the leading brands in the Best China Brands, Best Japan Brands, and Best Korea Brands reports that follow (check out the accompanying tables at InterbrandIQ.com).

Constantly pushing innovation and, more recently, the potential for brands in an omni-channel world, our findings show that North Asian companies are on the rise. Accelerating the pace of change, these brands demonstrate without a doubt that they're a global force to be reckoned with.

Best China Brands

Thomas Chen, Managing Director, Interbrand Shanghai

With the growth rate slipping to 7.7 percent in the first three quarters of 2012, there is no question that things have been slowing down in China. Facing both stagnation and fierce competition within numerous sectors, Chinese brands have entered a critical and difficult period. Yet the sheer size of its

“Chinese brands will have to accelerate their transition to mobile—or they will be left behind.”

market remains an asset and is at least part of the reason why the value of the top 50 China brands in 2012 have increased by 13 percent over the previous year, despite ominous figures and predictions.

The continent's burgeoning middle class continues to fuel retail growth (albeit modestly) and e-commerce and social media companies are growing at exponential rates. With only a third of China's enormous population online and mobile sales tripling in 2012, a potentially staggering growth awaits China's e-commerce and internet-based companies.

Perfectly illustrating this trend is the success of China Mobile, the world's largest mobile service provider and holder of the number-one spot in the Best China Brands ranking. Achieving steady growth during the first half of 2012, China Mobile's profitability is the highest in the industry. Yet, in spite of that fact, the company's brand value remains stagnant. A symbol of the uncertainty facing the industry—and a symbol of its rising power—China mobile, constrained by its technology, lost considerable ground to its competitor, China Unicom, in 3G services. The development of 4G technology will drive the next battle for relevance, giving China Mobile an opportunity to retain its ascendency.

The mobile revolution

The growing popularity of 3G and the rapid development of mobile devices are driving the growth of mobile in China. Social networking services, location-based services, and mobile e-commerce are booming along with traditional mobile phone applications. In fact, the rates of development and adoption are so high that the number of mobile internet users in China will exceed the number of non-mobile internet users in 2013. Chen Zhou, founder of China's version of Facebook, Renren, has boldly proclaimed, “the biggest trend of the IT revolution in the future is mobile internet.”

That the revolution is underway is clear, but who will end up leading it, and how, is less clear. The business model is hard to determine, the app life cycle has shortened, and innovation has stalled. As online activities become integrated into every aspect of Chinese life, from photo sharing, video sharing, and mobile payments to flight and hotel reservations, the brands that can keep up with user needs and evolving behaviors will be the ones that succeed. With the competition rapidly shifting focus from traditional web channels to mobile marketing, communications, and commerce, Chinese brands will have to accelerate their transition to mobile—or they will be left behind. Well aware of the trend, China's Big Three online services companies—internet service provider Tencent, number-one search engine Baidu, and e-commerce giant Alibaba—are racing to get up to speed. The pressure is intense. Soon, China's users will make up the world's biggest internet user group—and most will be using mobile.

Alibaba has faced an additional challenge: allegations of fraud, which prompted an internal investigation that put the company's integrity in question and resulted in the resignation of two senior executives. Indeed, from Alibaba's ordeal to melamine-tainted milk, problems with fraud and product quality are rife in China. In this climate, these are mistakes brands can no longer afford to make.

E-commerce: Everyone's got to have it

Since 2010, many traditional Chinese enterprises have expanded into the e-commerce space. For example, Suning, China's biggest electronics retailer, is spending billions to expand its online operations and utilizing the power of social media to leverage its marketing, rather than relying solely on discounting to promote its products. A weaker economy and price battles are pushing Suning, and rivals like Gome, to make a bigger push to attract online shoppers.

Of course, it makes sense to invest where future consumer spending channels will be. According to a Beijing-based research firm, Analysys International, China's online retail transactions are projected to more than double by the end of 2013. Ensuring the continuous boom of e-commerce, the National Development and Reform Commission and the Ministry of Finance jointly issued a notice in 2012 to help e-commerce develop in a swift yet sustainable manner. With optimistic forecasts and strong assurance from the government, it is no wonder e-commerce is becoming a hot target for investment in capital markets.

E-commerce in China is generally going in two directions: brands with e-commerce and e-commerce brands. Yet for many traditional brands, the transition has not been an easy one and competition is constantly escalating. From Procter & Gamble to retailers like Suning and Belle, most brands are realizing that an e-commerce channel is no longer a “nice to have,” but a must in China. Similarly, e-commerce brands are realizing that they need to acquire some of the capabilities traditional brands tend to excel at in order to stay competitive as traditional brands reinvent themselves for a digital future.

Competitive drive

The internet industry—and all businesses affected by it—isn't the only sector feeling the pressures of increased competition. Facing both internal and external challenges, including oversupply and powerful foreign competitors, China's sports brands have had a tough year. Once the leading sports brand in China, Li Ning has been losing market share and closing underperforming stores, leading to a 41 percent drop in brand value in 2012. Peak, another struggling Chinese sporting goods brand, was forced to shut down about a thousand stores to stay afloat.

“China’s best organizations, as is the case anywhere, think beyond marketing and manage their brands skillfully.”

While Nike and Adidas dominate the high-end market, local sports brands are not only facing competitive pressure in low-end market homogeneity, but are also squeezed by the casual clothing industry. Most in the sector have been feeling some pain, but due to increased competition and some obvious missteps, Li Ning suffered the largest decrease in brand value in 2012. Xtep, however, sitting comfortably at the intersection of sports and fashion, is one of the few sporting brands that enjoyed positive revenue growth in 2012. As a result of that success, it enters the top 50 tier of the Best China Brands list for the first time.

Of course, the sporting goods industry is not the only one getting squeezed. Ctrip, China’s leading online travel service brand, saw a 27 percent decrease in brand value and dropped six spots on the list. Ctrip provides comprehensive travel services to over 60 million members through the integration of technology and traditional travel agency services. But as the price war with other online competitors intensifies, Ctrip’s market share has begun to shrink.

Slowdown in the fast lane

China’s GDP growth reached 9.2 percent in 2011, but more recent statistics show that the domestic economy is showing signs of stagnation and entering into decline. Most sectors have been hit, with the banking and liquor industries being notable exceptions—for the time being.

Though the economic slowdown is creating challenges for financial services brands, banking as a whole maintained higher income and profit growth than other industries. While that certainly sounds like good news, it may be a sign of future trouble. In 2011, net profit growth rates for these sectors exceeded 20 percent and 30 percent. With strong financial performance that is rivaled only by liquor, brand value growth in banking exceeds those of other industries.

Not surprisingly, seven of the ten fastest-growing brands on the Best China Brands list are in the banking and liquor sectors. However, with credit risk emerging and spread level declining, banking sector profit slowed in the first three quarters of 2012, even among large state-owned banks. The revenue and profit of the liquor sector also declined dramatically in the first three quarters of 2012 compared with the previous year. This was largely due to tougher policy on the T&E (Travel and Entertainment) expenses of SOE (state owned enterprises) and government institutions, which has hurt premium liquor consumption.

In the midst of the 2012 slump, Chinese insurance and securities brands saw some steep declines, as well. China’s oldest insurance brand Taiping, for example, saw a 29 percent decrease in brand value. An imbalance in the product structure of the market, overreliance on invested revenue to drive sales, and a lack of differentiation

“Constantly pushing innovation and, more recently, the potential for brands in an omnichannel world, our findings show that Asian companies are on the rise.”

> "Even a rapidly aging population, multiple natural disasters, slowing global growth, and yen appreciation have not been enough to stall Japan's growth."

between insurance products and the financial products offered by banks, all contributed to losses and sluggish growth. With China's stock market also showing a downward trend, the net profits of brands like China Merchant Securities, China Life Insurance, and Pacific Insurance have shrunk dramatically. Although brand strength scores remain stable, the brand value of these companies has declined significantly.

The road has been challenging for the Chinese pharmaceutical industry as well. Coming under fire for product safety issues, 999, Yuron Food, and Shineway all exited the Best China Brands list in 2012 as steep declines seriously impacted brand strength scores. Shineway's profits, for example, declined more than 50 percent. This exodus leaves Yunnan Baiyao, which brings modern science to traditional Chinese medicine, as the only pharmaceutical company in the top 50, and dairy giant Mengniu as the only food sector brand on the Best China Brands list.

Weathering the storm

When times get tough, some brands falter and others manage to grow, even in an economic downturn. China's best organizations, as is the case anywhere, think beyond marketing and manage their brands skillfully. Through the integration of brand strategy and business strategy, smart brands create a strong internal corporate culture and build closer relationships with customers. In fact, great brands often arise from within, and Haier is a prime example.

While the overall growth of the home appliance industry slowed in 2011, Haier's 2012 performance surpassed the whole market. The electronic giant's revenue and net profit increased and its market penetration rose 1.7 percent higher than in 2010, the highest in the large appliance market. Its secret? Haier actively promotes a spirit of innovation and entrepreneurship among employees, and embraced the internet early. The company transitioned from selling products to selling services and adopted a new business model that encouraged each employee to face the market directly, fulfilling consumers' needs for customization and personal attention.

Self-driven and motivated by Haier's can-do, customer-centric culture, employees execute the new business model efficiently by focusing on meeting specific customer needs. Ever the innovator, Haier also continues to launch state-of-the-art energy-saving products, has built up its online sales platform, and implemented digital marketing to increase its brand value. Paying off big for the brand, Haier enjoyed a 25 percent increase in brand value in 2012, despite the market downturn.

Ping An is another success story, displaying characteristics all great brands share—excellent communication as the foundation to successfully align business strategy and brand strategy. In order to better integrate insurance, banking, and investment, Ping An proposed a new model—"one customer, one account, multiple products, one-stop service"—to provide a superior customer ser vice experience. The brand continues to spend big on market communication, which has helped it become one of the best-known comprehensive financial service brands in China.

Most importantly, Ping An's marketing and communications focus on the value the brand's services bring to clients' lives, rather than focusing on functional benefits, as it did in the past. Recognizing that consumers are struggling with complex financial services, the Ping An brand promises to make financial life easier. In an industry full of complicated financial products, choices, and formalities, this message resonates with consumers. The company's ability to clarify its brand promise and speak to real human needs is the reason Ping An retained its value, while the rest of the insurance industry was struggling.

As Haier, Ping An, and many others on the Best China Brands list demonstrate, adversity doesn't have to sink brand value, but it will test it. As deceleration sets in, the Chinese brands that are poised for success will be those that are focused on the long-term. These resilient companies have a viable plan for sustainable growth, and know how to harness the power of their brands—which includes recognizing and responding to real human needs, both internally and externally, and taking integrity seriously. With a vast populace and dramatic social, economic, and technological changes underway in China, including rapidly developing digital technologies and growing social networks, Chinese brands have unlimited potential to contribute to a thriving global economy and the well-being of its people, as well as those beyond its borders.

Best Japan Brands

Atushi Iwashita, CEO, Interbrand Tokyo

As the yen reached historic highs in the wake of the Great East Japan Earthquake in 2011 and territorial issues led to a deterioration of relations with neighboring countries that put the brakes on Asian expansion, 2012 continued to present Japanese companies with a challenging economic environment. The nation's aging population also presents challenges, and even opportunities, for brands. As noted in Interbrand's 2013 Best Retail Brands report, consumer product giant Unicharm's domestic sales of adult diapers exceeded those for babies for the first time last year.

However, even a rapidly aging population, multiple natural disasters, slowing global growth, and yen appreciation have not been enough to stall Japan's growth. The country has rebounded from the earthquake and even found ways to benefit from its impact, including increased automobile production and reconstruction demand. The country's abundance of seniors has led, interestingly, to a flurry of meaningful (and profitable) innovations designed to support them.

As a result of Japan's ability to adapt and respond quickly to both sudden and gradual (but no less dramatic) changes, the country's economy saw 1.5 percent growth in 2012, quarter over quarter—the first growth since the third quarter of 2010. Amid the triple hardships of the high yen, low stock prices, and deflation, leading brands experienced contrasting outcomes in 2012. But overall, the total value of Japan's top 30 global brands rose slightly (.7 percent) over 2011.

While outsiders speculated over the question of whether Japan could rebuild its economy in the post-quake period, the stoic "island nation" has quietly shown that crisis can bring out the inherent ingenuity of a people and drive business development in creative, practical, and unexpected ways.

Leveraging a history of quality and innovation

What distinguishes Japan's best-performing brands—and allows them to prosper even under the toughest conditions—is an extraordinary commitment to quality and value, a willingness to experiment with the bold and untested, and a visionary leadership that embodies the culture's highest ideals. From its code of conduct and guiding principles, to its production system, products, and services, Toyota, the most valuable brand on the Best Japan Brands list, exemplifies the very best that Japan has to offer the world.

With 4.1 vehicles sold in the first seven months of 2012, 30 percent market share in Japan, top scores in the 2012 Consumer Reports survey on brand reliability, and the number-one spot on Interbrand's Best Global Green Brands 2012 ranking, it's no surprise that Toyota is Japan's number-one brand. But why does Toyota perform so well, so consistently? The global financial crisis has affected how consumers view auto brands, and Toyota's priorities are in close alignment with consumer concerns. Erratic gasoline prices, tough economic times, and increased awareness of issues like climate change have pushed consumers all over the world to prize low operating costs, energy efficiency, and reliability. Toyota's emphasis—and ability to consistently deliver—on value, quality, performance, efficiency, and sustainability is what keeps the brand on top.

For similar reasons, Nissan also performed well in 2012, increasing its brand value by at least 30 percent for the second consecutive year and coming in at number seven on the Best Japan Brands list. Nissan pursued aggressive expansion in emerging nations and saw strong sales, particularly in China and the United States. With big increases in brand value that trailed only Nissan, Bridgestone, the world's largest tire and rubber company, benefitted from pouring its energies into strategic products like concept tires that enhance fuel efficiency and safety. Meanwhile, Subaru, which has worked on improving safety and fuel economy in many of its vehicles, debuted on the Best Japan Brands list last year and reported record unit sales in its highest priority market—the United States —for the third consecutive year.

A weakening yen has boosted Japan's auto industry in recent months. Picking up speed since Prime Minister Abe took office in November 2012, the new government pressured the Bank of Japan to fight deflation more aggressively by easing monetary policy. As a result, stock prices increased by 60 percent and the yen depreciated by 30 percent (from 77 yen to 100 yen) against the US dollar, giving Japanese automakers a financial gain on every car sold. According to a recent analysis by Deutsche Bank, Toyota has the most to gain from a weaker yen due to improved profits on exports. Though estimates vary in terms of how much operating profits have lifted per car, the currency assist could lift the Japanese automobile industry's profit by US$1 billion overall. While the long-term ramifications of the currency shift are unclear, dramatically increased profits signal a comeback for exporting brands that were impacted by the earthquake as well as, in Toyota's case, global recalls.

On the technology front, Nikon maintained strong overseas sales and saw double-digit

“Crisis can bring out the inherent ingenuity of a people and drive business development in creative, practical, and unexpected ways.”

growth for the third consecutive year. This was no small achievement considering the stagnant market for compact digital cameras and the rapid proliferation of smartphones equipped with high-resolution cameras. However, years of investment in strategic branding have helped Nikon succeed in an increasingly harsh environment. With an image and promise that effectively communicates Nikon’s mission, aspirations, and commitment to the customer, the world knows that it can expect innovative technology, intuitive functionality, and unmatched quality from this iconic brand.

Bold expansion

Having just begun to pick up after the 2011 Japan Earthquake, the nation’s economy found itself in a vicious cycle caused by a decline in demand in developed countries, deepening deflation, and falling incomes. Yet, against the odds, the total value of the top 30 domestic brands on the Best Japan Brands list increased by 6.7 percent over the previous year. Encouraged by the upturn, many retail brands are leaping forward in good faith and pursuing overseas expansion.

Asics, known for its durable, hi-tech running shoes, is steadily gaining popularity in Europe. Building on that success, Asics saw an increase in brand value after opening flagship stores in Amsterdam and London, and bolstering operations in India and Singapore. Unicharm, which ramped up its global footprint by expanding from Southeast Asia into India, South America, and Africa, also saw a significant lift in brand value.

Muji’s global expansion is gaining momentum, with more than 100 international stores opening and a flagship store in Ginza. Additionally, the brand is on track to open about 150 stores in Asia. In China alone, it plans to have a presence in 29 cities with 70 stores. A global “Muji to Go” campaign in 2012 supported its global growth, along with cross-department store promotions in Japan. It’s facing competition from another ambitious Japanese retail brand: Uniqlo, which is well on its way to becoming a global brand with a brand value of US$3.6 billion and swiftly closing in on Gap (US$3.7 billion).

Family Mart has fully integrated the am/pm store brand it acquired in December 2009, moving all am/pm stores under the Family Mart brand in just two years. As the company looks to maintain growth, overseas expansion is a central theme. The brand has opened its 1,000th store in China and is expanding in Indonesia and the Philippines to build on its presence in Taiwan, South Korea, Thailand, and Vietnam.

Turning problems into profitable solutions

Faced with an aging population, Japan’s convenience store operators are looking to better serve their older consumers. From small-portion fresh food to home delivery services, brands are investing in order to capitalize on the demographic shift underway. These stores already offer a wide range of services including banking, bill payments, and postal services. Open 24 hours a day, with a consistent, reassuring presence across Japan, they’re also aiming to become “community hotspots,” expanding on their popularity as refuges late at night or in the case of disaster. The fact that the segment is one of the few that has grown in 2012 suggests the repositioning is paying off.

Lawson is another example of a Japanese brand that is posting unusually high growth, and is anticipating a tenth straight year of operating income growth. This impressive track record is testament to the retailer’s continued innovation. The company is staying ahead of wider demographic trends with new formats such as Lawson Store 100 for fresh food, Natural Lawson for the more health-conscious consumer, Lawson Pharmacy bringing in more seniors, and Family Mart appealing to women. There’s even a flagship “otona store” (grown-up store) in a fashionable Tokyo suburb and premium confectionary line targeting wealthier customers. With competitors pursuing similar strategies, continued differentiation will be critical in a crowded market.

Just as Japan once rose from the devastation of World War II to economic prominence in the post-war decades, the country is again proving its resilience. While the earthquake created many challenges, the best Japanese brands continue to demonstrate a strong commitment to branding and an ability to modify their vision. This means a frank assessment of their strengths and weaknesses and the ability to identify opportunities in the face of evolving customer needs. They repeatedly demonstrate that living the essence of their brands, communicating their values to the world—and putting those values into practice every day—help to ensure steady performance in the best and worst of times.

Best Korea Brands

Ji Hun Moon, Managing Director, Interbrand Seoul

Once one of the poorest countries in the world, South Korea is now richer than the average European Union nation, a feat it achieved in a mere half century. With robust investment in its brands over the past two decades, Korea has given birth to powerhouses like Samsung, Hyundai, and Kia that compete side-by-side with the world’s top brands. Its swift and staggering success has made South Korea an exemplary model of growth, but now that it has almost caught up with the developed world, it must keep innovation at the fore to solidify its gains and continue its heroic ascent.

The power of conglomerates

Much of South Korea's success can be attributed to the work of big family-controlled conglomerates. Originating in the 1960's, in the aftermath of a devastating war, the uniquely Korean business structure created global multinationals with huge international operations. Comprised of a single, large company or several groups of companies, each conglomerate is owned, controlled, or managed by the same family dynasty. Not dissimilar to Carlos Slim's Group Carso in Mexico or Lee Ka-shing's holdings in Hong Kong, Korean conglomerates have produced some powerful brands. Not least among these is Korea's number-one brand, a company that's making headlines around the world: Samsung.

Samsung Electronics, one of over 80 businesses within the Samsung empire, has become the world's number-one smartphone maker, now outselling Apple's iPhone. While Samsung is also dominant in electronics and appliance sales, its rise to the top in the smartphone category has made the brand a household name globally with a sought-after, must-have product that people line up to buy—the Galaxy. As reported in Interbrand's Best Global Brands 2012, Samsung Electronics' brand value rose by a whopping 40 percent compared to the previous year, and has held its number-one spot in the American TV market for seven consecutive years. Another conglomerate-led company, Hyundai, has seen great success as well, coming in at number two on the Best Korea Brands list.

Though conglomerates are considered the most influential agents in the Korean economy, and have been surprisingly resilient, there is a downside to Korea's dominant business structure. For one, the system has proven to be prone to fraud and corruption such as questionable accounting practices and illegal political contributions. Korean conglomerates also tend to be overly dependent on the founding family—which may be fine for a time, but can leave a company vulnerable as leadership passes from one generation to the next. Additionally, there are signs that conglomerates may be impeding the development of small- and medium-sized businesses in the country, creating massive imbalances in the economy and stifling innovation.

However, a system that produces companies like Samsung and Hyundai can hardly be called ineffectual. Korea's conglomerate-run companies have demonstrably applied and improved existing technology, even very sophisticated technology like touch-screen smartphones. But outside of internet businesses and computer gaming, South Korea has few start-ups or leading-edge technology firms. Nationwide venture-capital businesses are lacking, since each conglomerate has one of its own. Therefore, entrepreneurship is low. The drawbacks of the business structure may not outweigh its benefits, but as South Korea ventures boldly forth into the technological frontier, greater efforts will have to be made to support the level of innovation that will be necessary to maintain the country's current level of growth.

Beating foreign competitors at their own game

Fortunately, when a company or country is playing catch-up it can look at what others are doing and figure out how to do things better. Hyundai, for instance, has outcompeted Toyota in the market for reliable, affordable, efficient cars. Now looking to segue from the "value" play to desirable brand, Hyundai has proved it's bridging the gap when the Elantra was named North American Car of the Year at the 2012 Detroit Auto Show. Announcing its ambitions to the world last year, Hyundai Motors designated 2011 as a year of "New Thinking, New Possibilities," as it communicated its slogan and experimented with revolutionary changes at various touch-points to transmit its brand philosophy: "Modern Premium." Gearing its marketing efforts toward future consumers, Hyundai's efforts to transcend its more conservative former image have added vitality to the brand.

No stranger to innovation and committed to "challenging every convention out there," Hyundai's dedication to improving everything from powertrain efficiency and performance, to driving experience and vehicle testing,

> “Now that Korea has almost caught up with the developed world, it must keep innovation at the fore to solidify its gains and continue its heroic ascent.”

has led to a number of achievements. Their engines, for instance, using Gasoline Direct Injection (GDI) technology, push out more power, improve fuel efficiency, and have swept multiple awards. Another innovation, Blue Link, “a concierge, mechanic, and security team all built into your dashboard,” is a hands-free navigator that helps users locate their friends, points of interest, and gas stations with the best prices. Enhanced roadside assistance and a monthly vehicle report help users take care of their cars better, while “Eco-Coach” teaches them how to save money and become more fuel-efficient drivers. Hyundai also boasts some of the most advanced testing facilities ever built. Though Hyundai certainly did not invent GDI and is not the only one integrating technology into its vehicles to improve the driver experience, the company is keeping up with the latest trends and excels at refining existing technology.

Kia Motors, in the number-three spot, is capturing the hearts and minds of millennial and Gen Y consumers with aggressive styling and ambitious plans to bring its flagship K9 model to the world. Making news in 2010 for its in-car infotainment system, Kia UVO, Kia has proven that it understands the wants and needs of younger drivers and can deliver breakthrough new experiences. Developed in cooperation with Microsoft, Kia UVO, short for “Your Voice,” has advanced voice- and touch-activated features that allow Kia drivers to safely and easily make and answer phone calls, receive and respond to text messages, access and play music from a number of media sources, and create personalized in-car communications and entertainment experiences.

Since ramping up its efforts to become a true tier-one automotive brand, Kia has increased sales and market share. In the past year, sales exceeded 500,000 for the first time in America and BRIC sales also increased, making it a record year for the brand. To strengthen international growth, Kia Motors integrated its websites under kia.com and adopted a uniform style with experience-enhancing designs in an effort to unify and better manage its brand communications. Kia also raised brand awareness through its global video-making contest called “Inspired by Kia.” The culmination of these brand activities made it possible for Kia to enter the Best Global Brands list for the first time, ranking at 87.

Given the stature and accomplishments of these brands, it’s easy to focus on the established global players, but technological innovation and savvy marketing is certainly not limited to automotive brands in Korea. NHN, for instance, a novel portal for search, micro-blogging, gaming, and philanthropy, gives us a glimpse of the web’s future. Similarly, brands like SK Telecom and KT are quietly transforming communication through devices, computing, and broadband.

As the innovator of “customer happiness networks,” SK Telecom adopted SK Group’s philosophy of “customer happiness” in the context of its industry. With this philosophy driving its efforts, SK Telecom has pioneered the Korean telecommunications industry and continues to evolve in the era of LTE 2.0 through innovative changes. Despite the ultra-competitive nature of the telecommunications service market, SK Telecom has ranked at the very top of major customer satisfaction ratings for over ten years, while cultivating an impressive brand presence.

Yet it isn’t just the tech sector that keeps Korea striding ahead. Its backbone infrastructure of heavy industry, joined-up approach to business, and focused and aggressive investment and development strategies, are the keys to Korea’s continuing success. Many observers have already remarked upon China’s interest in Korea’s approach to business and the results speak for themselves—providing the focus and critical mass to create world-leading financial services, retail experiences, and of course, heavy industrials.

Building Brand Korea

Since the late 1990s, the value and importance of brands has become increasingly appreciated in Korea. Beginning with the fundamental discussion of what a brand is and then shifting the conversation to management and growth, many companies began to view brand as a core asset. Brands like Samsung are able to maintain leadership in the market thanks to high-quality products and consistent brand activities that emphasize experience and communication. For its extraordinary efforts, Samsung has garnered global attention and experienced an unstoppable rise in both business performance and brand value. Cultivated over the past two decades, Korean brands have proven to be irresistible to consumers across the planet. Case in point, the phenomenon of Psy, whose ‘Gangnam style’—which captured the imaginations of people the world over, became the most viewed YouTube video ever, and spawned countless imitators and spoofs that fill the pages of the web—may be a sign of what’s to come.

More than teaching us all some new dance steps, Psy signifies Korea’s potential to establish itself as a global cultural influence. This provides greater depth and opportunity for “Brand Korea,” literally opening a new door for brands in a world ever more hungry for entertainment and new cultural references. Given this exciting backdrop, it’s hardly surprising that the world is beginning to recognize the hotbed of innovation that is Korea.

Retail Renaissance

New models for a new era

By Jez Frampton

For years, the predicament facing retailers has been analogous to the proverbial frog being brought to a slow boil, only to realize—too late—that the heat has risen to a lethal level. Digital seems to be slaying the high street, the main street, and all manner of brick-and-mortar stores. However, a broader historical view might show us, not an end, but a transition—one that is full of promise for those brands that heed the evolutionary call.

At a time when online businesses are disrupting traditional retail models by providing customers with personalized content, crowdsourced advice, 24/7 shopping, good service, and near-immediate delivery, traditional retailers are struggling to stay relevant and deliver value beyond price. In particular, as e-commerce alternatives continue to dilute their "category killer" equity, big-box retailers must alter or expand the role they play in customers' lives. Customers now wish to dictate the rules of engagement, which is why the most successful retailers are becoming more consumer-centric than ever before, and incorporating those insights into the company's everyday operations.

However, great turbulence always does beget innovation! For every corporate retail failure, there is a new brand success story making headlines. Though some have argued that the retail store will become obsolete as all commerce eventually shifts online, don't bank on customers abandoning the 'sense-based' pleasures of the in-store, human experience. More likely, we will continue to see the emergence of innovative new business models that will redefine retail brands and shopping:

1. Are you experienced?

Customers love a great in-store experience as much as they love great products. Though e-commerce and mobile have forever changed the retail market, the store can still fulfill a key role as experiential epicenter. The key idea for retailers is not which experience (in-store or online) matters more to consumers, but how to use both effectively to drive loyalty and sales. The online and offline experience are two sides of the same coin: Both must immerse customers in the brand and both must satisfy ever-escalating consumer demand for authenticity, choice, convenience, value, and seamless service.

Because shopping is as much a leisure experience as it is a practical one—and because some items (like clothes) are harder to shop for online—brick-and-

> "Customers love a great in-store experience as much as they love great products. Though e-commerce and mobile have forever changed the retail market, the store can still fulfill a key role as experiential epicenter."

mortar stores will endure. They will, however, function in a new and different capacity and become increasingly integrated with online channels. So how are brands future-proofing their businesses from an experience standpoint?

Some, such as Topshop, are focusing on a few 'flagship' stores as experiential hubs and investing more in creating rich online shopping experiences. A page out of the luxury brands playbook!

Others, like Louis Vuitton, are ramping up innovation with intriguing partnerships. In 2012, the brand collaborated with Japanese artist Yayoi Kusama, to create a collection of garments and an art gallery-like takeover of Selfridges department store in London. Hailed as the brand's "smartest artistic coup to date," it was followed up by Selfridges' "No Noise" installation in January, a radical retail experience that removed logos from items and invited shoppers into a "stress-free," distraction-free (and yes, noise-free) space in which to challenge their perceptions of what it means to shop.

Conversely, online retail brands are expanding into physical stores and pop-ups arranged as showrooms to drive online sales and build awareness. As digitally savvy tech brands strive to evolve into lifestyle brands, we're seeing Samsung and Microsoft jostling to compete with Apple, which turned gadget browsing into an upscale experience—and recently trademarked its retail layout. Big or small, retailers must listen to customers' needs for better ways to purchase products, unique in-store experiences, easy ways to discover new products, and more opportunities to learn, interact, touch, share, and play.

2. Wish fulfillment

While online shopping offers lower prices and endless selection, the experience isn't always satisfying and doesn't always offer the best value. Often, it gets down to fulfillment of immediate needs—and orders. In fact, the number-one reason why many online shoppers abandon purchases is the delivery charge! And even if they do complete the sale, it doesn't always stick. For every order purchased online, two items are sent back. By figuring out what's causing dissatisfaction, retailers have a huge opportunity to fix the problem and improve the transaction experience.

This is one reason Amazon is testing Amazon Locker, a service that gives consumers control over how and when purchases are picked up. With trials now taking place in three cities (Seattle, London, and New York City), the service allows consumers to ship a package to a

nearby locker location, sometimes in an existing store. Amazon offers a similar service in Japan, where it delivers to local convenience stores and allows consumers to specify a time of day for delivery or pick. A number of retailers including Walmart are testing Shutl, a UK startup that enables multichannel retailers to offer same-day shipping, often in under an hour. Watch out, Amazon!

3. The retailer x consumer collaboration

With so many choices available, consumer preferences are becoming more refined and specific. From bespoke suits to customized laptops, consumers are being invited as "guest designers" to personalize their purchases, express their flair, and shift the model from passive consumption to active co-creation—or more specifically, "co-created by me." Case in point: The NIKEiD platform, which lets the buyer customize and design Nike products in-store or online. Touchscreens in Nike stores invite people to design their one-of-a-kind kicks, either consulting with an on-site designer or expressing their inner designer.

Retailers are also using social media to collaborate with consumers, gauging trends and preferences in order to decide which designs to stock. A brand can post designs on Pinterest or Facebook and order, manufacture, or stock according to the number of "likes," as Japan's ever-innovative Uniqlo is already doing. Crowd-funding is another key aspect of co-creating value. While some startups are looking for an injection of funds to keep their brand alive, a number of well-established companies are looking to the wisdom of the crowd to get feedback on design concepts, only going to production once critical thresholds are reached.

4. Pop-ups Are Popping Up

Products come and go—and, these days, so do stores, literally. From instant gallery-like shopping spaces to food trucks, stores on wheels, and roaming kiosks, the temporary pop-up store offers an element of surprise that lends itself to social media. They typically build buzz with word of mouth, pique the curiosity of crowds, offer a fresh, new experience, and then disappear or morph into something entirely new. At a time when all is in flux, including the retail model itself, it's no surprise this spontaneous, low-risk, and low-cost solution is taking off.

With low rents, minimal staff, and limited-time availability (perfect if your offer is seasonally driven), pop-ups often lead to bigger profit margins and provide a great testing ground for new products, services, and retail concepts. Many pop-up restaurants, such as Pitt Cue Co and Meat Liquor in London, have done so well that the success of their pop-up ventures allowed these businesses to then open "fail proof" permanent venues. Even famous restaurants have gone the pop-up route. The Michelin-starred Noma restaurant in Copenhagen, for instance, did business as a pop-up while its premises were renovated.

Retailers like Sephora and Uniqlo have also used the pop-up model successfully. Making commuting a little more fashionable, Uniqlo has used pop-ups to sell clothes to commuters in convenient train station locations. Sephora, always looking for new ways to dazzle, has developed an aesthetically unique, eco-friendly pop-up that gives shoppers in high-traffic urban areas the opportunity to get makeovers and advice from Sephora staffers, pick up favorite products, check out on the spot through mobile POS units, and share the experience through social media. New York's Warby Parker made its name as a disruptive e-tailer of eyeglasses with pop-up stores, and just opened its first permanent store, in Manhattan's Soho area, with more on the horizon.

5. Think local, act local

For many companies, international sourcing may provide the mass volume a retailer needs but, increasingly, "local" is adding a point of differentiation that meets consumers' environmental and ethical demands for products sourced

"While e-commerce, pop-up stores, and virtual shopping continue to challenge conventional ideas of what a retail store is and could be, even web giants like Amazon and eBay are recognizing the importance of a real-world physical presence."

“To create an immersive shopping experience that engages people requires a talent for originality, a spirit of inventiveness and sensitivity to human needs and desires.”

closer to home. With horsemeat scandals rocking Europe and food quality scares in the US as well, the trend has only accelerated.

For grocers and a growing number of restaurants, local sourcing has become an established sales strategy. By satisfying consumer preferences for fresher, safer food and intentions to support local producers, selling local helps foster closer relationships with customers—particularly useful for big retailers that have been accused of pushing out smaller homegrown retailers.

The benefits, of course, are not limited to brands that stock and deal with food. International brands such as Natura, which capitalizes on local sourcing in Brazil for natural ingredients-based cosmetics, shows that is possible to achieve a balance between social development and economic success. By helping to develop and maintain local communities and preserve environmental heritages, brands not only find innovative sourcing solutions but also build a unique marketing story.

6. That’s entertainment

Rakuten Ichiba, one of the Japan’s leading e-commerce sites, sums up the essence of the entertainment model with their slogan: “Shopping is Entertainment.”

Malls around the world have long embraced shopping as a theatrical experience, putting on seasonal holiday spectacles and incorporating arcades, movie theaters, novelty stores, food courts, and restaurants into their layouts to encourage people to linger, play, and spend.

Burberry and Ralph Lauren excel at such “merchantainment.” Meticulously managed and curated, they are redefining how luxury brands operate in the digital and social space. Ralph Lauren’s spectacular fashion shows projected on the outside of retail flagships in New York and London enthrall and engage, as do Burberry’s digital experiments such as the brand’s Tweetwalk events, which turn Twitter into an extension of the catwalk to give the world a front-row seat and enable real-time purchases during fashion shows using social marketing. Upper class but by no means aloof, they exemplify digital-forward luxury brands by mixing and mingling on the social and mobile web to inspire and engage.

7. Find your genius

Apple’s Genius Bar concept is more than just a technical support service—it is a steward and outpost of the Apple brand. Staffed by approachable Apple geeks who are both technically adept and passionate about the brand’s products and philosophy, the Genius Bar enhances the customer experience with a human touch and the ability to transform disgruntled customers into satisfied ones.

It’s not just technology that could use a touch of genius at the point of sale. Cosmetics retailers, for instance, offer a range of products and choices that can easily overwhelm, especially as formulations and methods of application grow even more sophisticated. That’s why Sephora has consultants on hand to give advice and makeovers, and stores like Tesco and Walgreens are increasingly adding beauty consultants. In categories that have a high dissatisfaction rate, especially when prices are high, customer confidence can be shaky and results may disappoint. A reassuring expert can be a vehicle to reinforce and enhance customer relationships and, by extension, the brand.

8. Try before you buy

Whether it’s finding the perfect pair of jeans or a new living room sofa, the inability to try products out firsthand before committing to buy is one of the biggest hurdles to purchasing online—and one of the greatest competitive advantages brick-and-mortar stores still enjoy. But increasingly, companies are getting around that by offering a try-before-you-buy option for online goods.

New York-based eyewear startup Warby Parker, for instance, offers a home try-on feature that allows customers to check out glasses before buying, with no shipping charge. Monthly subscription services such as Birchbox that deliver samples are inspiring other startups (there’s even a BarkBox for dog treats). One startup, YBuy, has built a monthly subscription service for gadgets and appliances, giving users up to 30 days to try out a product. If they commit to buy, the subscription fee is deducted from the purchase price. If they don’t, they just send it back. Either way, shipping is free.

Hotels are the ultimate try-before-you-buy in one category: mattresses and bedding. Hotel brands like Westin, the W, and Four Seasons are now selling their luxury hotel bedding so that consumers can, in the words of Westin’s website, “replicate [a] one-of-a-kind sleep experience in your own home and wake up each morning refreshed in both body and mind.” Indeed, many stores and restaurants are expanding the definition of what’s for sale, from chairs and cutlery to artwork and ingredients—if you like it and want it, chances are you can buy it.

While e-commerce, pop-up stores, and virtual shopping continue to challenge conventional ideas of what a retail store is and could be, even web giants like Amazon and eBay are recognizing the importance of a real-world physical presence—even if that presence is solely for delivering merchandise faster or in a more convenient way.

After all, what is retail? It is fundamentally about the relationship that the buyer develops with the seller. A successful retail business, in the long term, is not a relationship between people and things or people and virtual spaces; it is a relationship based on trust between people who sell and people who buy. Shopping isn’t just a practical means to keep fed and clothed; it is symbolic, aspirational, inspirational, social and—dare we say—fun. To create an immersive shopping experience that engages people requires a talent for originality, a spirit of inventiveness and sensitivity to human needs and desires. In the end, it is the experience that counts—even if the experience that people expect is always changing. Therein lies the challenge, and the opportunity.

For those brands that have the courage and imagination to reinvent themselves, to start new conversations, innovate with new models, embrace technology, surprise and delight, and inspire us all to participate in the cultural experience we call shopping—a retail renaissance awaits.

The Forgotten Customer

What financial services brands can no longer ignore

By Josh Feldmeth, CEO, Interbrand New York
Dan Spiegel, Associate Director, Interbrand New York

The choppy wake of 2008's historic financial crisis has ushered in a period of prolonged uncertainty, leaving many industries on a difficult search for new growth opportunities. While some brands have demonstrated a better ability to respond to shifts within this new market paradigm, the financial industry remains in an ongoing struggle to find new revenue to offset increasing costs (*see fig. 1*).

No doubt, uncertainty within the Eurozone and the looming threat of still more regulation have both played a role in stagnating growth for financial firms. However, these systemic shocks have not only created medium-term growth hurdles, they have—more broadly— distracted firms from yet another seismic shift in the dynamics of the marketplace: the evolving needs of the institutional investor.

The institutional investor has changed, permanently

Quantitative and qualitative data dating back to 2008 tells a clear story: Institutional investor needs have changed. Further, what was once about outperformance is now about solutions, with three factors accelerating the pace of change.

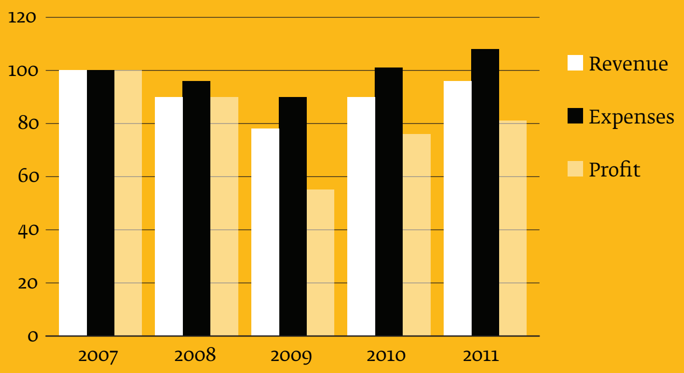
1. The ongoing search for returns

Still reeling from the first decade of the 21st century when the S&P 500, over a 10-year period, produced a net loss of -1%, investors have tempered their expectations. The anticipated burden of more financial regulation is also adding to this recalibration. Less confident that they can generate the returns they need through the traditional channels, institutional investors are changing course and looking at new opportunities.

Consider the $673 billion outflow of capital from relative return equity funds over the last five years compared with the $323 billion inflow to solutions-based products (*see fig. 2*). These types of solutions, developed on a client-by-client basis, offer the investor new tailor-made paths to generate income while hedging risk.

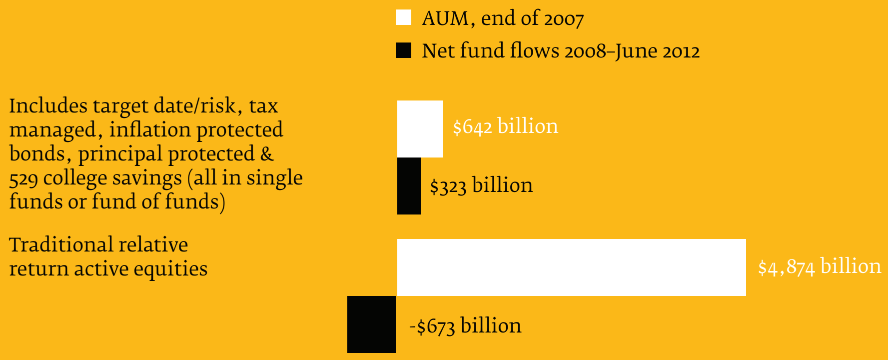
2. Globalization

The financial crisis revealed the degree to which investors were exposed to risk and now, to ensure they are well guarded against unseen threats, many are looking to diversify investments across borders. Those who are looking to win in new markets rely on both a thorough understanding of the opportunities that these markets offer, along with a strong command of the regulatory environment. As one investor we surveyed in Asia put it, fig. 1 **Financial Performance Asset Management Industry 2007–2011**



Source: 2012 McKinsey North American Asset Management Benchmarking Study

fig. 2 **Total Flow of AUM (Assets Under Management) 2007–2012**



Source: Strategic Insight Simfund

"you really need to understand the lay of the land to succeed." Today's investors demand a better understanding of the unknown and a comprehensive suite of cross-border solutions to help them win in new markets (*see fig. 3*).

3. Shifting market dynamics

The world is shrinking, aging, and becoming more transparent—and it is happening all at once. Consider the scary reality facing pension plan sponsors. With the population of Americans age 45 to 64 now over 81 million (a new high), those on the hook to fulfill pension obligations throughout the twilight of the baby boomers' years need a path to profits. In this scenario, relative return is not enough. Outcome-oriented solutions, like income generation, fill the gap left open by lower interest rates, fewer dividends, and the unavailability of guaranteed annuities going forward.

We have been measuring this movement toward solutions for several years now, and the data points to a complete and dramatic reset for the category. In fact, five years ago, when asked what factors they evaluate when choosing investment managers, only 44% indicated the ability to deliver complex solutions as "extremely important" (*see fig. 4*). By 2010, that figure has soared to 77%, and will continue to increase in importance.

There is no longer any doubt: The ability to deliver specific, outcome-based solutions is an overwhelming driver of choice, a fact that confronts any brand wishing to remain relevant.

So, if investors are moving toward solutions, are financial services brands helping them get there?

The answer is no.

Slower to change, quicker to lose

As a market participant, the institutional investor has transformed from an actor, historically concerned with performance and security, into something resembling a consumer, demanding built-to-suite solutions and relevant outcomes. This transformation is complete and irrevocable.

So, why haven't financial service brands followed suit? The systemic shock of 2008 provided the perfect fulcrum on which to pivot their organizations and brands away from the insular, self-referential posture that has long defined financial services' brand positioning and stance toward the customer.

Investors wanted it. Regulators pushed for it. Boards of directors pleaded for it. These institutions had every reason and opportunity to truly become investor-centric. Such a shift would have not only signaled to investors that the lesson of the crisis had been learned, but would have also laid the foundation for long-term partnership.

They needed to change but unfortunately, many never did and have paid dearly through net asset outflows, lagging share prices, and long-term brand value erosion (*see fig. 5*). While it's clear that inaction led to value destruction, the causes underlying their failure to evolve are more complicated.

In our study, we learned that many had the data evidencing the investor shift, and those that didn't, intuited the movement among their clients. Indeed, many wanted to transform; some even engaged in substantial strategy and repositioning work during the crisis and early recovery (late 2008–2009). But in the end, few large financial services organizations have been able to reposition their brands toward investor-centered solutions.

The limits of transformation can be linked to three inexorable forces that have dominated the financial services firms' agenda since 2008:

Restructuring

Since September 2008, beginning with the Lehman fall, the Merrill fire sale, and the subsequent TARP bail out—a period one observer called "the greatest bank restructuring since Glass-Steagall"—the industry has been in a nearly continuous state of restructuring.

Asset sales, reductions in force, large-scale cost containment programs, balance sheet restructuring, stress tests—nearly every global player has been forced at some point over the past five years to commit significant discretionary resources to restructuring its business in order to survive.

These resources could have been used differ ently. Instead of negotiating asset sales, M&A teams could have been acquiring greater capability in consulting and client services. Technology investments could have been made toward improved investor experiences. Product strategy teams could have spent more time on cross-firm solutions. Marketing efforts could have been adding value through thought leadership instead of rebuilding basic trust.

Firms don't just have limited financial resources. They have limited focus, as well. The effort required to fundamentally restructure their post-crisis businesses has fig. 3 **Change in AUM Share 2002–2011**

Global specialists	9%	Multi-boutique	3%
Global generalists	-6%	Focused-niche players	-3%
Retirement	1%	Ambitious, but un-focused	-4%

Source: Institutional Investor, Top 300 asset Managers; McKinsey & Co. analysis

structurally prevented them from rebuilding organizations around investor solutions. Five years on, institutional investors have evolved while their potential service providers have labored simply to rebuild.

Retooling

Today's institutional investor is demanding solutions, but financial services providers were built to perform against a different set of metrics. In order to win, they must retool.

However, retooling an organization's technology, process, and culture to think and behave in terms of client outcomes takes time. Despite the efforts of many organizations, our experience is that retooling is not keeping pace with the rate of transformation among institutional investors.

One reason is obvious. Retooling equals change. Delivering solutions require new skills that senior talent often lacks or is slow to adopt. The process of delivering solutions is fundamentally different than delivering performance: it is horizontal, cutting across systems and teams, rather than vertical. These changes not only affect how the firm goes to market, but also the types of people and behavior it rewards.

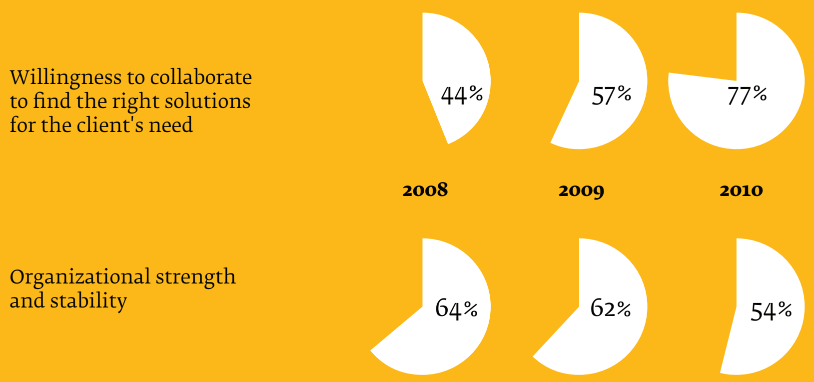
Another potentially less obvious factor is increased regulation, which is having an unintended negative effect on a brand's ability to retool. Further, the act of communicating to customers is appreciably more challenging today. In-house counsel is conservative and marketers feel handcuffed, creating a slow and tortured marketing process that blunts a brand's ability to make a customer commitment. It's the old catch-22; institutional investors need to hear from financial services brands that those brands are paradoxically less free to communicate.

Resetting

Dozens of studies have documented the decline in investor confidence and trust in the financial system and its institutions. Protracted restructuring and continued balance sheet vulnerabilities keep these brands on the front of the financial pages. The sputtering recovery is a constant reminder of what caused the problem in the first place. And a string of scandals—from rogue traders to FOREX litigation, Ponzi schemes to executive compensation—weighs these brands in the past.

This is reputational resetting: Every time the brand makes progress toward repairing its standing, a fresh crisis pushes it back. Financial institutions have suffered significant reputational damage that they must repair. Fortunately, there is a simple formula to remedy that: Confront the problem,

fig. 4 **Factors Evaluated When Considering Providers for Asset Management Business**



Source: BNY Mellon Industry Research, 2010

apologize for it, fix it, and demonstrate that it has gone away. It's a formula that has been validated over decades (see Tylenol, Toyota, Martha Stewart, etc.).

Adapt. Or die.

No doubt, firms must reengineer to deliver a truly customer-centric value proposition if they intend to meet growth requirements and fend off new entrants to the market. Doing so cannot be an exercise in cosmetics. It will take investment and vigilance.

But, it can be done and the playbook is clear.

How financial firms can deliver a truly customer-centric value proposition:

1. **Build insights capability: Leverage Big Data as a core capability**

2. **Scale specialty: Deliver deep specialties across a unified global platform**

3. **Connect the dots: Integrate marketing with thought leadership and the client experience to add value**

4. **Reset rewards: Change culture, competency model, and rewards systems to reinforce a solutions-over-performance mentality**

Build insights capability

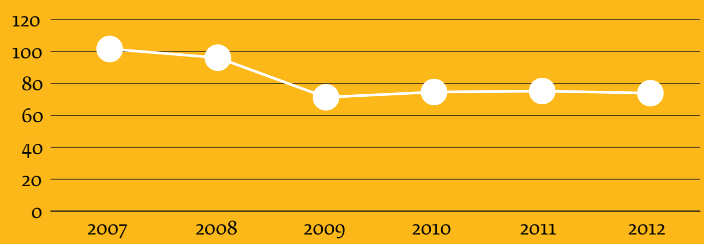
Big Data, if leveraged correctly, is a game-changing opportunity for financial firms desperate for richer customer insights and a competitive advantage in the race to better serve investors. According to a study conducted by the McKinsey Global Institute, securities and investment services firms actually store the largest amount of data per firm of any industry on Earth *(see fig. 6)*.

The magnitude of this data, garnered from an immense amount of transactions conducted every day, is matched only by the magnitude of the possibilities the data presents. Being able to harness it to derive meaningful client insights provides the most impactful path to understanding shifts in the customer's needs. To use Big Data as an investor advantage, these firms will need to take a page from the playbooks of brands like Amazon and Google, and use data strategy to drive consumer outcomes.

Scale specialty

As has been the case in many industries over the last decade, finance has made a movement toward both consolidation as a business model and product breadth as a strategy. Today, the market is awash with large one-stop-shop firms that were pieced together in an effort to achieve more scale. However, the strategy of scale is largely self-serving. It enables the firm

fig. 5 **Financial Services Brand Value ($ billions)**



Source: Interbrand's Best Global Brands 2012

to take cost out of the business and command greater pricing power, but the investor is left to navigate an increasingly complex and slow-moving institution.

Financial firms have the assets they need to construct more sophisticated solutions for customers, but accomplishing this requires speed and nimbleness. Over the coming years, the winners will increasingly be those who are able to nimbly orchestrate their own portfolio of products and services to respond to customer needs, producing legitimate outcomes.

Specialty solutions, like the boutique model with its lean organizational structures and manageable asset levels (exemplified by companies like Franklin Templeton), will need to increasingly take form in the finance industry to enable firms to act more quickly toward delivering solutions built around the customer—not around the firm's capability.

Connect the dots

Many financial firms continue to view marketing departments as sources of communication rather than designers of the total investor experience. This issue is a structural one, and can only be changed by rethinking the role that marketing plays and where it sits within the company.

Consider IBM and the way it has positioned itself around key members of the C-Suite. The brand promises a "Smarter Planet" and makes good on the claim by targeting specific members of the executive committee with value-adding thought leadership (like the Global CEO Study, and forums, such as the CMO CIO Leadership Exchange, where high-level client peers exchange ideas that not only make the planet smarter, but equip the client to be more successful). This is integrated marketing: thought leadership, connected experiences, and client-centered solutions, all rolled into a powerful message of relevant outcomes (i.e., Smarter Planet).

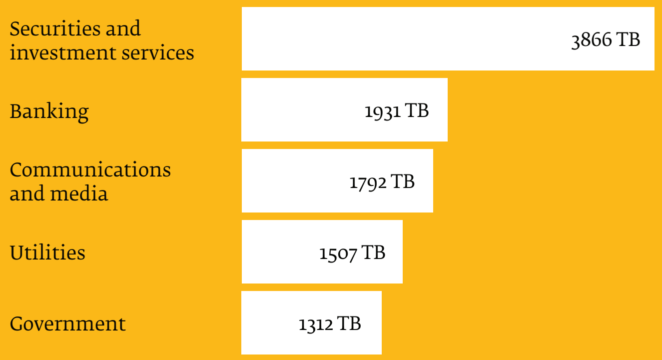
The issue for financial firms transcends the need to refocus claims around the customer; these firms must work to make material changes to the way they conduct marketing, to move from communication capability to integrating the investor experience.

Reset rewards

Evolving from a performance-based company and culture to one that is solutions-based requires capability and mindset change—and won't simply happen in an offsite meeting or e-learning module.

Competency models must change. Performance management will need to evolve.

fig. 6 **Stored Data Per Firm (>1,000 employees), 2009**



Source: IDC; US Bureau of Labor and Statistics; McKinsey Global Institute analysis

Compensation and bonus structures will be realigned to incentivize new behaviors.

Putting the customer at the center is easy to say, but often hard to do. The only path forward is large-scale cultural transformation—a shift away from the traits that long characterized these types of firms, such as competitiveness and control, and a doubling-down on things like innovation and collaboration.

A final thought—it's a journey

It's important to remember that the journey toward an investor-centric brand will never end. One of the world's great brand managers, P&G, has been working at this since 1937, and only created the category management function in 1987. And they continue to learn today, as their target consumer segments shift in a globalized marketplace.

The lesson here: Being investor-centric is a step toward continuous movement. Markets will continue to roil and investor needs will continue to evolve. The only constant will be change itself. And it is in this process of transformation, that the greatest brands find vitality, purpose, and the power to change their world.

"Firms must reengineer to deliver a truly customer-centric value proposition if they intend to meet growth requirements and fend off new entrants to the market."

Looking Further

Ford's Sheryl Connelly tells Interbrand's Shirley Brady about her role as Ford's resident futurist and how "minimal maximists" and other consumers are redefining what they want from cars

Sheryl Connelly with Shirley Brady

"Ford is more than just a car company—we are also a 'lifestyle enabler,' and our work in trends and 'futuring' is meant to help our customers achieve just that," said Sheryl Connelly, Ford's resident in-house futurist, at the automaker's 2013 trend forecasting event in New York. Sheryl chatted there with Interbrand editorial director Shirley Brady about being Ford's first Manager, Global Trends and Futuring.

Shirley Brady: Sheryl, how do you describe to people what you do?

Sheryl Connelly: My experience in having this role for a while now is that people outside the company are surprised it exists. They think that Ford is spending its time thinking, "How do I bend this sheet metal? What do we change in this technology?" So they're surprised when they find out that we have a process that is much more organic and holistic, that we're thinking about where society is moving and how can we respond to those needs.

My domain is social, technological, economic, environmental and political, but I'm not the technology expert. If you want to know what's the cutting edge technology, there are many other subject matter experts within Ford that can better serve that. I want to understand how society views those things, through the lens of the customer. So for technology, I'm fascinated by the emerging technologies of nanotechnology, biotech, and cognitive science—experts in those fields claim they can change the future of humanity, but I want to understand the ambivalence and the debate that surrounds emerging technology. Think about stem cell research and cloning and the notion "Just because you can, doesn't actually mean you should." So where does this debate go, and how do people generally feel about it? So what I do is take a step back from a societal viewpoint and share those insights internally.

SB: With Ford SYNC and MyFordTouch, what are you finding that consumers really want in the car, and how far does all this in-car technology go?

SC: If you were to survey every Millennial that you know and count how many of them wear watches, you'll find very few do because they have a phone that does that. They embrace multifunction devices, so if they wear a watch that's a single function device, it's a waste of their time. In that same spirit, I think the car has to deliver, too. It can't just deliver one thing. It must be multifunctional and serve many of their

"It goes back to what we're calling 'minimal maximists,' those consumers who say, 'My dollar's got to work really, really hard for me. The products I invest in must deliver on multiple fronts, they must serve a lot of needs.'"

needs. That's why the partnerships and collaborations that we do with companies like Microsoft, Nuance that does our voice activation, or Gracenote, which helps us bring in the images from album covers into the car, help us change that experience so we're delivering much more.

It goes back to what we're calling "minimal maximists," those consumers who say, "My dollar's got to work really, really hard for me. The products I invest in must deliver on multiple fronts, they must serve a lot of needs." So that's where it's all going.

I have children and they want to turn our car into an entertainment center during the five-minute ride to school. It's not about being in a car; it's about what stories, what information, what media can I consumer during this downtime while I'm riding in a vehicle? It's entertainment, experience and engagement, meaningful engagement, but there are those who don't want that. There's a spectrum of demand. There are customers that love the thrill of the drive, the pedal to the metal, the wind in their hair. For them, we have a "do not disturb" button, so they can tune it all out and just focus on what's important to them.

SB: How does authenticity connect to Ford's sustainability platform?

SC: Ford has a sustainable business strategy team and they look at things like human rights, water policy, carbon footprint, but it's not just about miles per gallon, it's about what role we as a corporation play in the community, about corporate citizenship. And that's really interwoven deeply into Ford's history.

If you were to talk to the team and ask them what their charter is, their charter—informally—is for their team to become obsolete, that their mindset, their work, becomes so ingrained throughout the company that it's not about having a team, it's just the way you go to market. That's part of authenticity. Trust is the new black and you have to deliver on your promises, especially because there's rampant mistrust of brands. Those brands that can credibly stand by their claims, consistently, will be differentiated in the marketplace.

SB: So where does the consumer fit in all this?

SC: The way that we consume, consciously or unconsciously, makes a statement to the world about who we are and what our values are. So if I choose to drink out of a plastic water bottle, knowing all that I know, that says something about me, just as if I choose to drink out of a reusable plastic bottle, a metal bottle, or a glass bottle. In our choices, we are broadcasting our values to the world, even when we don't intend to.

Once you're familiar with the exploited diamond mining practices, it taints your feeling about that product unless you can say, "This came from a conflict-free zone; I can feel good about it." How I spend my money is a statement about what I value, and even though I don't always do it with purpose or intent, the rest of the world can still see it. The values of corporations, their products and their supply chain need to be transparent because of that heightened awareness.

Brandspotting: Retail Brands to Watch

What's that brand on the horizon coming to change our lives? Here are some retail experiences that touch on one of the big ideas in this issue of IQ: challenging people to rethink the way they shop, connect, and communicate with brands via bold new experiences that merge curation, technology, and the local community.

In Seattle, Washington, in the northwest corner of the United States, a tiny store is trying to bring mobile shopping to life. Hointer sells designer jeans for men—nothing unusual there. But the shopping experience is unique: consumers use a smartphone to scan a QR code or tap a tag on the products they want. The desired items are then robotically delivered to dressing rooms, and shoppers can go online to request more sizes and colors. The purchase is completed via a slide-through credit card machine—and the buyer can then exit the store without interacting with a human being. Sound dehumanizing? Founder Nadia Shouraboura, a former Amazon executive, told the Seattle Times, "The whole idea behind Hointer is to combine the ability to try on items with the very fast and efficient model of online shopping."

hointer.com

Whether you're in London's Dover Street or Tokyo's upmarket Ginza district, the creative minds behind Dover Street Market want to engage, challenge, and delight. Sophisticated and surprising, luxurious yet unpretentious, it's the brainchild of Comme des Garçons designer Rei Kawakubo, whose goal is to mix like-minded luxury brands with vintage wares and art in a retail environment that's one part designer flea market, one part salon, and constantly reinventing itself. "I want to create a kind of market where various creators from various fields gather together and encounter each other in an ongoing atmosphere of beautiful chaos: the mixing up and coming together of different kindred souls who all share a strong personal vision," the Japanese designer states. "I would like for DSM to be the place where fashion becomes fascinating."Next stop: New York, which is slated to get its own DSM in late 2013.

doverstreetmarket.com

Online retailers have the ability to sell products while maintaining a magazine-style feel, so why should physical stores be different? STORY, a curated retail store in New York, is exploring this idea with an innovative store that behaves like a walk-in magazine, changing focus every four to six weeks with a new pop-up shop concept that mixes events such as pasta-making classes with unexpected products. Exploring themes such as art, love, and color, each new iteration of STORY offers a selection of products that span price points and target markets. Founder Rachel Shechtman aims to encourage consumer engagement with retail and brands. She recently told PSFK, "within the next six months we will be launching e-commerce; and in the same way our spin on retail is a little different, so will our interactive commerce experience."

thisisstory.com

The Pritzker prize-winning British architect Zaha Hadid has been bringing her modernist, breath-taking designs to such futuristic shopping experiences as the 18-floor Galaxy SOHO project that opened last year in Beijing. Now all eyes are on her next project, which aims to establish Seoul as a leading design hub with a futuristic, eco-friendly plaza merging design, fashion, and retail that's slated to open in 2013. Hadid's website calls it an urban oasis to promote "fluid thinking": a multi-purpose design edifice that will comprise a variety of design-related facilities, including exhibition halls, museum, library, resource center, park, two big convention halls and, of course, stores—daring to lure away luxury brands from the now-famous Gangnam Cheongdam-dong shopping district, where Louis Vuitton, Hermès, Tory Burch, Prada, and Gucci can be found.

zaha-hadid.com/architecture/dongdaemun-design-park-plaza

3D printing is all the rage these days, and the MakerBot brand of 3D printers is eager to demystify the process. Its retail outpost in New York City's Nolita area is the first full MakerBot retail experience in the world. Visitors can watch the MakerBot Replicator 2 Desktop 3D Printer working live to create new objects, attend classes and workshops, check out the 3D photo booth, and even buy a 3D printed item for as little as $5 in the MakerBot Gumball Machines, which sell tiny designs that fit into classic prize capsules, dispensed through a coin-operated vending machine. Who said the next big idea couldn't be small?

makerbot.com/retail-store

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