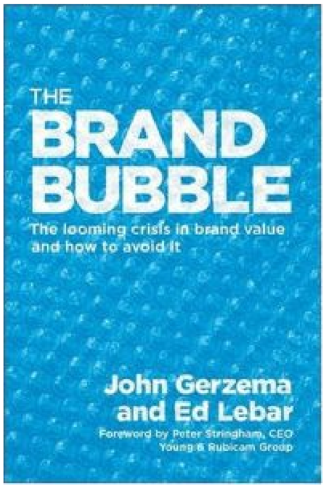

Book The Brand Bubble

The Looming Crisis in Brand Value and How to Avoid It

John Gerzema and Ed Lebar
Jossey-Bass, 2008
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Recommendation

John Gerzema and Ed Lebar have written an exceptionally clear, pertinent book about the declining value of brands and why the world's largest brand names are in flux. Using proprietary data, the authors vividly explain how brand clutter has created a marketing bubble. Since brands are such an important part of any corporation's value, the authors contend, the total valuation of this brand bubble will dwarf the mortgage bubble. The authors identify and analyze the branding problem, and then make recommendations about how to solve it. The book's one drawback is that it becomes repetitive, especially in the later sections. Still, the authors' timely, compelling argument should resonate with branding professionals. *BooksInShort* recommends this book to marketers who want a better understanding of how lack of creativity makes brands deteriorate, and of how they might be able to resurrect the brands that are still salvageable.

Take-Aways

- Technology and intense competition have decreased the value of brands.
- Consumer attitudes toward brands are dropping in awareness, loyalty, trust and admiration.
- A valuation gap of about $4 trillion has opened up between the value Wall Street gives brands and the value consumers put on them.
- The total value of the world's largest 250 brands is $2.2 trillion.
- Any brand's most significant attributes are public awareness, trust and regard.
- When a brand has energy, it becomes irresistible, distinctive and more profitable.
- To energize your brand, focus your organization on a central idea or cause.
- This "energy differentiation" must emerge from within the company as a result of an ongoing flow of ingenuity.
- Marketers can build energy differentiation in a five-stage process of generating creativity and adapting to consumer demand.
- The five stages are "exploration," "distillation," "ignition," "fusion" and "renewal."

Summary

Brand Troubles

Big brand names risk being devalued and losing their financial muscle. Experts track a brand's strength with the BrandAsset® Valuator (BAV), a database and research tool that calculates brand reach and marketplace valuation. Based on data going back to 1993, researchers have found that consumer attitudes toward brands are falling in such pivotal areas as awareness, loyalty, trust and admiration. Brands are not contributing to their companies' balance sheets and the public's perception of brands is declining. These events are happening because of brand clutter and new consumer behaviors. Trust and awareness are no longer the sole determinants of how customers perceive brand value. Instead, consumers now focus on fewer brands, primarily exciting ones with new features. These brands distinguish themselves with a concerted effort called "energized differentiation." Brands with this energy capture public attention, causing a demonstrable improvement in their firms' financial results. Consumers no longer value brands as highly as they once did. This has opened a gap between the value Wall Street gives brands and the value consumers give them. In effect, this valuation gap is the beginning of a brand bubble of some $4 trillion, twice the size of the subprime mortgage bubble. Brand value is a critical, though intangible, element of any firm's balance sheet. This value consists of patents, copyrights, customer lists, business systems, knowledge, market positions, franchise agreements and corporate reputation. A contraction in these valuations has a major impact on future earnings. To magnify that impact, intangibles now account for a larger portion of most corporations' enterprise (or market) value than their book value. For instance, PepsiCo's market value is $108 billion, in contrast to its book value of $9.8 billion. Research has found that 62%, or $19.5 trillion, of corporations' total valuation worldwide is now intangible. In the countries with the fastest-growing markets (as measured by GDP), an increasing proportion of corporations' value derives from intangibles. This change in valuation is evidence of a new emphasis on corporate intellectual capacities versus tangible assets.

Walking through the Supermarket

According to *Brand Finance*, the total value of the largest 250 brands worldwide is $2.2 trillion. Some brand values are even increasing, but the gap between consumers' regard for most brands versus the market's regard, will inevitably erode brand value. Three main factors drive waning consumer confidence: people don't trust brands, the market has too many competitors and dull brand-name goods fail to excite buyers. A walk through any supermarket provides compelling examples. Today, the average big grocery store carries 30,000 separate items, three times as many as in 1991. In 2006, marketers introduced some 58,000 new products worldwide, more than twice the number launched in 2002. To accompany this parade of new products, companies increased their 2006 advertising budgets to $285 billion, yet consumers still could not recall any of the 50 largest selling new products introduced that year.

> "We live and die on the strategic decisions that we must invent each day to ensure that our products capture not only dollars but also imagination."

This lack of differentiation means that more consumers make choices based on price, not on brand attributes. Studies indicate that brand recognition matters most when selling cars, liquor and beer. In most other categories, people buy based only on price. Even buyers who claimed brand loyalty changed their minds within a year. Worse, only 4% of consumers said they would maintain their brand loyalty if the product's price increased. This has created a widening brand-value gap between consumers, marketers and the financial community. Brand equity's traditional measures are no longer valid, so marketers have to create new strategies to re-create and preserve brand equity. They must build core brand attributes, particularly making sure the brand meets its implied emotional and personal promises.

The Financial Power of Brand "Energy"

When a firm changes its major brands, the impact shows up quickly in its financial reports and its stock price. Companies often make announcements about brand changes before they release financial information, but investors have been able to make predictions about equity prices, sales and earnings as much as two quarters ahead based on those announcements. Researchers who studied securities prices from 1993 to 2003 in light of 48 dimensions of brand attributes found that some brands' momentum pushed their stock prices higher, even as the overall stock market declined. This brand energy reflects how consumers viewed the brand's innovation level and creative appeal. Such vitality comes from new ideas that inspire customers to feel hope and conviction. For example, Virgin, JetBlue and Southwest Airlines have more positive attributes that generate "energized differentiation" than United, Delta and British Airways. A brand with energized differentiation becomes irresistible and distinctive, which leads to added vitality and customer loyalty. Energized brands can be new or mature, but they all provoke exceptional emotional commitment. They have pricing power and the ability to become even more popular. Energized brands perform better than the S&P 500 index. From December 31, 2001, to June 30, 2007, 50 brands identified as energy gainers outperformed the S&P by 30%.

Consumers as Investors

When consumers buy an energized, top-performing brand, they expect it to deliver value and grow with them. They think of a brand as an investment that should show positive long-term dividends. In many ways, consumers act like investors. Both groups want future benefits, maximum returns, innovation, transparency, accountability and as much information as possible before taking action. Both are rational, and evaluate risk and return. They choose their purchases based on a quest for higher future returns and a desire for innovation, if they see newness as a benefit. Both groups crave certainty in an uncertain world, so they want purchases to deliver on their promises. Certainty reduces risk; reduced risk enhances value. This helps explain the research link between brand momentum and future financial gains.

Creative Energy

When brands demonstrate creativity, they generate energy, win renewal in the market and reinvigorate their consumers, who, in turn, feel happy to be on the receiving end of this innovation and vigor. Marketers whose brands achieve this level of renewed energy often have tried to understand the future, and have applied their creativity to building innovative approaches and new business models. A brand that makes positive steps attracts dedicated customers. However, the proliferation of new technologies and innovations also erodes brands that do stay up-to-date.

> "We now know the brands that are thriving already – and will succeed in the future – have an insatiable appetite for creativity and a questing spirit for change."

Companies change their offerings when their customers demand a new benefit and a breakthrough is the only way to achieve it. For example, the most popular current innovations provide the benefit of mass, participatory communication via blogs, podcasts and other online posts. MySpace, YouTube and Twitter give people instant access to mass audiences and can even help shape public opinion. These innovations shifted the balance of power between brands and consumers. With their personalized approach and fast access, these technologies enable consumers to write product reviews, share opinions and join virtual communities. This consumer-generated media revolution has made word-of-mouth communication more credible and powerful. This poses a problem for brands, since consumers can share bad experiences rapidly and broadly. New technology has altered the way consumers react to brands in many ways, including:

- **Brand managers no longer control brands** – Power has shifted to consumers, who now create powerful brand messages based on their experiences.

- **Brands no longer communicate directly with consumers** – People are more diffused and get information from many more sources, so brands have to lure consumers to come to them to get their messages.
- **Marketing has become a dialogue** – Marketers must listen to attract customers.
- **Customers value personal experience and community ties** – People want to know and share a brand's features, so marketers must embrace transparency.
- **Market segmentation is dead** – Marketing messages should avoid class and background distinctions. Companies must deliver what consumers want, exactly when they want it, or the opportunity will vanish.

The Five-Stage Revitalization Plan

Companies can revitalize their brands and cultivate new value if they work with consumers to garner data, generate high energy, improve operations, increase creativity and offer innovative products. This revitalization process goes through five stages:

1. **"Exploration"** – Conduct an "energy audit" to determine your brand's strengths and weaknesses. Energized brands provoke consumer awareness and convey a special meaning. Building that brand energy requires vision, creativity, a history of innovation, a dynamic relationship with customers and a constant flow of innovation. In creative organizations, ideas move easily across business units, and managers are willing to risk experimentation. Many managers are, in fact, unwilling to take such risks, although customers reward innovative, risk-taking companies that launch new products or take on visible causes. As a brand marketer, use differentiation to highlight your brand's special characteristics, position and reputation.
2. **"Distillation"** – Focus creatively on a central idea that ties into your core business purpose. This idea should be compelling enough to enliven your employees and customers. The process of unification starts inside your company, and should reflect the culture, major executive personalities, human resources practices and what it actually does – as opposed to just repeating its advertising slogans. Make your messages inspirational and customer-centric. Done correctly, this process enables the brand to reinvent itself. In many cases, companies whose brands have very high energy ratings are value-driven businesses that serve a social purpose. These companies focus first on their customers and then on their shareholders. They want customers to see them as reliable partners.
3. **"Ignition" –** Convert the energy identified in the previous step into actual use. When a company makes creativity a constant process, its customers will respond and its business can grow. Employees, executives and customers will all benefit from the same creative forces. Increasing this energy chain requires executive participation, and input from all major business units and other stakeholders. Senior management cannot remain focused on quarterly earnings, which only emphasize short-term gain. Instead, executives, consumers and shareholders should look to the long-term for significant results. In practice, companywide creative input helped Wal-Mart sell low-energy fluorescent lights with the goal of reducing its customers' expenses. Wal-Mart worked with GE to lower costs, and passed the savings on to consumers.
4. **"Fusion"** – Engage your employees in providing constant creative ideas and in exceeding customers' expectations. People no longer see their jobs as just a means of earning money; work has taken on a larger significance. This attracts new, talented employees, and compels more consumers to notice the brand. This happens most often in proprietor-driven companies (Virgin, Starbucks), but mature companies also can generate this kind of energy. Whole Foods has an "energized culture" with a high social consciousness and stringent food-quality standards. It caps executives' salaries, pays wages above the industry average and donates 5% of daily net sales to local nonprofits.
5. **"Renewal"** – Refresh your brand and learn how to adapt to new conditions by soliciting customer feedback. Embrace change, even at the expense of modifying your brand strategy or making it secondary to tactics. Strategy does not always have to come first; you can change it in response to shifting market conditions and customer demands. Take action; do not lose momentum by stopping to study a problem.

> "Creativity is embedded in the spirit of irresistible brands."

This five-stage plan aims to create a distinctive, irresistible brand, which will energize your business and its customers. Marketers must think about brand management and brand value in a new way, and build fresh brand experiences from a customer-centric perspective. This is the source of the energy that drives exceptional brands and ultimately produces greater shareholder value.

About the Authors

John Gerzema is Chief Insights Officer for Young and Rubicam Group, and an account-planning pioneer. **Ed Lebar** is CEO of BrandAsset® Consulting, and oversees Y&R's brand strategy and research. Under his leadership, BrandAsset® Valuator has grown to include more than 500,000 consumers, 38,000 brands in 48 countries, and 250 studies. He is a former economics professor.