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# Managing brands for value creation



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# *Introduction*

Coca-Cola, Microsoft, IBM, Intel, Nokia, Dell, and GE are some of the most powerful brands on the planet. With estimated brand values between US\$50 billion and \$100 billion each, they account for more than 25 percent of the total value of the companies that own them. These brands command margins significantly above their industry average — massively outperforming their rivals.

So why are some companies so successful at leveraging brands, while others achieve far more modest returns on their branding budgets?

To find out, Strategy& and the brand consulting firm Wolff Olins carried out research among marketing executives across Europe. It shows that over 90 percent of companies believe their brand is a key element of their success — twice as many as five years ago. Yet less than 20 percent put the management of their brand at the heart of their business systems and capabilities. This appears to be significant in explaining superior brand performance.

What differentiates the companies that are most effective at leveraging their brands is not how much they spend on advertising and other brand promotions,<sup>1</sup> but whether they are brand-guided. Brand-guided companies actively use the brand to drive business decisions and manage the company. These companies occur across all industries.

Our study<sup>2</sup> identified 10 key areas where successful brand-guided companies excel. A company that focus on these areas can become brand-guided and thus make a significant difference to the bottom line.

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# ***Brand-guided companies significantly outperform their competitors***

Our study shows that a group we call brand-guided companies significantly outperforms their rivals (see “*What Is a Brand-Guided Company?*,” next page, and *Exhibit 1, page 6*, for a definition of categories). Companies in this category achieved above industry average results (see *Exhibit 2, page 7*).

Brand-guided companies occur across all industries. We expected to find a higher concentration in the fast-moving consumer goods (FMCG) industry, but we found them in every sector we researched. And the disparity between brand-guided and non-brand-guided companies varies widely within the same industry — regardless of the industry.

On average, our research shows that brand-guided companies have profitability margins nearly twice the industry standard. Brand-guided banks, for example, have an ROE (return on equity) of 19 percent compared to 8 percent for banks in the other two categories. In the industrial goods sector, brand-guided companies achieve EBITDA (earnings before interest, tax, depreciation, and amortization) margins of 17 percent, compared with 10 percent for the remaining players (see *Exhibit 1, page 6*).

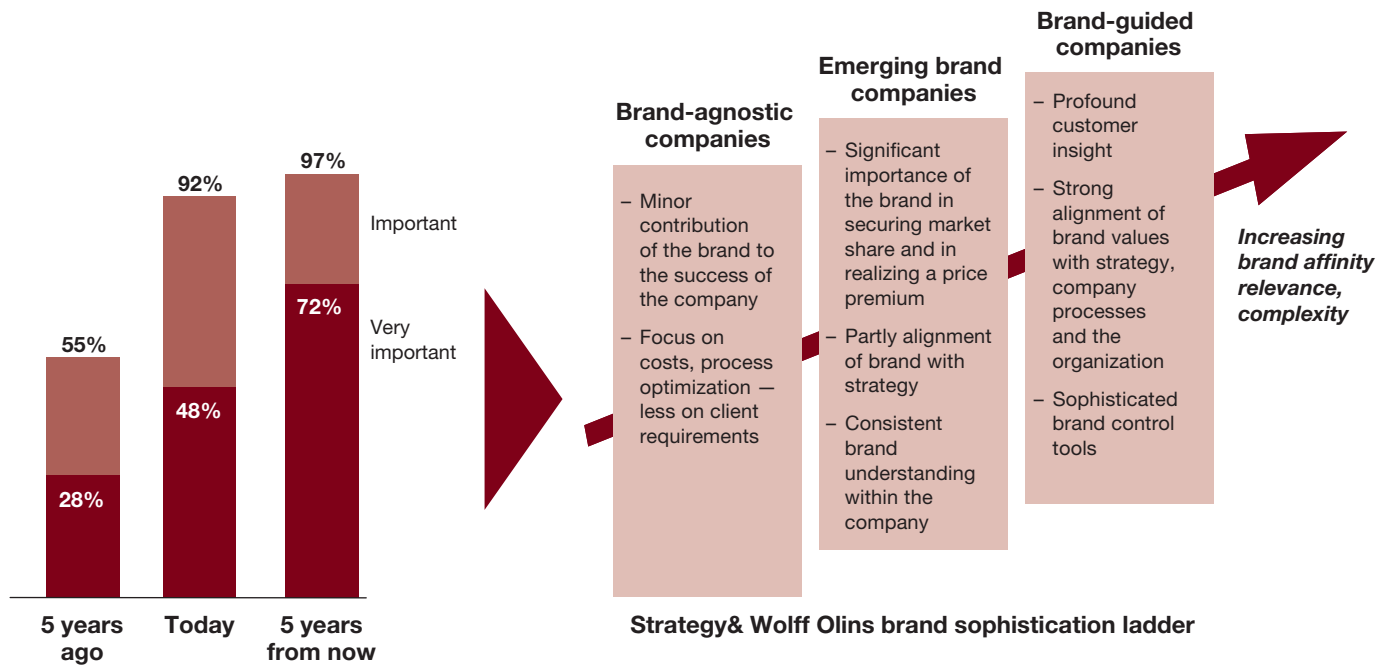
## ***What is a brand-guided company?***

From talking to hundreds of companies across Europe, we identified three categories of organizations:

- **Brand-guided companies** recognize the importance of brands and sound management of brands for their business success. They have established a common understanding of what the company stands for, and hence have assigned clear brand ownership at top management level. Brand-guided companies occur across all industries.
  - **Emerging brand companies** have not yet fully recognized the importance of brands for their business success but expect brands to become increasingly important over the next five years. They are working on establishing a common understanding of their brand within their company, but have not yet established clear brand ownership.
  - **Brand-agnostic companies** do not consider brands to be an important factor to their business success today and do not believe they will be important in the next five years. They do not intend to develop a common understanding of their brands within the company and have no interest in establishing clear brand ownership in their organizations.
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Exhibit 1

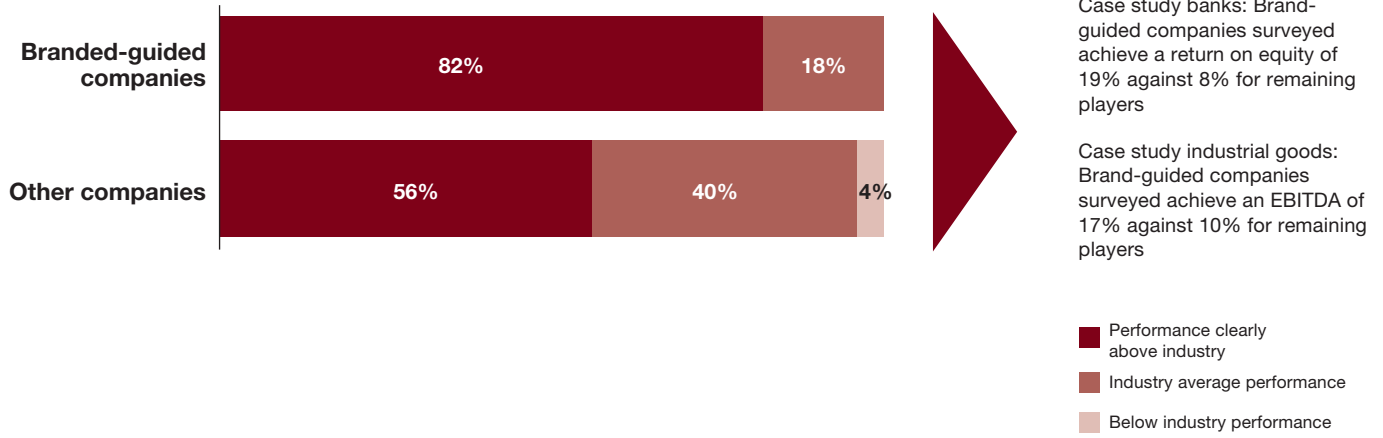
Importance of the brand to company success



Source: Strategy& and Wolff Olins European survey among marketing and sales officers, August 2004

Exhibit 2

Success compared to the competition in the past two to three years\*



\*According to the statements of the interviewees.

Source: Strategy& and Wolff Olins European survey among marketing and sales officers, August 2004

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# ***What does a brand-guided company do?***

Brand-guided companies have clearly-defined brand values that are understood throughout the entire organization. They establish well-defined ownership for management of the brand at top management level. This enables the brand to provide the cohesive force that guides key activities — such as product development, customer service, sales, and operations — and supports the strategic management process.

Brand-guided companies also gain an edge over non-brand-guided companies through the attitude of employees. For them, “living the brand” is more than just a cliché. It is a reality that makes a material difference to the company’s financial performance. Time and again, the evidence shows that employees who engage fully with the brand and support its ethos contribute effectively to the company’s success.

As an example, take the Spanish fashion retailer Zara. The company has been one of the fastest-growing clothing retailers of the past 10 years — with growth rates of 20 percent per annum. The Zara brand is all about “the pleasure of buying high fashion at affordable prices.” Yet the brand is sustained with very little external marketing. Instead, the company relies on word of mouth among customers. This also feeds directly into its product and store design and supply chain. By using the brand to drive the business, the company has shortened the distance between its consumers and its designers — so that new products and retail formats are continuously developed, promoted, and tested with real consumers in the stores.

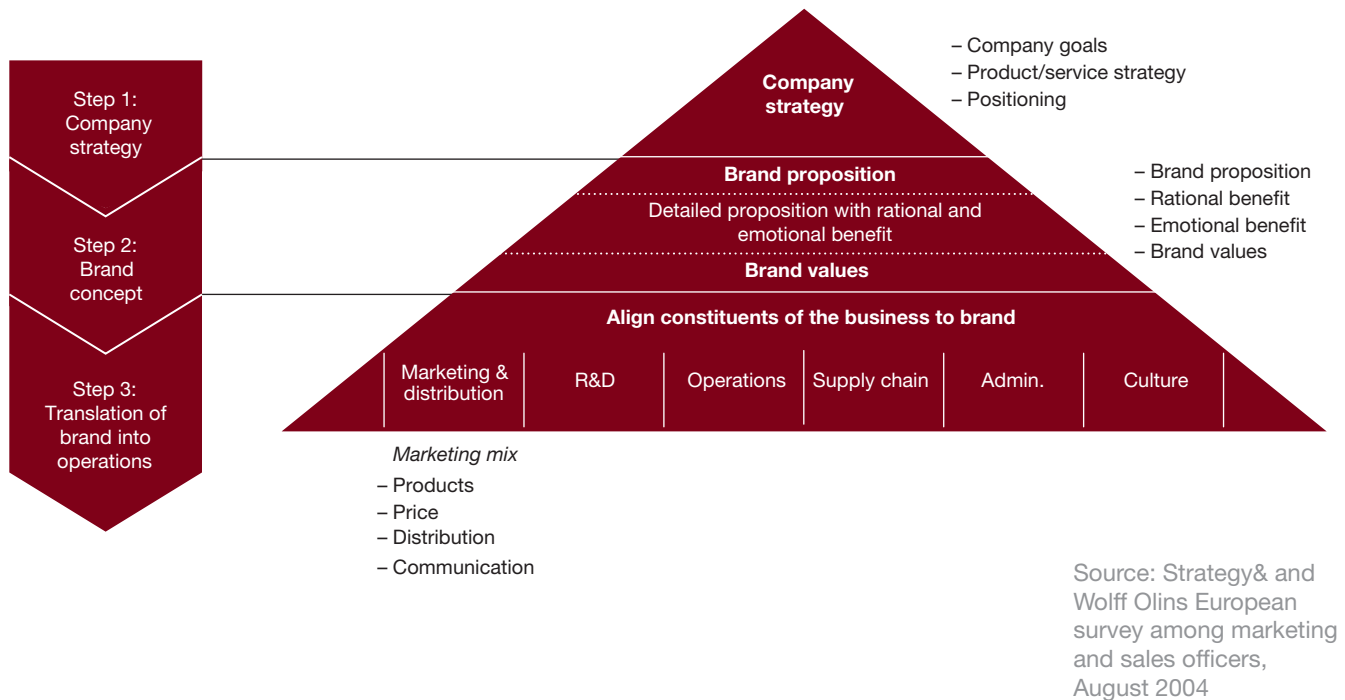
In brand-guided companies, employees have more enthusiasm about their work and communicate this enthusiasm to customers. They have a greater clarity about what is expected of them and how they need to do their everyday tasks to deliver on the brand promise. The brand-focused employee contributes to a common understanding of what the company stands for and what its ambitions are. This leads to a clearer picture of the company’s goals. As a consequence, a clear understanding of the brand can facilitate strategic goals.



In return, the brand-guided company pays more attention to its employees. The research shows that brand-guided companies are twice as likely to assess the performance of individual employees and their activities on a regular basis, compared with brand-agnostic or emerging brand companies.

How can a company put all this into operation? First, a company has to clearly define the market position it aspires to and define the strategic goals. Based on this, a brand proposition can be developed and then translated into all key constituents of the business (*see Exhibit 3*).

*Exhibit 3*  
**Strategic management of a brand**



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# *Brand master CMO*

A strong CMO role is essential for companies that want to become brand-guided. If branding is truly at the heart of an organization, then the marketing function needs to be there too. The lack of brand focus in underperforming companies explains why marketing does not seem to deliver on the expectations set by CEOs. The life expectancy of the average CMO, for example, is four times shorter than of its CEO. The failure of so many CMOs, and the persistent reorganizations of marketing functions, indicate a serious disparity between companies' needs and the solutions offered by marketers.

This has led some people to question the relevance of CMOs. Our research suggests, however, that the problem does not lie with the CMO role per se. Rather it lies in the fact that the CMO agenda in non-brand-guided companies is not effectively aligned with the CEO's agenda. If CMOs can demonstrate the benefits of brand management to their companies, they can boost the impact of their marketing function and fully leverage the potential of their brand. By employing more focused metrics and acting on the results of marketing ROI (return on investment), CMOs can transform the performance of the company and the marketing function.

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# ***Tougher metrics for more sophisticated CMOs***

How can CMOs prove that being brand-guided works for companies? The answer lies in having more effective metrics.

Our survey shows that brand-guided companies are more willing and able to use disciplined ROI marketing techniques, instead of making intangible promises or using “marketing-speak.” This willingness to focus on harder metrics leads to success.

Why are most marketers reluctant or unable to use solid metrics? Because marketing ROI is more complex than financial ROI. With financial ROI, the return and the investment can be measured equally. But to measure the success of marketing, a number of key performance indicators (KPIs) must be collected and computed to produce a reliable basis for measurement.

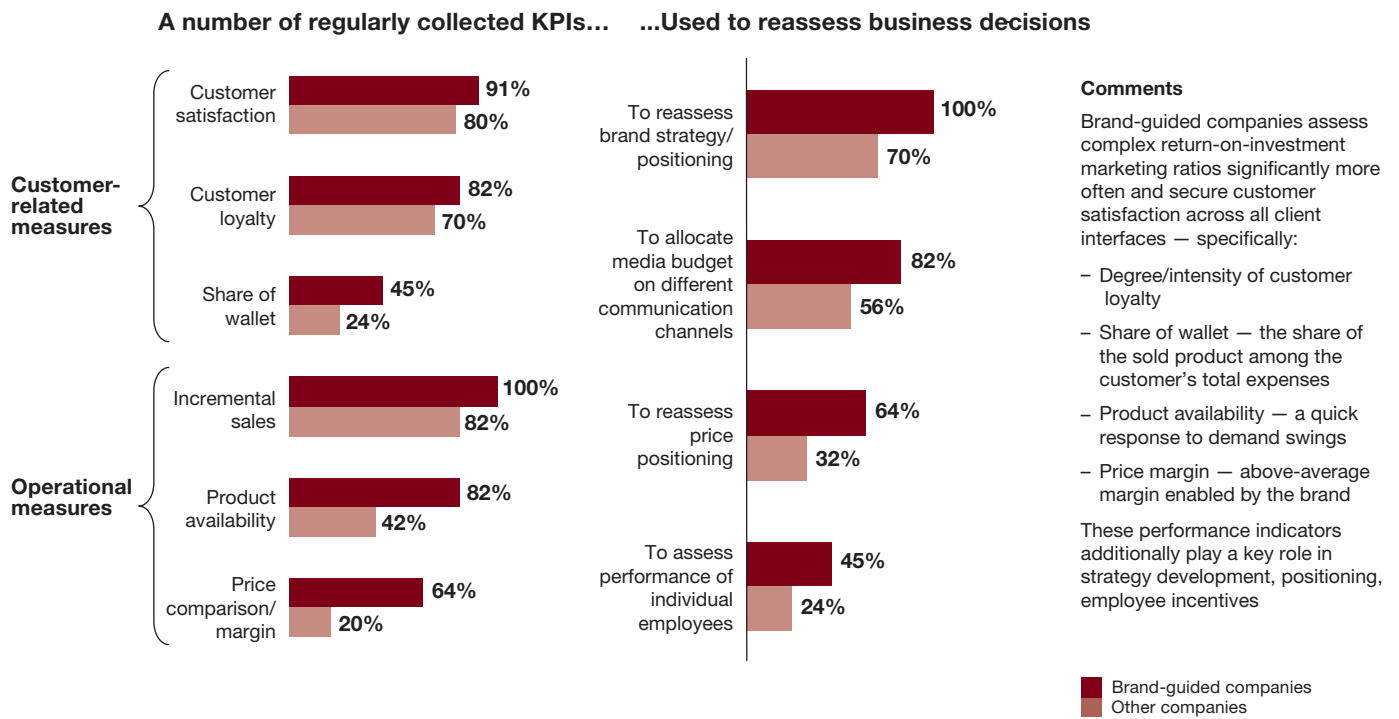
Brand-guided companies are more successful at this complex measurement of marketing ROI than are brandagnostic or emerging brand companies. This starts with brand-guided companies collecting the necessary KPIs to assess marketing performance more regularly than the other types of company. For example, 45 percent of brand-guided companies regularly assess “share of wallet” (their share of sold product as a percentage of the customer’s total expenses) compared with only 24 percent of emerging brand and brand-agnostic companies surveyed. Sixty-four percent of brand-guided companies regularly investigate whether their brand permits them to charge a price premium, and they then adjust their price points accordingly. Only 20 percent of brand-agnostic and emerging brand companies do this.

Why are the other types of companies so reluctant to do this? One possible explanation is that marketers of brandagnostic and emerging brand companies are concerned that too much science might detract from the art of marketing. In many marketing functions, creativity and innovation are valued more than the ability to number crunch and design models to extract fiscal results. This is understandable. But the lack of hard measurement abilities in senior marketers may be contributing to the lack of success and acceptance of CMOs in many

companies. The challenge is to focus creativity on the activities that add the most value to the company.

To gain influence among their C-level colleagues, CMOs need to be more comfortable with using financial metrics in this way. They need to demonstrate that they are as financially smart as other directors on the board. We would advise CMOs in emerging brand companies, as well as in brand-agnostic companies, to look more carefully at measuring KPIs (see Exhibit 4).

*Exhibit 4*  
**Measurements and link to market position**



Source: Strategy& and Wolff Olins European survey among marketing and sales officers, August 2004

## Brand-guided comes alive

E-Plus, the third biggest mobile phone operator in Germany, needed to transform itself into a truly brand-guided company. After assessing the situation at E-Plus thoroughly, our team defined a new company strategy with a strongly aligned, clear brand. Bold, unambiguous statements were needed to illustrate this new brand positioning:

- Be simpler
- Offer the most competitive prices
- Be more human
- Be a challenger in the market
- Always deliver

These brand values were defined as guiding principles for all company activities — initiatives were instigated to bring marketing and distribution, R&D, operations, supply chain management, IT, and networks into alignment with the new brand:

- Product development focused on how to offer products and services that would be simpler for the customer to understand
- While previously, technology was at the center of the company's activities, a significant shift in emphasis created a proposition focused on how technology adds value for the customer. In this way, a new emphasis was put on how technology increases the company's ability to meet customer needs — and deliver on the brand promise

- A KPI system has been developed to measure brand awareness and to translate this into customer acquisition numbers, revenue increase, and reduced churn rates — the KPIs
- Staff incentive systems, too, were realigned to the new KPI system to reflect the new strategic direction of the company. This created a virtuous circle — employees worked more effectively because they were motivated by a realistic incentive system, and their efforts generated income to realize the incentives

It took just nine months to realign the company with the new strategic goals. E-Plus launched its new products, services, and tariffs with an effective, focused PR and marketing communications campaign. Brand awareness, brand appeal, and relevance of the brand in the customer decision-making process rose significantly and put E-Plus into the top position for brand recognition among mobile operators in 2003 (source: Stern Markenprofile 2003).

E-Plus was able to deliver on its promises because its holistic programs communicated and implemented the new brand values across all customer touch-points and internal processes. As a result, a credible new brand image was created in the marketplace.

A year after its launch, customer numbers and revenues showed double digit growth — a significant change from the previous performance.

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# ***Becoming a brand-guided company***

The reality is that many companies are not doing justice to their brands. As our survey shows, getting the most value out of the brand means moving the brand to the center of the management strategy. The key to making this happen is the CMO. He is responsible for developing a brand that is closely tied to the company's strategy and for deploying the brand consistently across all constituents of the business (*see Exhibit 3, page 9*).

CMOs can play a crucial part in boosting bottom-line performance if they put the capabilities in place to turn their business into a brand-guided company. At present, many CMOs lack the power to drive or even influence the overall company strategy. However, our research indicates that if CMOs utilize ROI marketing techniques to direct budgets and other resources, in combination with incentive systems for employees, the resulting improved financial performance significantly underpins the value of marketing.

Our examples show how a brand can be the cohesive force to implement a new company strategy. It also demonstrates how the brand is seamlessly integrated into the strategic management process — including performance measurement. In brand-guided companies, the brand is not only about communication and attractive packaging — it is also a serious instrument of corporate management.

By following Strategy&'s proven three-step methodology for managing brands (*see Exhibit 3, page 9, and "How Brand-guided Are You?," next page*), CMOs can achieve the triple whammy of improving company performance, increasing the relevance of the CMO function in company value creation, and realigning their role toward the full C-level agenda. Strategy&'s global Customers, Channels, and Marketing Management practice serves numerous clients in all aspects of branding, sales, marketing, and customer relationship work.

## **How brand-guided are you?**

### **10 attributes of brand-guided companies**

Our study has identified 10 key attributes of brand-guided organizations. How many of the following describe your company?

1. You recognize that the brand is a key asset in delivering your company's strategic targets at a level that is higher than the industry standard
2. Your company doesn't consider the brand as merely a communications issue — brand is recognized as the key platform to link the company strategy with customers and employees
3. Your brand management processes are integrated seamlessly into the company's processes — i.e., "branding" is not a separate activity
4. Success is generated by corporate confidence — the brand delivers that success by providing a catalyst for the company's products, services and employees
5. Your senior management is accountable for the brand's continued health — brand responsibility resides at C-level
6. All your employees share a belief in the brand as well as a common understanding of it, the power of the brand acts as an incentive to employees, employees' activities are aligned with the brand values and contribute to building and strengthening the brand, and employees are measured and rewarded by the success of these brand-guided activities
7. Your marketing department is able to talk in terms of expected return on their investments — marketers can leverage customer insights to make the most effective marketing decisions, they can also analyze what they know about customers to contribute effectively to strategy in the future, and your marketing activities are always closely aligned with the core brand values
8. You have sufficient IT capability in place to capture data on customers, segment them effectively, respond to their needs, and catalyze marketing techniques to deliver high ROI
9. You assess key performance indicators, such as "share of wallet," on a regular basis — as a result of these assessments, you take appropriate management action
10. You identify your brand equity (the financial value of your brand) — you understand the brand's value drivers and the levers required to influence these drivers

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## ***Endnotes***

<sup>1</sup> Our analysis, for example, shows that Coca-Cola, Microsoft, IBM, GE, Intel, and Nokia all achieve impressive brand values of \$50 billion to \$100 billion with comparatively low budgets.

<sup>2</sup> Strategy& and Wolff Olins European survey among marketing and sales officers, August 2004.

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