

# The economic importance of brands – seven reasons why brands really matter

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'Brand' has become one of the most overused and misleading terms in economic discussions. It has become a swear word for the anti-globalisation movement and capitalism critics. Consequently, the economic importance of brands is often underrated or, worse, overlooked.

There are a number of myths that have led to incorrect perceptions of the economic importance of brands. The critics argue that the power of branding dictates consumer choice and creates unnecessary demand; that branded companies charge high price premiums and exploit workers in Third World countries. Supposedly, the quality of the product should speak for itself.

We believe that brands do not enable companies to exploit consumers but that they add value to consumers, companies and the marketplace overall. There are seven key reasons why brands really matter to our economy:

## 1 Strong brands protect the consumer

Brands were invented to protect consumers, not to exploit them. Initially they served as a visual badge which guaranteed a certain level of quality and simplified customer choice.

Strong brands today still guarantee quality as in the past but they differentiate themselves through their reputation – which goes far beyond simply quality.

Strong brands build and expand their reputation by promising something that is different and often new to consumers. If companies fail to deliver on their promise then their reputation will rapidly diminish.

Consumers always have a choice; or to quote Bob Marley (from Abraham Lincoln in 1864) 'You can fool some of the people some of the time, but you cannot fool all the people all the time'. They will move on very quickly if they disagree with the brand's reputation. Brands permit a type of 'market democracy' for citizens – allowing consumers to vote daily with their wallet.

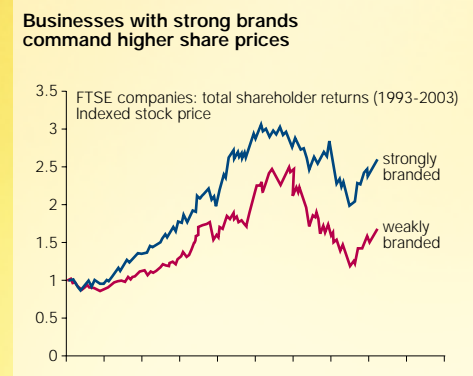
Furthermore, the need for differentiation creates a constant cycle of innovation as companies try to stay ahead of the competition. There is strong evidence that branding boosts competitive innovation. According to a report by Profit Impact of Market Strategy (PIMS), branding is associated with a more dynamic response by producers to consumer needs and to competitive activity. Branded businesses invest more in innovation which will in turn benefit consumers.

While delivering ever-better performance, the brand must compete – with commodities and others – on price. The added value of the brand must be worth paying for or consumers will go elsewhere. In a competitive economy like the UK, pressure on price is intense.

Given this, it is the brand that is under pressure and not the consumer. Strong brands protect the consumer because they ensure that consumers receive innovative, differentiated products and services at competitive price points in addition to a guarantee of quality. This in turn generates consumer trust and loyalty and therefore stimulates healthy consumer spending with greater levels of predictability and stability in terms of future cash flow.

## 2 Strong brands drive share performance

Strong market performance benefits a range of constituents from the companies themselves to individual shareholders, institutional investment and savings companies and pension funds. Our research shows that companies with strongly branded portfolios consistently outperform companies with weakly branded portfolios. This holds true for most major stock markets including the FTSE.



Source: FutureBrand analysis

While not the only guarantee of share performance, a strong brand will help to minimise investment risk – safeguarding investment portfolios. Less risk brings about a greater market confidence and increased support from financial audiences which in turn stimulate and encourage further investment.

Strongly branded companies are usually more resistant to economic stress, providing a higher level of predictability of demand and more reliable, stable forecasting. More certainty of revenue and profit allows greater confidence in predicting economic returns. Given this, brands are increasingly treated as any other asset, measured and held accountable for a certain level of return and importantly, producing demonstrable results for shareholders.

### 3 Brands ensure a competitive economy

In any liberalised market, supply must meet demand. Sellers go to market through their brands. Brands provide the means of competition by allowing those in the market to distinguish one competitor from another and helping them assess – quickly and efficiently – one offer against another. Every supplier goes to market with some form of 'brand', even if it is just the name of the business. Consumers will know who you are and hold you responsible for your actions. Inevitably, reputation will suffer if consumers don't like you, your products or services.

In regulated markets and planned economies brands are meaningless if there is only one supplier to choose from.

Brands start to play a vital role when markets liberalise. Take the example of the British telecommunications market. As soon as competition opened, new entrants had to develop differentiated brands. They had to overcome consumers' inertia in order to switch from the old incumbent. As a result the UK telecom market today is highly branded and offers more choice, better value, better performance and is more engaging to consumers. Brands are essential in deregulated markets – efforts to liberalise markets would fail without brands.

### 4 Brands help the economy to adapt and grow

Consumer needs evolve constantly and are driven by a number of trends. Watch TV programmes from only two years ago and it is amazing to see how dated they seem already.

Markets are subsequently in a constant flux of adaptation. Brands help them to adapt more quickly as they build a more dynamic response function between producers and consumers.

Equally important is that brands help to target innovative products to a wider audience. New and innovative products normally get adopted by 'pioneers' and 'opinion leaders' first, while their benefits usually need more explanation to the mass market.

As an example, the success of third generation mobile phones largely depends on how well branding can explain the benefits of the new technology to a wider audience. Only if a wider audience buys into the technology can it progress further to reach larger economies of scale and develop smaller third generation handsets.

So brands not only simplify choice but play an 'educational' role as well, as they help to overcome uncertainty of purchase. In the best case they are able to make people interested and excited in new markets and products.

Overall, brands contribute significantly to the process of adaptation and growth, which is crucial to our competitive economy. Brands that fail to deliver on what consumers want will disappear quickly, making space for new and more effective alternatives.

### 5 Brands help businesses cross geographic and cultural borders

Global brands are an enormous asset to their home country. They aid exports of British products and services to foreign markets, supporting our trade surplus. They provide jobs and stability to the British economy. Failure to create successful international brands creates a burden on the home economy.

Brands are vital in achieving success abroad and are a significant source of international competitiveness. They can help transcend cultural borders as they are able to speak an 'international language'. On the other hand, strong domestic brands are helpful as they may provide an effective, consumer-focused response to foreign competition.

At a local level, strong brands will draw employees and business partners to communities, stimulating the local economy.

### 6 Brands benefit all stakeholders

Brands are important not only to FMCG and retail companies but also business-to-business service providers and beyond. Apart from underpinning commercial organisations financially, brands help to promote the cause of 'not for profits', charities, governments and even country- or locale-specific tourism. They provide these entities with a vehicle to communicate purpose and vision to all stakeholders: consumers, prospects, supporters, shareholders, legislators, business partners, regulators, employees, and even competitors.

For partners, suppliers and other third parties dealing with strongly branded organisations, there are greater opportunities for mutually beneficial business terms and agreements.

From an internal perspective, strong brands help to attract and maintain top talent and loyal

employees. Some suggest that the stronger brands in a sector, Microsoft for example, need not pay top salaries to keep top people longer. Research indicates that employees who work for companies with strong brands enjoy a higher level of job satisfaction.

In addition, those companies performing well (due in no small part to their brands) are less likely to force redundancies in declining markets. This is expected of strong brands – witness our irate reactions when the UK press reports our favourite national brands like M&S and Norwich Union laying off loyal employees. We expect more commitment from such strong, national brands.

### 7 Brands ensure businesses are accountable for their actions

Brands ensure that companies act responsibly. The actions of well-known brands are scrutinised by press and consumers alike to judge whether businesses are following the letter of the law and the expectations of society, be it accounting standards, environmental protection or ethics.

The past ten years have witnessed an increase in Corporate Social Responsibility programmes, particularly for those well-known brands for whom being seen to support communities can be as important as advertising or other product promotion.

Branding provides a higher level of exposure that may benefit sales but which also means that a business is more visible in terms of 'doing the right thing'. A global brand such as Gap, for example, can no longer operate unethically in other parts of the world without affecting business in its main markets. A healthy economy is dependent on all constituents playing by the rules.

### Conclusion

To be a successful knowledge-driven, innovation-led economy, brands and branded companies are important weapons to have in the state armoury. More so, they are a necessity for a liberal economy in which companies compete and consumers have the power to choose.

The negativity in some anti-branding discussions is ill founded. Brands are crucial to a vibrant economy. It is a role that should not be taken for granted but nurtured and encouraged. The alternative – of limited choice, little product improvement and an economy that underperforms – does not bear contemplating.