

Brands, innovation

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The case for branding, in consumer products as in other sectors, rests on its role in:

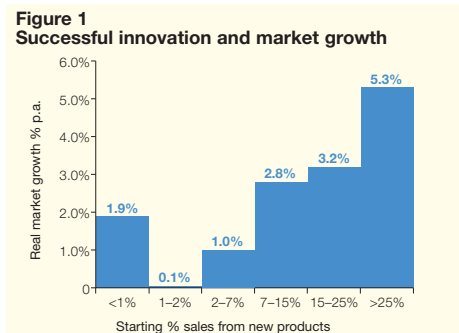
- helping consumers to exercise choice and recognise products in a crowded market place; and
- enabling producers to communicate with end users, and to gain recognition for innovative approaches that meet consumer needs.

The PIMS Competitive Strategy Research Database (PIMS Database) contains data on 500+ strategic variables measured over a minimum of three years for more than 400 FMCG¹ businesses.

Analysis of the PIMS database shows that wider economic benefits are likely to arise when product branding exists. Brand owners invest larger sums, and invest more efficiently, in areas, such as innovation, that create economic growth, employment and productivity. This is the result of competitive stimulus and the role branding plays in enabling FMCG businesses to reap the rewards of investment. These findings are explained below.

Innovation effort

PIMS' key measure of successful innovation is the proportion of new products in the sales mix. This measure concentrates on the main area of innovation in this sector – product innovation.



The PIMS Database shows a strong association between the proportion of new products and the level of real market growth.

It is generally accepted that innovation is at least desirable, at most essential, for the ongoing health of an economy. But, relating innovation to macroeconomic measurements is about more than just the innovation relationships depicted above. The overall level of innovation, and hence its impact on economic productivity and growth, is affected by the specific characteristics of the economy and the markets within it. These characteristics address not only the ability and incentives to create new ideas and processes, but also the systems in place to ensure the effective distribution of these innovations.

The notion that intangibles can play a significant role in boosting economies is recognised, but academic work is yet to approach the specific questions we are raising here; about the effect of marketing communication and knowledge transfer to end users on innovative capabilities. The question is certainly intriguing.

So, as yet we are unable to assert the extent to which the ability to brand products, via increased innovation effort, can alter the productivity and growth of economies.

However the known links between innovation and the macro economy do allow us to assert the direction. And the PIMS Database shows that branding in FMCG businesses creates a competitive stimulus that is positive for innovation, and therefore positive for productivity and positive for economic growth.

Efficiency of innovation investment

A key criticism of British economic progress is that productivity is still insufficient for prosperity. One of the reasons productivity is still too low is that investment is inadequate, especially in research and innovation.

Value added is the basis for measuring total

growth in an economy and requires businesses to maximise the returns to capital and employment. This not only needs firms to focus on the battle for consumer preference, but also demands efficiency in supply to minimise external costs.

The PIMS Database proves that R&D expenditure is a key investment for branded FMCG businesses to compete in their markets. Further investigation of the impact of R&D reveals an interesting relationship. It shows that the value added per employee in branded FMCG businesses is higher than the average of all other businesses in the PIMS Database (see Figure 4 opposite).

The additional productivity gain from R&D investment in the branded FMCG businesses may be due to the importance of differentiation and quality in achieving competitive advantage in this sector. Supporting their brands through advertising and promotion enables businesses to:

- communicate differentiation to end users more effectively;
- raise awareness of product developments; and
- persuade consumers to try new or improved products.

This ability to connect with end users improves the chances of turning development ideas into successful products that meet the needs and expectations of consumers. The evidence certainly suggests a complementary relationship between R&D investment and branding in creating additional returns on each unit of investment.

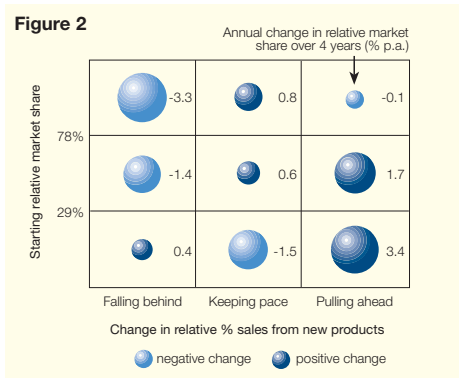
So, the case for branding

Supporting their products' brands enables FMCG businesses to communicate more effectively with end users, and as a result these businesses:

¹ Fast Moving Consumer Goods

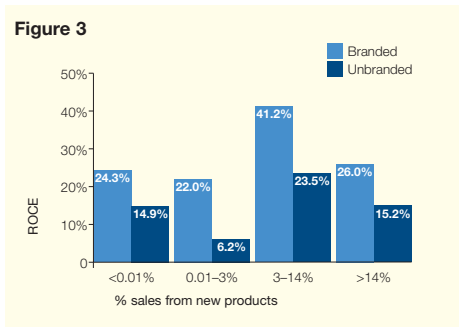
and growth

– grow better in response to innovation advantage;



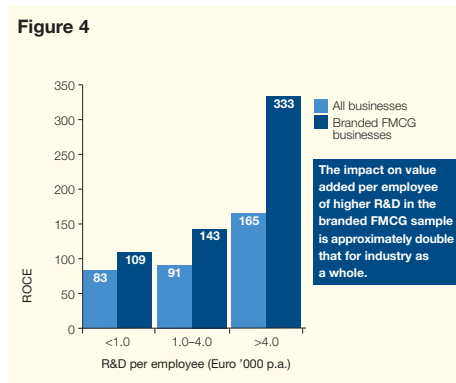
Source: Branded FMCG sample of PIMS Database

– gain a greater private return on innovation;



Source: FMCG sample of PIMS Database

and
 – show a better productivity return for investing in innovation.



Source: FMCG sample of PIMS Database

The impact on value added per employee of higher R&D in the branded FMCG sample is approximately double that for industry as a whole.

This creates the:

- incentive to increase the overall level of innovation; and in time
- additional funds for further innovation.

The end result is that branding drives a move to the right of Figure 1, where FMCG markets, and the economy, benefit from superior productivity and growth.

Brands add value

A recent study by the University of Toulouse has produced statistical evidence to confirm the role of brands in creating value. Marketing has often suffered from a lack of the quantifiable measures demanded by Finance to support their arguments on the power of brands but the research centre at the University has chosen to tackle this indirectly, by tracking the number of trade mark applications filed by companies in the consumer goods sector against their financial performance.

The study was conducted amongst 708 food and non-food companies, which was then reduced to a sample of 436 companies each with turnover in excess of 30 million euros, allowing more detailed analysis of their marketing strategies and the advertising of their brands. These companies invested most strongly in their brands, accounting for 90% of the trade marks filed. The 63,000 trade marks in the study included words, acronyms, logos and sound marks, relating to real innovation as well as brand extensions, and were compared with figures from the year 2000 financial results.

The study found that the companies filing most trade marks are also those which provide the greatest return to their shareholders and which are differentiated by a margin policy, rather than a low price/high volume strategy. In the group with the greatest portfolio of trade marks, investment produced a higher return. Conversely the group with the smallest portfolio of trade marks was the lowest performer, losing value with investment costing more than it returned. Companies between the two extremes in trade mark ownership were also between the two extremes in profitability, proving a perfect correlation between brand innovation and value creation.

New Guide to Brand Competition

The Brands Group has recently published *A Guide to Brand Competition*. Written for the non-lawyer, it sets out how competition law affects the business decisions of brand owners and provides guidance on how companies should conduct their business. The guide, which is produced in partnership with Bristows, is available in both pdf and print formats from the British Brands Group.

