

# British Brands

THE NEWSLETTER OF THE BRITISH BRANDS GROUP

## Are brands a force for good?

John Noble, *British Brands Group*

A lack of understanding about the role of brands is widespread. Critics such as Naomi Klein argue that brands are immoral and exploitative. However, the anti-brand lobby has missed the point: brands make an indispensable contribution to consumers, wealth creation and our social well-being.

The economic importance of brands cannot be understated. Globally, brands are estimated to account for the creation of approximately one-third of the world's wealth. In terms of the financial health of a company, brands make a significant contribution to shareholder value. Brands influence the choices of a variety of stakeholders – not just consumers, but employees, investors and government authorities. To demonstrate this economic contribution, consider that the Coca-Cola brand alone (not including other brands in the portfolio) accounts for 51% of the company's stock market value.

For companies to be successful and grow they need to focus their management efforts on intangible assets. A strong brand can ensure business continuity in times of difficulty but this requires sufficient investment in advertising and marketing as well as NPd. For policy makers, it means that governments need to help business by providing the right encouragement and environment for brands to flourish, such as protecting intellectual property rights from plagiarism and ensuring access to markets.

Tony Blair said on launching the Innovation Review, that the challenge, 'is to create the conditions where all our firms put innovation at the centre of their strategies for the future.' PIMS research into brand value demonstrated that not only do brands

help producers bring new products and services to market, but 'branded producers are twice as innovative as their non-branded counterparts.'

More broadly, a consumer society is the basis for a market economy which cannot function without brands. While this model is frequently blamed for the world's problems, wealth generation is fundamental to social welfare and progress. Brands meet growing customer demand both locally and globally, which means employment and growth leading to increased living standards and social progress. The social value of brands has two vitally important dimensions: the creation of progressive innovations in products and services; and companies as vehicles for social change.

Exposing examples of poor brand behaviour by anti-globalisation activists has led to significant changes in the culture of corporate behaviour. Reeling from accusations of sweatshops, bullying suppliers, environmental and human rights issues, it's often those companies facing the most difficult issues that are now leaders in CSR. Protecting reputation is a major driver for corporate responsibility – how many non-branded companies out of the spotlight continue to misbehave? As Philippe Legrain, chief economist of Britain in Europe believes, 'far from giving companies power over consumers, brands actually give people more influence over companies' behaviour.'

One benefit of brands' cultural ubiquity is their ability to harness a widespread appeal for promoting social good. Diageo has used its brand to help unemployed and disadvantaged people find worthwhile work and to improve access to safe

drinking water in developing countries. British Telecom's 'Am I Listening?' campaign aims to ensure that the voice of every young person in the UK is heard. GlaxoSmithKline, with Barretstown, has opened up the 'summer camp' experience to children with serious illnesses by providing first-class medical facilities on site. In reality, companies are as likely to be driven by corporate risk reduction as they are by philanthropy. However, it is still in the best traditions of the founders of our oldest companies – Cadbury and Boots for example – who devoted their lives and company profits to social improvements. But, as *The Economist* said: 'The difference in the future will be that it will be consumers, not philanthropists, who will dictate the social agenda.'

Trust continues to be the basis for all brand values. Under the unforgiving eye of the media, politicians and consumers, there is every incentive for companies to protect the reputation of their brand as their most valuable corporate asset. As investment guru Warren Buffet once famously observed: 'It takes 20 years to build a reputation and five minutes to lose it.'

## inside:

From the Chairman

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# From the Chairman

**Andrew Redpath** *Chairman, British Brands Group*

In August this year the DTI published a consultation document *Extending Competitive Markets: Empowered Consumers, Successful Businesses*. This sets out proposals for a consumer strategy for the next five to ten years, with the aim of delivering a UK consumer and competition regime that compares with the best in the world.

The premise for the consultation is that confident, well-informed consumers are good for business and good for stimulating a more competitive, innovative economy. The document promises a fair deal for both consumers and business and concentrates on two themes – empowering consumers and tackling deliberately dishonest trading.

The thrust of the strategy is one that the Brands Group fully endorses. Our mission (to build in Britain the optimum climate for brands to deliver choice and value to consumers, through constant innovation and fair competition) reflects the same principle, that effective competition provides a better deal for consumers. It also reinforces the point that, for competition to be effective, it must be fair.

The million-dollar question is whether the DTI intends to deliver against the principles it espouses. For example, for many years the Brands Group has been highlighting a particular blind spot in the UK's treatment of one dishonest trading practice, that of copycat packaging, which so far the DTI has chosen to do nothing about.

That such copying is good for neither consumers nor companies is well established. Marketing's self-regulatory code, the CAP Code, exhorts marketers not to take unfair advantage of the reputation of trade marks and other distinguishing signs and states that no marketing communication should resemble another's to the extent that it confuses, misleads or is likely to mislead. Ironically, the scope of this marketing code does not extend to packaging, a bizarre omission when one considers that packaging is one of marketing's most powerful tools, exerting its influence at the very point where

shoppers make their purchasing decisions.

Lacking an effective self-regulatory system, companies have only the law to fall back on – in this case the ancient law of passing off, an ineffective and impractical option in the UK. On cost grounds alone, the Law Society estimated the cost of a passing off action at £½ million. This is more than ten times the cost of bringing a similar action in continental Europe, and the UK remains the only country in Europe without a modern law of unfair competition to address copycat practices. How much longer will the DTI resist this glaring anachronism?

These are points that the Brands Group will be making forcefully to the Minister for Competition and Consumer Affairs, Gerry Sutcliffe MP, when it meets him in October. Copycats have been around for many years and the problem persists, as a recent article in *The Grocer* (4 September 2004) highlights. The DTI's review of its consumer strategy might just be the opportunity to turn the tables on a practice that deliberately and dishonestly sets out to mislead shoppers.

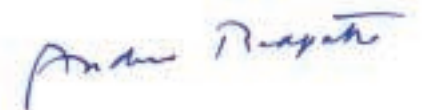
That the Brands Group is committed to supporting vigorous competition is illustrated by the latest publication in its series of Guides, *A Guide to Brand Competition*. This Guide is written for the non-lawyer and sets out how competition law affects brand owners. It provides guidance on how companies should do business and illustrates the pitfalls – and penalties – of falling foul of the competition regime. Copies have been distributed throughout the brand manufacturing community and further copies are available from the Brands Group.

Meanwhile, since the last edition of *British Brands*, we have seen continuing consolidation in the grocery retailing sector with Sainsbury's seeking to acquire the convenience retailer Jacksons. This continues a trend of supermarkets purchasing convenience stores that started in 2002 with Tesco's acquisition of T&S Stores. In this year

alone we have seen Tesco acquire Adminstore, Somerfield acquire Mace, Sainsbury's acquire Bells, the Co-op acquire Conveco and now Sainsbury's set to acquire Jacksons.

While on the face of it these acquisitions may appear benign – the convenience sector after all is highly fragmented with no single retailer having much more than a 6% share – the reality is potentially very different. The Competition Commission in its Supermarkets report in 2000 established that the four big supermarkets possess massive buyer power. It pointed out that Sainsbury's for example has a buying advantage over the likes of Netto and Budgens of 9% and 10% respectively. It can be assumed that small independent retailers will pay significantly more again, a differential which cannot be explained by cost efficiencies alone. With Sainsbury's able to transfer this significant buying advantage to the convenience sector, it is hard to envisage how independent convenience retailers can compete. Not only is the independent retailer threatened but so is the very structure of the convenience market, including wholesalers.

By the time this edition of *British Brands* is published, the results of the OFT's scrutiny of this proposed acquisition will be known. It seems unlikely that it will be referred to the Competition Commission, not least because the OFT has already cleared two similar acquisitions by Sainsbury's larger competitor, Tesco. This, however, does not detract from the case for the competition authorities to undertake a market study to assess in detail the full implications of this transfer of buying power from the supermarket sector to convenience, and take a reasoned position for future guidance of all concerned. After all consumer choice, the vitality of retail competition, the viability of the wholesale sector and effective competition between suppliers are all at stake.



# The world's most precious whisky

Fraser Morrison, *The Macallan Distillers Limited*

It is late April. I turn my collar to the wind as tiny snowflakes blow horizontally across an otherwise serene landscape stretching towards the snow-capped peak of Ben Rinnes. This is Macallan country, on the banks of the River Spey deep in the heart of the Grampians. Yet this small part of Scotland is the aspiration of people all over the planet, home to 'The Macallan' brand and the foundation for sustained economic development over the past 25 years. 'The Macallan' is one of those precious few global brands still controlled from Scotland with a loyal and growing following, a desire to innovate, to achieve premium positioning and global reach, the aspiration in Melvyn Ingleston's 'Scotland the brave' article in the previous issue of *British Brands*. The Macallan. Wha's Like Us?... Nane. Let me explain.

The origins of the name are uncertain. Local legend has it that the distillery was built on the site of the church of the ancient parish of Macallan which withered after its unification with the parish of Knockando in the eighteenth century. However Scottish ecclesiastical records contain no references. Today, it is a well-known and highly regarded brand name and icon of success, style and luxury, rubbing shoulders with other illustrious icons of fashion across the world.

The Robb Report's Ultimate Gift Guide in 2000 offered 4 bottles of The Macallan 60 Years Old (1926), 52 Year Old (1946), 51 Years Old (1948) and 50 Years Old (1949) for a cool \$125,000. In 2003 a complete set of 37 bottles and 37 miniatures of The Macallan Fine & Rare collection, dating from between 1926 and 1972, was offered for just under \$200,000. A few years ago, Anglo-Turkish businessman Norman Shelley made a single purchase of old Macallans for close on £250,000. Norman commented that 'drinking The Macallan is, for me, an enormous pleasure – it's fun!' Fine and noble words from a distant

relative of Percy Bysshe Shelley, the famous poet.

In May 2004 the pre-eminent *Whisky Magazine* declared The Macallan 18 Years Old as the 'World's Best Whisky'. The Macallan has also been described as 'a Rolls-Royce amongst malts' (*Harrods Book of Whiskies*) and 'the Chateau Margaux of malts' (*Los Angeles Times*). So how has this Scottish brand achieved such fame and status?

For its first 150 years the Macallan Distillery was content to supply its single malt as an ingredient to the blending trade. Availability of the Macallan single malt was limited to local hostleries and traders. In the late 1970s The Macallan as a brand of any note did not exist outside Speyside. Those who were familiar with it were few and far between. It was, however, an exceptional single malt Scotch whisky waiting to be introduced to the world.

It was not until 1980 that The Macallan single malt brand was launched. In the early years, annual sales volumes reached 10,000 cases globally, virtually all in the UK. Gradually distributors and agents were appointed in the USA, Japan, Italy, Germany and Spain and by the early 1990s annual sales volumes had exceeded 100,000 cases. In 1996 The Macallan was acquired by its present owners, The Edrington Group, and a year later annual sales volumes exceeded 200,000 cases. Currently annual sales are close on 400,000 cases – a compound annual growth of nearly 15% since 1994.

The success of the brand worldwide led to The Macallan being awarded the Queen's Award for Enterprise – International Trade on no fewer than six occasions. In July 2003, it became the first Scotch Whisky to open a dedicated sales, marketing and customer relationships office in China. This office is pivotal to The Macallan's Asian strategy, being in the heart of one of the world's fastest growing economies and close to other key markets such as Japan, Korea and Taiwan. Jim

Wallace MSP, Scotland's Deputy First Minister, recognised this as an example of 'the Scottish Executive's Global Connections strategy leading to a Scottish company embracing globalisation and integrating into the world economy'. One year on, this local presence has contributed to rapid sales growth. In Taiwan in particular the increase in one year has been almost threefold, making The Macallan the country's leading single malt and making Taiwan The Macallan's second biggest market in the world after the United States. In 2003 global sales increased by more than 30% including double-digit growth in mature markets such as the USA, Japan, Italy and Spain.

'This is all demand-led growth' insists Ken Grier, The Macallan's Brand Director. 'We could sell much more, particularly the older, rarer expressions if we had sufficient available stocks! And that is it – high quality, delicious aroma and taste, luxury image, and it is genuinely rare. That is what makes The Macallan so desirable. The Macallan can only be made at the Macallan Distillery, nowhere else, and capacity is limited.

The Macallan is dedicated to its core values and long-established, more costly production – the use of Golden Promise barley, the combination of yeasts, small spirit stills, narrow spirit cut, the choice of wood. The Macallan is neither chill-filtered nor coloured with caramel. It is the uncompromising, obsessive attention to product quality, premium product presentation and brand innovation that helps The Macallan to be the superlative single malt Scotch whisky that it has always been.

The Macallan is designed, created, built, sculpted and lovingly reared in Scotland by Scots. It is underpinned by quality and meticulously presented. The result is understated and elegant... demand beyond supply... the world's most precious whisky... real brand equity.

# Hybrids, the heavenly bed and

David Aaker, *Prophet*

The concept of Brand Portfolio Strategy has been around for a while. However most companies do not manage their brands very well, and a lot of them do not do it all. This is often because of the silo structure within many organisations. Whatever the reason, there is significant room for improvement and some worthwhile pay-offs in getting it right.

There are five main ingredients to effective brand portfolio strategy:

- Clarity and focus
- Leverage
- Energy
- Differentiation and
- Relevance

The two common pitfalls that reduce the clarity of a brand portfolio are an unclear brand mission and the presence of too many brands. If a company changes its business strategy, the brand strategy must follow.

UPS is a glowing success story of how clarifying the mission and product offering can deliver business results. In the mid-1990s UPS was perceived as the small package delivery company with the brown trucks, despite its global logistics and delivery capabilities. UPS's image was a barrier to success. To close this gap UPS introduced a host of new products and services to provide substance behind the new UPS, under a new umbrella sub-brand – UPS Supply Chain Solutions. To communicate its position as a global business, UPS created another two sub-brands: UPS Sonic Air, the next-plane-out delivery service; and UPS Global Advisor, an information resource for shippers. Together UPS Sonic Air, UPS Global Advisor and UPS Supply Chain Solutions fuelled the repositioning of UPS. The challenge for UPS now is to manage these brands as part of its portfolio.

Brand portfolio rationalisation is a well-known yet under-leveraged concept. Many firms simply create too many brands, leaving them with organisational paralysis, an inability to fit a new offering into the overall portfolio, and brand-

building activities that are randomly budgeted. Nobody knows which are the major strategic brands of the future that will deliver against business objectives.

Unilever has experienced what it is like to be in this danger zone. Its response was a reduction in the number of brands from 1,600 to 400. But much more importantly, they provided a focus within those remaining 400 brands as to which were going to be the truly strategic brands for the future.

## **Leverage**

How can a brand asset be leveraged to create larger and stronger business entities? I believe there to be many brands in the UK that are under-leveraged. The Dove brand provides some inspiration.

In 1955, Dove started as a soap, a beauty bar containing moisturiser. In the early 1990s it was extended into body wash, where it captured market leadership with a price premium of 50%. Having proved the strength of the Dove brand, it has since been extended into body refreshers, deodorants and shampoos.

There is a lot we can learn from this. First of all, if you have a strong brand platform with a leveragable, strong attribute (in this case, moisturising), you have the opportunity to build a big business. Dove sales went from \$200 million to \$200,000 million.

Second, it is critical to extend the brand gradually and attack each marketplace separately. Each successful market entry will further strengthen the brand, enabling it to enter more markets.

Third, extending the brand into new categories may fuel growth in the original business. After establishing the brand in body wash and body refreshers, Dove's soap business rose by 30%.

Fourth, branded ingredients can be important means to drive new associations with the core brand but they have to live up to their promise. Dove's nutrient ingredients were crucial to getting the body wash right just as the weightless

moisturiser was essential for the shampoo.

However, the Dove story does not imply that you can put a successful brand on any new innovation that seems to fit. If we know anything in marketing, we know that most new products fail. And not only that, we know why they fail – because most are not differentiated, providing no new customer benefits. An undifferentiated product extension will fail and possibly damage the core brand in the fall.

## **Energy**

It is a rare brand that doesn't need a little energy. One product category after another is maturing and becoming boring and lifeless – think of Nokia and Volvo. The concept of the branded energiser, which I define as a sub-brand or brand that energises and enhances a parent brand, addresses this. It can take many forms, including products, promotions and endorsers.

Heinz Ketchup is a boring product with a venerable brand. In 2000 the people at Heinz discovered that the ketchup category was seen as tired. They conducted research among kids, finding they couldn't get ketchup out of the bottle, that they liked colourful foods and that they liked to play with food. These revelations may not seem startling but Heinz knew what to do with them. They launched EZ Squirt ketchup in colours like Funky Purple and Blastin' Green. It's disgusting but the kids loved it, and that energised Heinz. Its sales rose 15% in the first year and the whole category rose 5%.

## **Differentiation**

Differentiation is the most important aspect in branding. If you have differentiation, a new offering is likely to succeed, if you lose it, you are likely to fade. But how do you get differentiation? As soon as you have launched a new product, you've got those bad guys copying you and before you know it everybody has the same product as you. One innovative way of achieving differentiation is to use a branded differentiator.



# purple ketchup

A branded differentiator is an actively managed branded feature, service, programme or ingredient that provides meaningful differentiation to the parent brand. In the US, the Westin hotel chain competes in a space that is about as homogenous as it gets. What Westin did was to focus on core functional differentiation – they invented a better bed. It's got double the number of springs, it's smoother and softer, it's got five pillows, a better duvet: it's a better bed. Westin didn't just create a better bed, they successfully branded it 'The Heavenly Bed'. They own it – they own the benefit in customers' eyes – and are actively managing this brand asset extending the brand into The Heavenly Shower, Heavenly Towels, Heavenly Soap and Heavenly Shampoo.

## Relevance

To succeed in today's fast-moving environment, executives must pay attention to the new – and for the most part unfamiliar – attribute of your company's brands: their relevance. A brand may seem strong, commanding trust, esteem and perceived quality, but market share may be slipping. Why? The product category may be fading, being replaced by another.

You can make the best people carrier in the world, and customers may tell their friends about it, but if they want a 4x4 it doesn't matter how much they love your people carrier. If you are primarily known for people carriers, and sub-markets like 4x4s and Hybrids emerge, you have to wonder, am I still relevant?

We spend too much time on brand preference – trying to make sure customers buy our brand rather than a competitor's – and far too little time on ensuring brand relevance. Yet without relevance, preference may not be worthwhile.

We have to spend more time and resources on identifying and making what customers want to buy, especially given the dynamic, shifting and elusive nature of customer segments and needs. We need a sense-and-respond approach to trends, and the insight and analysis capability

to enable that approach. Firms deal with trends differently: some firms neglect them, some respond to them and some drive them. The important thing is to recognise which category you are in and create the systems and processes to manage it.

## Trend neglecters

There are three kinds of trend neglecters. There are the ones that would like to identify, evaluate and respond to trends, but are just not good at it. There are those who take trends for fads. In 1977, Ken Olsen, founder of the minicomputer maker Digital Equipment Corporation, said famously that there is no way that people would ever want a computer in their home. Then there are the 'stick-to-your-knitting' companies, firms that do not stay informed about market trends, believing the recipe for success is to keep on doing things better and better at lower and lower cost.

## Trend responders

These track emerging trends closely and take responsive action to keep their offerings current and relevant. Because neglecting a trend is risky and driving a trend is only an option if you have a superb sense-and-respond mechanism, this is a sound strategy.

An effective trend responder requires two capabilities. The first is to recognise and evaluate trends effectively. The second is the ability to modify, reposition and/or re-brand the organisation's offerings so they remain relevant to the market. The fast-food industry today is a good example of trend response and relevance. The industry is in a frenzied identity crisis as their customers increasingly opt for healthy foods. A new sub-category of healthy fast foods has emerged which is rapidly making traditional fast foods irrelevant to a large number of customers.

## Trend drivers

Finally there are the trend drivers. Do this well, and it's a home run. These companies drive the creation

of new product categories – a terrific capability that very few firms have. IBM was a trend driver during the latter part of the 1990s, creating a new business category with the launch of 'e-Business'. As with other success stories, IBM invested heavily in getting it right from the beginning and spent more than \$1.5 billion communicating the repositioning of the product class. Now it is trying to do the same thing with On-Demand.

## Taking today home

- The objectives of brand portfolio strategy are different from the objectives of brand strategy.
- When you look at your portfolio, look for clarity, not only in the marketplace but also inside your organisation.
- You need focus so you can prioritise your brand building and make brands work in the businesses of the future.
- You want leverage, building brand platforms that can travel across countries and markets with something worth putting into the marketplace.
- You want to use your portfolio to gain energy and differentiation, and that means taking a broad look at your portfolio and thinking of it as including branded programmes, branded features, co-brands, and branded energisers like sponsorships and endorsers.
- You have to be concerned with relevance, maintaining your own while making your competitors less relevant.
- Finally, no successes are created on a whim. They all entail significant investment in understanding customers' needs and purchase cycles, in creating the systems and processes to turn insight into compelling products, and in cultivating the marketing excellence necessary to turn these opportunities into sustainable competitive advantage.

This article is based on the 2004 Brands Lecture delivered by David Aaker. The full text of this lecture and the three preceding lectures by Tim Ambler, Jeremy Bullmore and Rob Malcolm are available free in hard copy or pdf from the British Brands Group (Tel: 07020 934250 Email: [info@britishbrandsgroup.org.uk](mailto:info@britishbrandsgroup.org.uk)).

# Brands, innovation

James Amos, PIMS Associates

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

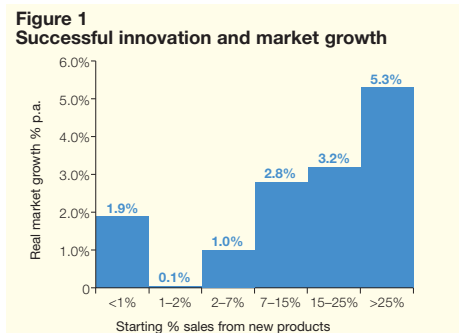
- helping consumers to exercise choice and recognise products in a crowded market place; and
- enabling producers to communicate with end users, and to gain recognition for innovative approaches that meet consumer needs.

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 FMCG<sup>1</sup> 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.

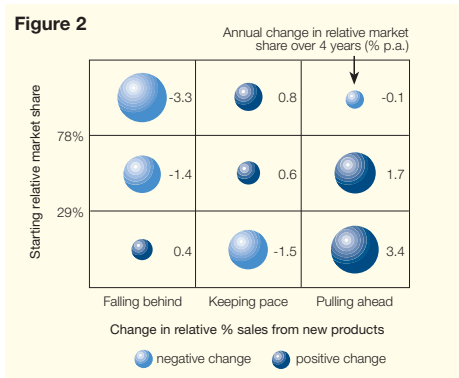
## So, the case for branding

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

<sup>1</sup> Fast Moving Consumer Goods

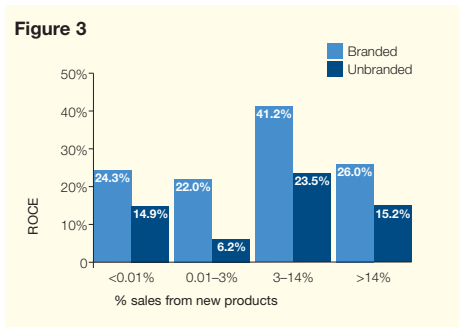
# and growth

– grow better in response to innovation advantage;



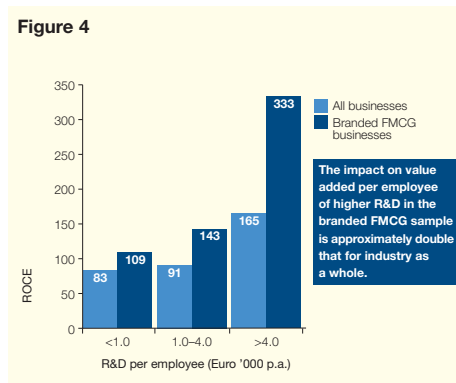
Source: Branded FMCG sample of PIMS Database

– 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

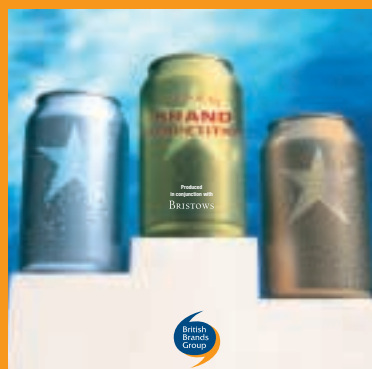
A recent study by the University of Toulouse has produced statistical evidence to confirm the role of brands in creating value. Marketing has often suffered from a lack of the quantifiable measures demanded by Finance to support their arguments on the power of brands but the research centre at the University 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.



# Packaging and trust – a declining relationship

Simon Black, *Design Bridge*

The role of packaging is to communicate the product and the product's functions and benefits, not its weaknesses or any dysfunctional side effects of the product within. The role of the pack as it stands today is to be the bringer of good news, to sell and convince.

At worst packaging can be about power, purveying misleading information to those not in-the-know. So trust or cynicism, two sides of a carefully balanced coin, is key to reinforcing the brand-consumer relationship. Perceived mistrust amongst consumers is likely to result in the feeling that there is 'nothing to believe' anymore.

On-pack claims can be confusing about what is considered 'healthy' and 'less healthy' food as a direct result of the plethora of different and often conflicting messages from brands, the media, and other stimuli, including the many diet plans consumers have either tried, are currently trying or have heard about.

A more comprehensive understanding of products requires an agreed standardised system that everyone understands. However, any new labelling system would only work if it is first standardised and second independently regulated.

## Introducing trust

Some products are perceived as deliberately misleading consumers through packaging design, confusing the emotional role of branding with the rational role of nutritional and ingredient information. Cynicism is a natural corollary of low trust levels and the breakdown of trust between producers and consumers means that whatever attempts are made in the future to address any other issues could be prejudiced by that cynicism.

'Trustworthiness' as a concept is not solely driven by healthy ingredients. You can be trusted and yet provide products that are not necessarily

healthy. The key to trustworthiness is about honesty and clarity of the ingredients and nutritional values of the product.

## Learning not to patronise

Meaningless or patronising words simply add to the confusion for many – it can be very easy to ignore yet another panel of words on the side of a pack of cereal. Ideal solutions from the consumer's perspective are where the nutritional content of the product is treated holistically in an honest and transparent way.

Brands, especially food brands, must offer both an emotional and rational side. Too often rational information is 'glamorised' through marketing spin. The successful brand will be one that adopts emotional codes to engage and build a brand story while using rational codes to explain, express, inform and clarify.

Consumers do not want to feel either patronised or manipulated; they want to feel in control and draw their own conclusions. A brand that produces clearer facts will be seen by consumers as a helpful and clear brand. Consumers want to know the truth but they also want it delivered in an accessible way. An incomprehensible truth is the equivalent to no truth at all.

## Fact or fiction?

Today, the fictional communication codes so necessary in building the story behind a brand have, in the view of many, been manipulated and abused. Consumers are resenting the fact that rational, essential information has been dramatised. The result is an inherent imbalance between truths and half truths. The spirit of the truth is what suffers in the interests of the story.

Consumers can still buy into the idea of

mountains of milk flowing in a chocolate bar because that is about narrating a fantasy story. However they are unwilling to see the rational information, the educational stuff (what is fundamental for their health), treated with the spin and poetic licence of a novel, sexing up what should be black and white.

The risk when dealing with this strategy is that less scrupulous competitors may take market share due to lower quality, lower cost of production or more compelling communications built from spurious 'facts'. This is worrying for brand owners who cannot risk revenue and market share. If they listen to consumers and their desire for more information on the facts – are they to educate them too? Is that a responsibility too far?

The debate will rage for some time yet. As ever the solution will be somewhere in the middle but we need to bring healthy credentials to the fore and relevant for everyone – at the core of the brand.

This article is based on research carried out between November 2003 and February 2004, published in *The Obesity Debate*, available from Design Bridge (0207 418 1125)

## British Brands Group

The British Brands Group represents the interests of brand manufacturers in the UK. Membership comprises companies of all sizes across a wide range of product sectors.

The role of the Group is to build in Britain the optimum climate for brands to deliver choice and value to consumers, through constant innovation and fair competition.

The Group is the UK representative of AIM, the European Brands Association based in Brussels.