The social value of brands

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The fact that brands provide economic value to their corporate owners is widely accepted. What is less clearly understood is the social value provided by brands. Do brands create value for anyone other than their owners? Is the value that they create at the expense of society at large? The ubiquity of global megabrands has made branding the focus of discontent for vocal consumer groups around the world. They see a direct link between brands and such issues as the exploitation of workers in developing countries and the homogenisation of cultures around the world. Furthermore, brands are accused of stifling competition and limiting the virtues of a capitalist system by encouraging monopoly and limiting consumer choice.

The result is a distorted perception of brands that is often contrary to reality. A closer look at the topic reveals that brands create substantial social value and that without brands the world would be both socially and economically a poorer place. In order to assess this social value it is important to define what we mean. This article addresses the subject from three perspectives – the value that brands create for society as a whole, for the individuals that constitute society, and finally for their corporate brand owners.

For society as a whole, the social value of brands materialises in increased competition, improved product performance and the social responsibility of corporations. For the individuals within society, the social value lies in consumer benefits, freedom of choice and freedom of self-expression. For corporate owners the benefit lies in the contribution to shareholder value.

Increased competition

Nearly every definition of brands includes as a key characteristic the fact that they distinguish products and services from one another. Due to their distinctive nature brands are the very instruments of competition. This is particularly true for categories in which functional benefits have become virtually indistinguishable (eg. food, detergents, cars, mobile phone networks, financial products). The competition in many categories is based not so much on functional differences in performance but on emotional aspects and benefits. Brands therefore create competitive differentiation based on a combination of functional and emotional benefits.

In addition, brands create competition by enabling new competitors to enter the market by extending existing brand equities into new categories (e.g. GE, Virgin, Powergen, Caterpillar, Ralph Lauren). Brands create value by obviating the need to compete on price or to over-invest in marketing. They represent a source of sustainable competitive advantage which imparts flexibility to firms, enabling them to respond to new opportunities and to adjust to changing market situations. The IBM brand was crucial in allowing the company to shift its business focus from hardware to software and consulting. Companies like Nokia and GE have used their brand in a similar way to sustain their competitive advantage.

Brands increase competition by creating markets with a wider offer of products and services. It is not by accident that the most competitive markets are those in which brands are heavily promoted and the long-term impact on overall value creation is evident. The OECD economies represent the most competitive marketplace with consistently the highest level of GDP growth and productivity. In those developing countries which adopted a strong branding culture (eg. Mexico, China, Malaysia, India, Brazil), GDP per capita increased by an average of 29% between 1980 and 1997 while inflation dropped from around 17% to 8%. In contrast, those countries that chose to be less open to branding and the competition it creates failed to rise in the global living standards rankings.

Product development

Competition on the basis of performance as well as price, which is the nature of brand competition, fosters product development and improvement. Furthermore, brands enable product improvements to be quickly communicated and considered by consumers. This leads to a continuous product improvement process.

In the car market, for example, fierce brand competition has led to a dramatic improvement in the average car quality. Prominent executives in the automotive industry admit that there are no really bad cars sold in developed markets. Such product improvements are a direct result of competing brands and communication that guides consumers quickly to new benefits.

Companies that promote brands tend to be the most innovative in their categories. A study by PIMS Europe for the European Brands Association revealed that less-branded businesses launch fewer products, invest significantly less in development and have fewer product advantages than their branded counterparts. Almost half of the 'non-branded' sample researched spent nothing on product R&D compared to less than a quarter of the 'branded' sample. In addition, while 26% of non-branded producers never introduced significant new products, this figure was far lower at 7% for the branded set.

Brands promote increased investments in R&D and product development which, in turn, leads to an overall improvement in product quality and a virtuous upward spiral of continuous product development in the market.

Social responsibility

Brands are accountable to consumers, both for the quality and performance of their products and services and for the ethical practices of their owners. Given the direct link between brand value and both sales and share price, the potential costs of behaving unethically far outweigh any benefit, and outweigh the monitoring costs associated with an ethical business.

Much of the focus on unethical business practices has fallen on apparel suppliers such as Gap or oil companies such as Exxon and Shell. The reason for this is not because unethical behaviour is limited to these industries but because these brands are so high-profile. Interestingly, those brands which have been singled out for abuse are the very same brands that have been pioneering the use of voluntary codes of conduct and internal monitoring systems. This is not to say that these brands have successfully eradicated unethical business practices in their entirety, but at the very least we can credit them with the will to fix the problem, even if they currently lack the capacity to control every supplier in every country.

While it is easy to dismiss the rush towards social accountability as little more than a PR exercise, there are few places to hide from public scrutiny. At the same time as brands have become more global, information has also become more global – what the World Bank has coined 'globalisation from below'. Employees, factory managers, NGOs and consumers are all far more capable of sharing information and co-ordinating protest on a global scale.

The more honest companies are in admitting the gap they have to bridge in terms of ethical behaviour, the more credible they will seem. Nike for instance now posts results of external audits and interviews with factory workers at www.nikebiz.com. The concern is understandable once one considers that a 5% drop in sales could result in a loss of brand value exceeding a billion dollars. It is clearly in the economic interests of multinational companies to behave ethically. Without brands it would certainly be difficult to identify specific culprits but it would also be difficult to effect a change in behaviour.

Consumer benefit

In addition to creating value for society as a whole, brands create significant value for the individuals that constitute society. The benefits of ever-improving performance, diversit, and guaranteed quality (which takes much of the risk out of purchasing decisions) have already been mentioned. However, even the simple task of choosing between competing offers would be nigh impossible without brands.

Without brands and their inherent differentiation, consumers would have to spend significant portions of their lives testing and identifying products that meet their specific needs, be it a detergent, food, computers, mobile phone or cars. If they choose the easiest available offer they may end up with an inferior product or service.

The economic cost of this additional time and the choice of inferior products is hard to assess but even most conservative estimates would result in a substantial deterioration in the quality of life for everyone. Just one additional hour a week spent on choosing products and services would amount to opportunity costs in the UK of over £13.5 billion a year.

It is also important not to underestimate the role of brands in emotionally enhancing the consumption of products and services. Many brands help consumers in their search for self-definition and expression. From self-pampering to external display of status, brands provide consumers with important emotional benefits beyond communicating the functionality of the product and service. Many personal care, snack and luxury brands meet such emotional needs.

Shareholder value

Perhaps not surprisingly, the contribution of brands to shareholder value has been the main focus of the debate on their economic value. Today few doubt that brands create value for their owners. Brands represent a relationship of trust between suppliers of goods and services and their customers which results in a security of demand that suppliers would not otherwise enjoy. This security of demand results in a security of future revenues and cash flows from the brand asset. In addition, brands can reduce operating costs by motivating employees to achieve increased productivity, less waste and lower staff turnover.

The significance of brand value to shareholder value has been demonstrated by Interbrand's long-term study of the 100 most valuable global brands. According to the last study published in July 2002, brand value accounted for an average of 38% of the total value of the companies that own them. The total value of the top 100 brands amounted to US$ 977 billion – 69% of UK GDP, 10% of US GDP, and more than the combined GDP of the Netherlands, Belgium, Luxembourg and Switzerland.

Summary

The arguments and statistics laid out in this article show that brands create substantial social value. They increase competition by providing consumers with a wider choice of products and services. Branded companies invest more in R&D and product development, establishing a virtuous upward spiral of continuous product improvement. Brands force companies to adopt ethical practices around the world while consumers gain from a wider range of choice and better performance. The value of brands extends well beyond the companies that own them.

OFT reviews supermarket code

One year on from the introduction of the Office of Fair Trading's Code of Practice on supermarket dealings with suppliers, the OFT has written to suppliers' organisations seeking information on the Code's effectiveness. The deadline for comments was the end of March. It is understood that no cases have been taken to mediation since the Code's launch.