

Are we about to witness a branding revolution?

By

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Coca-Cola is probably the world's leading brand, sold everywhere from Kangar, Perlis to Kingston, Jamaica.

How Coca-Cola grew from a small drugstore in Atlanta to a global branding powerhouse is legendary. It was initially sold not as a soft drink for thirst but as a "brain and nerve tonic." In its first year in 1886, advertising costs totaled US\$74 while sales only totaled US\$50, symbolizing the firm's future long-term reliance on TV and other advertising. Today, Coca-Cola spends more than US\$2 billion on advertising worldwide and the drink can be easily purchased by more than 5 billion people.

In many ways, every Malaysian company wants a brand like Coca-Cola. Worldwide distribution. A brand recognized by 94% of the world's population. Millions and millions of dollars of profits selling what appears to be no more than water, sugar and bubbles.

Yet despite its well-deserved success, Coca-Cola today is the wrong branding model for Malaysian companies. Malaysian companies need to recognize that Coca-Cola achieved its success in a mass economy that no longer exists.

Nevertheless, It is critically important for Malaysian Companies' to brand. The important strategic and other advantages of branding are well known. Brands shorten the sales cycle. They facilitate the sale of other corporate products. They provide an obstacle to competition. And they support higher prices.

But what is a brand?

There are probably as many definitions of branding as there are advertising and public relations agencies in the world. Most are based on the success of American brands after World War II. Here's one that is right for Malaysia today and in the future.

"A brand is a profitable long-term bond between an offering and a purchaser based on trust and loyalty. A brand does not result from the first purchase of an offering but rather the second, third, fourth and lifetime purchases."

When discussing branding, it is critical not to underestimate the importance of profitability. That may be stating the obvious, yet so many branding plans focus on advertising and PR (public relations) spending. But without profitability, no product can become a brand, and no brand can survive. So many companies also focus on that first sale. But in the U.S., more than two-thirds of products are bought just once, with no follow-up purchase. Unless we can get customers to buy from us again and again, we cannot brand.

Coca-Cola, Marlboro, Ford and so on, represent mass-economy brands. These Western brands were successful because they shrewdly used the tools of the mass economy. They advertised repeatedly in the mass media of one, two or three TV stations, one or two newspapers and knew where consumers were most of the time as there were few leisure time activities to take them away from the home. They also used mass production to achieve economies of scale, and they used distribution to penetrate mass markets. Competition was limited. Customer retention didn't really matter. Markets were growing so fast, and the mass-economy tools were so powerful, that it is was fairly easy to acquire a new customer for everyone that was lost.

But today, the mass economy is dead. The mass economy was killed by the fragmentation of the media, new leisure time activities, the Internet, increasing power of retailers, marketing segmentation and other forces. In its place, we now have the "Customer Economy." Companies no longer have the exclusivity to make the rules and control information by "positioning" products or promoting "brand equity" through advertising and PR like they did in the mass economy.

Now, the balance of power has shifted from the seller to the buyer. Customers are beginning to demand business be done on their terms, and they have more and more influence over the design and manufacture of products to meet their requirements. In the customer economy, companies playing by mass-economy rules are going to do more than lose they game. They are not even going to be given the chance to compete.

Even the biggest brands now understand this. Bill Lamar, Jr., senior vice president of marketing at McDonald's, says, "Reaching

our consumer targets is no longer TV-driven. The days of spending hundreds of millions of dollars on TV advertising are over."

So if mass-economy tactics no longer work in the customer economy, what does?

There are three new imperatives for branding in the customer economy.

The first is everyday operational excellence. Sales & marketing growth and increased awareness are fine, but what companies really want from a branding campaign are profitability and growth. Everyday operational excellence requires a continuing commitment to quality, as well as processes that are effective from the customer's point of view and advanced supply chain skills.

The second is customer equity. Essentially, customer equity represents the lifetime value (LTV) of customers. Knowing customer equity lets you know which customers are profitable or unprofitable – important since about 15% of an organization's customers are unprofitable. It lets you allocate resources according to profitability. The 20% of customers who likely generate 80% of your profits get the best sales and service, while unprofitable customers can be encouraged to buy more, uses fewer corporate services or even be sent to the competition. Perhaps most important, customer equity focuses an organization on retention. Surely it makes little sense to continually spend money to bring customers in the front door if profitable customers are leaving unnoticed out the back door?

Customer equity also supports customer recovery and ambassador programmes.

Customer equity is the most vital branding skill companies can learn in the customer economy. Calculating brand equity is easy. Yet it is amazing how many companies waste time on the useless, mass-economy task of calculating "brand equity" instead of concentrating on retention, customer equity and profitability.

The third is measurement and accountability. In the mass economy, marketing had little or no accountability. Advertising and PR agencies pushed "awareness" or "creativity," but those are not measurements that can stand up to any statistical analysis. Today,

measurement and accountability – from the customer's perspective – is absolutely vital.

On one hand, the historic shift from the mass economy to the customer economy means that there is no longer a model to follow. Once Malaysian companies, if they had the resources, could have relied on extensive advertising, PR and promotion to establish a brand. Today, however, that mass-economy strategy is just a formula for wasting time, money and resources.

On the other hand, the shift to a customer economy represents a tremendous opportunity. Malaysian companies do not have the legacy of old promotional habits or dated mass-economy views of customers as being there only to buy what is produced.

But perhaps most critically, Malaysian companies are already doing the difficult part – the manufacturing! Malaysian firms already produce computer components for Apple, Intel and so on. Clothing for Ralph Lauren, The Gap. Aircraft components for Boeing.

As a result, Malaysia stands on the brink of a branding revolution for three reasons. First, the government and corporate executives are recognizing that branding is a strategic long-term necessity for success. This is best symbolized by the government's Branding Promotion grant of RM200 million. Moreover, with China's entry into the World Trade Organization (WTO), Malaysian companies can no longer get by just being the cheapest offering. Second, Malaysian companies now have excellent manufacturing, better logistical and technological skills. This is the result from years of supplying Western brands with quality components. With these essential skills, it is not difficult to follow in the footsteps of Japanese and Korean companies to establish well-known business and consumer brands. It also enables greater profitability.

Mainland Chinese companies are aware of this. Wei-rong Chen, Konka's Managing Director, points out: "We worked very hard as a contract manufacturer for eight years, and we realized we had no money, nothing to show for it. It was like sewing a wedding dress for someone else's wedding." So now Konka has established its own brand in the U.S.

This greater profitability is key for the necessary investments in operational excellence. Other key areas of a successful brand in the customer economy include research & development, data management, customer support, rapid fulfillment and other elements. Such investments can pay off substantially. According to Michigan State Business School in the U.S., every \$1 invested in traditional marketing earns \$5. However, for every \$1 invested in operational excellence, revenue is about \$60.

Finally, Malaysian companies are beginning to appreciate that huge spending on advertising and promotion doesn't build a brand the way it used to. A recent survey by Willard Bishop Consulting in the USA found that in 1995, it took three TV commercials to reach 80% of 18-to-49-year old women. In 2000, a mere 5 years later, it took 97 ads to reach the same group. Acer, a Taiwanese computer maker, spent about \$1 billion over the past decade to promote its name worldwide. It recently abandoned the U.S. retail market because of mounting losses.

Branding is critically important to Malaysia's economic development. Malaysian brands known for quality, service and value are not only needed to keep foreign brands at bay in domestic markets, but also critical for profitable growth in Western markets. But branding has to be done according to the imperatives of the customer economy. It is no longer enough to advertise the cheapest price and call it "branding." For long-term success and profitability, branding must be based on everyday operational excellence, customer equity and accountability.

Coca-Cola had billions of dollars and more than 100 years to establish its brand. Unfortunately, Malaysian companies don't have those resources or that amount of time. That's why the time to start customer-economy branding is now.