

Brands & CEOs





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He is also an experienced expert witness in international commercial, tax and competition cases and has been involved in two successful business start-ups: the online market research company Research Now (sold to e-Rewards in 2009) and the online brand community specialist Verve.

Brands & CEOs

The Brands Lecture
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Professor Patrick Barwise
London Business School

I hope you like the title, Brands and CEOs. Everyone here is interested in brands and, love them or hate them, you can't ignore CEOs.

Most of you work in marketing. I won't be saying much about functional marketing (advertising, promotion and so on) but I will be talking about marketing's wider organisational role, especially in driving the marketing concept. We also have IP lawyers in the audience so I will touch on brands as IP.

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I will start by laying out the ground, defining a few terms and introducing key ideas like brand equity and the marketing concept that underpin everything else. I will then talk about how brands and marketing relate to the three dimensions of the CEO's world: strategy and execution, finance, and organisation. Finally, I will offer some suggestions that I hope will be helpful in your day jobs.

As so often, there is a relevant quote from Jeremy Bullmore. This one is from the second Brands Lecture in 2001:

"When CEOs try to think about brands, their brains hurt."

So the first thing to do is to be crystal clear about what we mean by brands and why they matter. There are three valid but categorically different meanings of the word "brand":

- the first is easy. If I ask you which brand you bought, the answer will be a specific named product or service such as a can of Coke;
- the second is also pretty obvious. It is the brand name and other intellectual property;



- the key one is the third meaning, brand equity. It is brand equity that makes CEOs' brains hurt.

If Coke has a new product that looks or tastes different from Coca-Cola, the question may be about which trade mark to use but the answer will depend on the fit between the new product and the existing brand equity. A "bare" trade mark with no associated brand equity has little if any value.

Brand equity

If you can be really clear on the distinctions between these three meanings of "brand", you may be able to reduce your CEO's headache! This lecture is really about brand equity and CEOs.

My definition of (customer-based) brand equity is customers' - and some others' - awareness of, and beliefs, feelings, associations and expectations about, products and services sold under a particular trade mark and the company that supplies them. It resides in long-term semantic memory and can to an extent be measured today. The reason why it matters is that it influences future

brand choice and willingness to pay for the same and other products and services sold under the same trade mark and/or by the same company.

Brands create customer value because they simplify purchasing, incentivise companies to keep investing in quality and innovation, and sometimes add emotional value in their own right. The fact that brand equity today influences customers' purchases in the future is why it is a valuable asset. Despite the brain pain, CEOs and CFOs get this, even if they are unsure about exactly what it means and the practical implications.

One piece of evidence that CEOs understand the value of brand equity is that, other things being equal, executive remuneration is *lower* in companies with strong brands. The study behind this was published late last year by my colleagues Nader Tavassoli and Rajesh Chandy, with Alina Sorescu at Texas A&M University¹.

It does not mean that executives have a financial incentive to reduce brand equity but it does mean that, to attract and retain executives, firms with strong brands don't have to pay as much as firms with weak brands. This is because people identify with the company and its brands and because working on a strong brand is generally better for their reputations and future career prospects.

The effect is biggest for CEOs (who identify most strongly with the brand) but is also stronger for younger top managers who have less clearly defined identities and more of their careers ahead of them. There is also a wider lesson here about the value of employee-based brand equity, a big and under-researched topic in its own right.

Meanwhile, these results are tangible evidence that CEOs do understand the value of brand equity.

How is customer-based brand equity created?

The usual main mechanism is customers' own, and trusted others', previous experience of buying and using products and services sold under the same brand name by the same company. The most trusted others are close family, friends and colleagues, plus some trusted third parties - including Which?. Other sources include social media and sites like TripAdvisor, although these are often seen as a bit less trustworthy.

Brand equity can be reinforced by brand communications but customer experience is usually much more important.

The challenge for marketers is that most of the people who determine the quality of customer experience don't report to marketing, especially in service businesses. Building brand equity is therefore mostly about marketers' ability to engage and influence the rest of the company, supplemented by the activities they themselves control. However, the balance varies a lot between categories and even brands.

Consider Grey Goose and Accenture

Grey Goose comprises ethanol (C₂H₅OH, a commodity), water (H₂O, another commodity), trade marketing and distribution (not a commodity but quite close to one for firms with the right resources) and branding. Grey Goose's brand equity, created by its brilliant branding and advertising, is its only really valuable asset and the

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¹ Nader T. Tavassoli, Alina Sorescu and Rajesh Chandy, 'Employee-Based Brand Equity: Why Firms with Strong Brands Pay Their Executives Less', *Journal of Marketing Research*, 51, 6 (December 2014), pp 676-690.

What do Grey Goose and Accenture, and most companies, have in common? It is that brand equity accounts for a significant proportion of company value.

main reason why Bacardi paid \$2.2 billion for it in 2004, just 8 years after Sidney Frank created it out of thin air.

When Andersen Consulting split from Arthur Andersen it agreed to stop using the Andersen brand name. Its brand equity had been built over time by both companies. Unlike Grey Goose, its brand communications had had only a minor supporting role. In rebranding in 2000, it aimed to retain this brand equity and refresh it a bit. As usual, the new name was much mocked, especially the accent over the "t", but after a few months the mockery stopped. Then when Arthur Andersen got into trouble over Enron in 2002, Accenture dodged a nasty bullet.

In line with these differences in what creates brand equity, marketing has a fairly minor supporting role in professional services but a dominant role for some consumer products.

What do Grey Goose and Accenture, and most companies, have in common? It is that brand equity accounts for a significant proportion of company value, higher for Grey Goose but significant for both.

So the CEO and CFO should be interested, provided we tackle their confusions and concerns.

Marketing

We also need to clarify the two definitions of marketing.

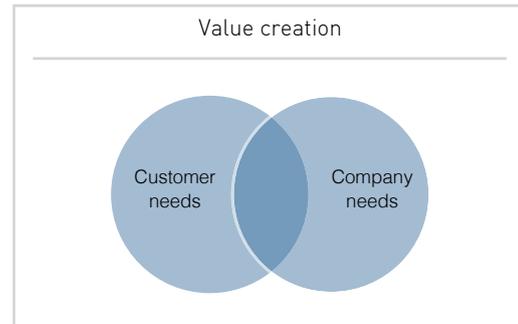
One definition of physics is "it's what physicists do" and the equivalent is also true of marketing. One thing marketers definitely do is spend the

marketing budget. That defines what they directly control. It refers to functional marketing activities like market research, brand communications and promotion. But marketers also help implement the **marketing concept**, the idea that, in the long term, firms succeed by profitably (a key word) meeting customers' needs better than the competition.

It is now over 60 years since Peter Drucker first proposed the marketing concept:

"Marketing is not a specialised business activity ... it is the whole enterprise seen from the customer's point of view."²

Every CEO can recite it, perhaps even word for word, but, as I will discuss later, it has proved much easier to say than to do. It is about maximising the overlap between customers' needs and the company's needs, especially as seen by the CEO.



If you ask marketers about their customers' top three needs, they should be able to give you a clear answer with little effort (if they can't, you have a big problem). But if you ask them, "What are the CEO's top three issues?", most will struggle. One message I would like you to take from this lecture is that increasing marketers' understanding of

² Peter Drucker, *The Practice of Management*, [1954]

what matters most to the CEO is almost bound to be helpful in setting marketing priorities.

It may also help increase marketing's influence. The evidence on whether marketing is really becoming less influential is mixed, but – encouragingly – there does seem to be evidence that an influential marketing department tends to increase company performance.³

What matters to CEOs and customers?

So, what matters to CEOs? The answer is lots of things across three different dimensions:

- **strategy** – essentially marketing strategy (what are we planning to sell to whom and how) and **execution** (is it happening as we planned?);
- **finance** – both investment and performance. In both cases it is about expected or actual revenues versus costs; and
- **organisation** – almost every CEO wants the company to become more customer-focused, innovative and agile, while delivering reliably and reducing costs continuously.

Across all three dimensions, board discussions are a mixture of ex ante (based on expectations) and ex post (based on results). Strategy, investment and innovation are mainly ex ante. Execution, financial performance and delivery are mostly ex post. One reason why finance is easier but less interesting than marketing is that it is all either ex post or uses other people's ex ante numbers. If these turn out to be wrong it is the other person's fault.

Strategy and execution

Despite the importance of meeting the company's needs, strategy and execution are obviously also about meeting customers' needs.

Simply Better is a book on this that I wrote with Seán Meehan, the first non-US book to win the American Marketing Association's annual book prize⁴. Partly based on Andrew Ehrenberg's research on patterns of brand choice, it challenged conventional marketing wisdom by arguing that marketers' obsession with differentiating the brand from the competition can distract companies from focusing on customer needs.

In reality, customers rarely buy a product or service because it offers something unique. Instead, they usually buy the product that they expect will meet their basic needs from the category a bit better or more conveniently than the competition. In other words, what customers want is simply better, not more differentiated, products and services.

Let me illustrate. Volvo is a textbook well-differentiated brand. Everyone knows Volvo cars are safe. If I asked a conference of dentists in Sydney, "What do you associate with Volvo?" they would all mention safety. Of course Volvo has lots of other brand associations but the attribute it "owns" is safety. That is worth something and Volvo is a valuable brand.

But Toyota is a much more valuable brand, despite being much less well differentiated. Of course we

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³ Christian Homburg, Arnd Vomberg, Margit Enke and Phillipp H. Grimm, 'The Loss of the Marketing Department's Influence: Is It Really Happening? And Why Worry?', *Journal of the Academy of Marketing Science*, 43, 1 (2015), pp 1-12. Hui Feng, Neil A Morgan and Lopo L Rego, 'Marketing Department Power and Firm Performance', *Journal of Marketing*, 79 (September 2015), pp 1-20.

⁴ Patrick Barwise and Seán Meehan, *Simply Better: Winning and Keeping Customers by Delivering What Matters Most*. Harvard Business School Press, 2004

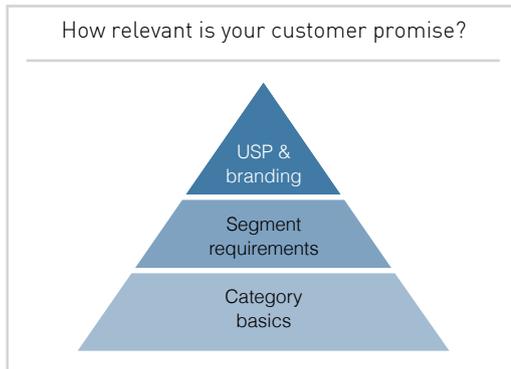
We are tempted to see the category benefits as mere table stakes or hygiene factors, not a source of differentiation.

all know that it's reliable and Japanese - but so is Honda; and despite the slogan "Get the feeling", Toyota is not an emotive brand. Janis Joplin didn't sing, "Oh Lord, won't you buy me a Toyota?". But even after a few setbacks in recent years, it remains the most valuable car brand on the planet while Volvo is 19th.⁵

I will come back to Toyota and brand valuation a bit later but for now what is clear is that Toyota is less well differentiated than Volvo but much more valuable.

This brings us back to what matters to customers. As marketers, we tend to focus on what differentiates our brand from the competition: its unique features and benefits and its branding and brand communications. We are tempted to see the category benefits as mere table stakes or hygiene factors, not a source of differentiation: a problem for operations people less creative and interesting than us.

But that is not how customers see things. What matters most to them is getting the category basics reliably and with as little effort as possible.



⁵ Brand Finance, Global 500 2015

Mr Roberts's B&Q kitchen

Sport sponsorship can be risky. Perhaps the person being sponsored fails to perform, or perhaps they succeed but turn out to be on drugs or cheating on their spouse or a horrible person in interviews. B&Q sponsored Ellen MacArthur and she passed all the tests. She was a very good sailor, breaking the world record for the fastest solo circumnavigation of the globe. She had excellent values and everybody loved her. And the boat was called B&Q, so the brand association was really strong.

Ellen's triumphant return achieved ecstatic media coverage. Sport sponsorship doesn't get much better than this. Then B&Q received this letter:

Dear Sir or Madam,

My congratulations to you on getting a yacht to leave the UK on 28th November 2004, sail 27,354 miles around the world and arrive back 72 days later.

Could you please let me know when the kitchen I ordered 96 days ago will be arriving from your warehouse 13 miles away?

Yours sincerely,

John Roberts

If B&Q had delivered Mr Roberts's kitchen on time, he would have been proud and delighted to be associated with Ellen's triumph and told all his friends and family about it. But he was not prepared to trade off the frustration of not having his new kitchen against the warm glow generated by B&Q's successful sponsorship.

The idea that the basics are just commodity table stakes is dangerous nonsense. In 2004 a McKinsey study with the Better Business Bureau found that in mobile - which was by then a maturing market, not a new, Wild West one - the worst carrier received 5.7 times as many complaints per million subscribers as the best. This is not a 20 or 30 percent difference, it is a huge difference. And if people took the trouble to complain to a Better Business Bureau, they were pretty darned angry and quite likely to tell a lot of other people too.

One company that totally gets "simply better" is Apple, now the most valuable company in the world with \$46 billion free cash flow last year. This is a quote from its British chief designer Sir Jonathan Ive:

"Our goals are very simple, to design and make better products. If we can't make something that is better, we won't do it.

Most of our competitors are interested in doing something different or want to appear new. I think those are completely the wrong goals.

It's not about price or a bizarre marketing goal to appear different - they are corporate goals with scant regard for people who use the product."

Note that he singles out marketers for distracting companies from focusing on what matters to customers!

I promised to return to Toyota

Another McKinsey study shows why it is such a valuable brand despite its lack of clear differentiation. In a rare moment of good sense,

General Motors set up a factory on a green-field site in California in a joint venture with Toyota, probably the world's best manufacturer. At the time of the study, the plant made just one type of car, a compact sold as either a Toyota Corolla or a Chevrolet Prizm.

GM was spending \$750 more per car on promotion than Toyota but the Toyota was outselling the Prizm by four to one and kept its price premium in the second-hand market. The brand was the only difference between the two products.

Why was, and is, Toyota a stronger brand than Chevrolet, even in Chevrolet's US home market? I don't have any data but my hunch is simply that over many years customers have found that Toyota makes reliable cars that get you from A to B in good comfort, at reasonable cost and with generally good after-sales service. Their experience with Chevrolet has been more mixed.

In other words Toyota has been simply better at providing what most, but not all, car buyers want: the basics. Crucially, customers remember this and tell each other. That's brand equity. Of course the basics are not everything. Functional marketing is always important and in some cases, like Grey Goose, the main driver of company value. Because of digital, social and mobile, data analytics and all that, functional marketing has never been so complex, fast-changing, challenging and interesting. But for most companies, it is the rest of the pyramid that matters most to customers - and therefore to long-term value creation and the CEO.

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Finance

Let's turn to the second dimension of the CEO's world, finance.

Ideally, we would evaluate marketing by measuring its impact on short-term performance and adding the increase (or subtracting the decrease) in brand value. This would give a holistic picture and discourage short-termism. The trouble is that, for fundamental reasons, brand valuation is not reliable enough to enable us to do this.

In the late '80s companies started putting brand valuations onto their balance sheets using a range of methods and assumptions. The Institute of Chartered Accountants in England and Wales asked London Business School to study what was happening and say if we thought it was OK⁶.

Our short answer was "no". This is because brand equity is not tradeable and does not have a market price and, even with the most rigorous methodology, assigning a financial value to it involves subjective judgement as I shall explain shortly.

The slightly longer answer is that it depends on what you consider to be the purpose of the balance sheet. This turns out to be a contested and, by accounting standards, emotive question.

The third answer is that it doesn't matter, because grown-up investors know that the balance sheet says almost nothing about the economic value of the business so they largely ignore it.

This arcane UK debate 25 years ago had some good consequences: it forced some of us to become much clearer about the nature of brands; London became and remains the leading global centre of expertise on brand valuation; and it contributed to the growing awareness among CEOs and CFOs of the importance of brands.

So what's the problem?

Here are the latest top car brand valuations from the three main valuation companies. There is a clear correlation between them of around 0.7 across all categories, not just cars.

Top car brands valuations 2015 (\$bn)

	Brand finance (Feb)	BrandZ (May)	Interbrand (Oct)
Toyota	35.0	28.9	49.0
BMW	33.1	26.3	37.2
VW	31.0	(<11.0)	12.5*
Mercedes	27.3	21.8	36.7
Honda	22.4	13.3	23.0
Ford	20.3	13.1	11.6
Total in top 100 global brands	7	6	14

*-9% Y-on-Y

At the same time, there are many differences. The biggest are for VW and not just because of the emissions test scandal which happened in September, after the Brand Finance and BrandZ valuations but before Interbrand's. In fact, Interbrand's October 2015 valuation of \$12.5 billion was down only 9% year-on-year. So the scandal accounts for hardly any of the difference between it and Brand Finance's \$31 billion valuation in

⁶ Patrick Barwise, Chris Higson, Andrew Likierman and Paul Marsh, *Accounting for Brands*, London: Institute of Chartered Accountants in England and Wales, 1989

February. BrandZ did not even feature VW among its top 100 global brands. All we know is that its valuation would be less than \$11 billion, the estimate for Scotiabank ranked at 100.

Finally, the bottom row shows the number of car brands in each company's top 100 brands. Here it is Interbrand that is the outlier.

None of this is a criticism of the valuation companies. Of course they use slightly different approaches but, even if they didn't, their estimates would vary because brand valuation inherently involves judgement. This brings us back to what would be involved in trying to use it to supplement the short-term financials in assessing marketing performance.

In order to use brand value as a metric, we would need estimates of it before and after the time period being evaluated.

Brand value as a metric

1. Estimate profit or cash flow attributable to the brand at time T1
2. Convert this into a valuation at time T1 (BV1)
3. Repeat Step 1 at time T2
4. Repeat Step 2 at time T2 (BV2)
5. Increase in brand value is BV2 minus BV1

For the brand value at time T1, we would first estimate the proportion of the company's profit or cash flow attributable to the brand. In other words, how much lower would the company's profit or cash flow be if it did not own the trade mark? In this case, it either would not benefit from the

brand equity associated with the trade mark (which raises the question of what it would do instead) or it would have to pay someone else a royalty to use the trade mark and benefit from the brand equity.

Step 2 is to turn this incremental profit or cash flow into a valuation at time T1.

Suppose we are working with profit not cash flow. In that case, Step 2 involves multiplying the profit attributable to the brand by a number that in principle reflects four things at time T1: the strength of the brand; the expected future growth of the category; the expected level of future competition; and how the financial markets are currently valuing the earnings of comparable businesses, reflected in the P/E ratio for the industry.

We then go through the same steps at time T2 and the increase in brand value is the difference between our two estimates.

It should be clear that all this involves a lot of informed judgment. Some reasons why BV2 differs from BV1 may have nothing to do with changes in the strength of the brand. For instance, industry P/E ratios might have fallen or a new competitor appeared.

The bottom line is that changes in brand valuations are not a good measure of marketing performance except perhaps over long time periods like at least five or ten years. So, as a marketer, what can you do?

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Develop a set of metrics for brand equity and all marketing activities, but not too many.

Practical implications for marketers

First, the process of brand valuation can be a helpful discipline and a source of learning, provided you don't take the single number that emerges as some kind of absolute truth.

Secondly, make sure that you and your team all understand basic finance and accounting, enough to be on top of the key concepts and to be able to read and interpret the numbers.

If you stick to the basics it really is not that difficult and, in my view, it is much more interesting than most marketers think. It is also really important. Finance is the universal language of business and financial numbers loom large in the minds of CEOs and other top managers. There are lots of good courses on finance for non-financial managers. Just do it. This is an easy win.

Thirdly, develop a set of metrics for brand equity and all marketing activities, but not too many. Unsophisticated companies rely on financial and operational numbers with no marketing metrics; moderately sophisticated companies have too many metrics; the best have fewer, simpler metrics and share them widely.

I may be biased but the best book I know on marketing metrics is *Marketing and the Bottom Line* by my colleague Tim Ambler who started as an accountant before he saw the light and became a top marketer at IDV, hence the most famous of IDV's Smirnoff ads.⁷



For metrics for specific campaigns, I suggest you read some of the IPA marketing effectiveness cases. They tend to be for big consumer brands and usually include TV, but the evidence-based mindset is relevant to every brand, large or small, B2B or B2C.

Finally, don't treat finance as the enemy. Work with them. They have a lot of power and are seen by the CEO as more credible than marketing. And they are not stupid. They know that some things are more measurable than others.

Counterfactuals

Financial evaluation often involves counterfactuals, at least implicitly. For instance, the standard way to evaluate an investment decision is net present

⁷ Tim Ambler, *Marketing and the Bottom Line: The Marketing Metrics to Pump Up Cash Flow*. Prentice Hall, 2003

value. The basic concept could not be simpler: it is the difference in the value of the company with versus without the investment.

Both of these are based on counterfactuals (neither scenario has happened yet) and both involve a lot of assumptions and uncertainty. Fortunately, to estimate the NPV, the only thing that matters is the difference between them, which gets rid of those assumptions and uncertainties that are not related to the investment.

The scenario without the investment is unlikely to be a continuation of the status quo. Especially for a strategic investment, the chances are that, without it, the brand's market position will weaken over time because the competition will not stand still.⁹

As marketers, you can help flesh out this scenario, for which your finance colleagues and the CEO will be somewhat surprised but also extremely grateful.

As I have discussed, brand valuation involves very similar principles. The brand value is the value of the company with versus without ownership of the trade mark.

Even ex post, correctly evaluating a sales promotion also involves a counterfactual, which is what the brand's profit contribution would have been during the period of the promotion (and afterwards, to allow for purchase acceleration) if you hadn't run it.

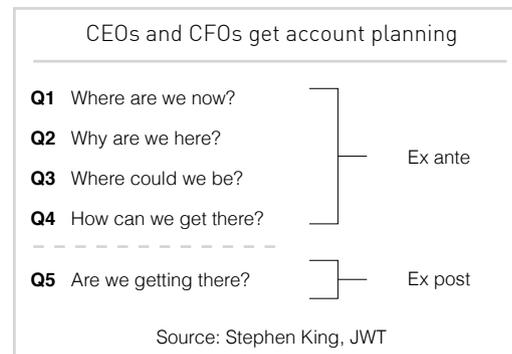
To do this validly, you need a good way of modelling the counterfactual and of estimating the true incremental cost of the promotion, allowing for the disruption to production and the supply chain.

That again means working with both finance and operations.

Finally, this assumes that the promotion has no impact on brand equity. For a new brand, the impact may be positive, by increasing awareness and trial. For an established brand, it is more likely to be negative.

Marketers often feel that they are misunderstood and that the CEO and CFO are short-termist and don't get marketing. I think that is overstated. For instance, if you have a reasonably structured account planning process and you take them through your thinking and evidence (consumer research, etc.), they will probably get it.

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This is Stephen King's classic five steps framework, developed at JWT London in the 1960s. Question 2, "Why are we here?", is a key one that forces you to dig deeply into the data. Every successful IPA case does this in some form.

Question 4 is the creative bit, leading into the strategy or campaign to get you where you want to be. If possible you should build the metrics in

⁹ Patrick Barwise, Paul Marsh and Robin Wensley, Must Finance and Strategy Clash?, *Harvard Business Review*, Sept-Oct 1989, 85-90.

One reason why marketing is so interesting is its hybrid nature. Of course it is about creativity but it also needs to be disciplined. The CEO and CFO know that you are creative but you need to show them that you are also disciplined. The best way to do that is to develop shared understanding, language and metrics with finance. This is more about attitude and behaviour than specific techniques.

at that point to help you judge the results later when you address Question 5. Questions 2 and 5 are the ones most likely to be skipped or skimped because they are difficult, but they are essential in a learning organisation.

One reason why marketing is so interesting is its hybrid nature. Of course it is about creativity but it also needs to be disciplined. The CEO and CFO know that you are creative but you need to show them that you are also disciplined. The best way to do that is to develop shared understanding, language and metrics with finance. This is more about attitude and behaviour than specific techniques.

Organisation

Finally, organisation, the CEO's third perspective. I will briefly discuss why the marketing concept, which everyone understands and agrees with, has proved so hard to implement. I will then give you a simple framework for putting it into practice, followed by a bit about the role of marketing within the organisation.

There are lots of reasons why the marketing concept has proved so hard to implement. Thinking about other people's problems, as opposed to one's own, is somewhat against human nature, especially for some people. It can be hard to know what customers want, particularly for radical innovations that take them well beyond what they are used to.

There is relentless time pressure, which makes it hard to get things right, and relentless cost pressure, which makes it a constant challenge

to maintain a high-quality customer experience. There is the obsession with USPs, gimmicks, fads and fashions that tend to make products and services more complicated than most customers want. That's what we addressed in *Simply Better*.

Relatedly, it is always easier to add features and benefits than to eliminate them.

Finally, even if you have valid, actionable customer insights, they will achieve nothing unless they reach the decision-makers and are acted on. There are lots of behavioural and organisational reasons why this may not happen.

It is this last aspect, organisational context and process, that Seán and I explored in our follow-up to *Simply Better*. The full title is *Beyond the Familiar: Long-Term Growth through Customer Focus and Innovation*.⁹

Beyond the Familiar has done OK but not as well as *Simply Better*, despite the fact that if companies really apply the suggestions they are almost bound to increase their performance.

I think we made a mistake assuming people would realise that they weren't actually doing what we prescribe. It is mostly common sense but most companies aren't actually doing it anything like as energetically and systematically as they could. Anyway, you can judge for yourselves how well your companies are doing the things we suggest.

The framework is simple. You need to start with a relevant customer promise, communicated both to the market and across the company. Next, ensure that this promise is reliably delivered to build

⁹ Patrick Barwise and Seán Meehan, *Beyond the Familiar: Long-Term Growth through Customer Focus and Innovation*. Jossey-Bass, 2011



trust. Keep continuously improving it, while still keeping it relevant and delivering it reliably. From time to time you need to go further, innovating beyond what is familiar to you, the industry and the customers. Finally, support all this with an open organisation in which ideas, information and insights, including unwelcome ones, flow freely.

Customer promise

The big customer promise challenge is to make it both relevant and affordable, while still making money. In other words, meeting both the customer's and the company's needs. That is hard to do well. Don't make it even harder by obsessing about how much it differs from what competitors are offering. This is the *Simply Better* point again: if you meet customers' needs better than anyone else, you will build a strong brand like Toyota, even if it is less well differentiated than Volvo.

Customer trust

The first two boxes in the framework, customer promise and trust, are the foundation of brand value, what we call the ART of brand-building.

The ART of Brand-Building
[Awareness] x [Relevance] x [Trust]

Every brand is unique but every valuable brand has three things in common within its target market: brand awareness (if no one knows your brand, you don't have one); perceived relevance (if it's not seen as relevant, it has no value to customers and therefore to the company); and trust (if customers don't believe you'll deliver what you promise, they won't buy your product).

You need all three, which is why they are multiplied. If one of them is missing, it doesn't matter how big the other two are.

In today's political and business climate, the value of trust should be obvious and I won't labour it. The last British Brands Group event was about its excellent research on consumer trust in brands¹⁰ and I suggest you read it if you haven't already done so.

You cannot buy trust. It has to be earned by keeping your promises and not letting people down. You certainly can't build it by telling people to trust you. If a salesperson says "Trust me", our reaction is the exact opposite.

What you can do is measure how well the customer promise is being delivered, using something like the Net Promoter Score (NPS).

The big customer promise challenge is to make it both relevant and affordable, while still making money. In other words, meeting both the customer's and the company's needs.

¹⁰ British Brands Group and other European brand associations, *Consumer trust in brands*, 2015

To improve customer experience, which is ultimately what we are trying to do, you need to engage everyone, emotionally as well as rationally.

Many of you will already know this and may already be using it. I am a fan although it is controversial. For those that don't know it, it measures responses to the question, "How likely is it that you would recommend the company or brand to a friend or colleague?".

It uses a zero-to-ten scale. Crucially those responding zero through to six are labelled "detractors", the sevens and eights are ignored and only those scoring nine or ten are seen as "promoters". The NPS is simply the percentage of promoters minus the percentage of detractors.

Many market researchers hate the NPS saying: it wastes information; is a single number with no diagnostic value because it says nothing about what is driving customer satisfaction and dissatisfaction; and it has no special predictive value as it doesn't forecast organic growth any better than a traditional customer satisfaction scale.

All of this is correct but misses the point, which is to help improve customer experience, especially by ensuring that the brand promise is reliably delivered.

Because NPS is a single number, it provides a simple, common metric that everyone can understand. The numbers range from about -10 to about + 50. In pure perception terms, this has more impact than the variation you get from a typical 5-point customer satisfaction scale.

Similarly, "promoter" and "detractor" are wonderfully emotive words. To improve customer experience, which is ultimately what we are trying

to do, you need to engage everyone, emotionally as well as rationally. NPS is very good at doing this.

That's not to say the market researchers are completely wrong. Their technical criticisms are correct. NPS does not have diagnostic value. It tells you that and where you have a problem but it doesn't tell you what, why, or so what.

Think of it as a flashing light or a cattle prod to get your and others' attention. You then need to follow up with diagnostic data and root cause analysis to find and fix whatever is driving the problem. To do that, you will need good costings and to work with operations, HR and often IT, as well as finance, to find the best solution.

Continuous improvement

In the 1980s there was a thing called "Japanese management", steeped in Oriental wisdom and with access to the secrets of the universe. Then in the 1990s Japan got stuck, the magic went to Silicon Valley and everyone forgot about it. Of course, both the Japan fad and the subsequent reaction were overdone. Continuous improvement, "kaizen" to us oldies, has been out of fashion for 25 years. It is due for a comeback. In reality, every valuable brand is supported by relentless incremental improvement.

P&G is outstanding at continuous improvement. A classic case is Tide in the US. Tide was a technical breakthrough when it launched in 1946 but what



is especially impressive is the way it has maintained its market leadership and premium pricing over almost seven decades.

This sustained success has been driven by relentless incremental innovation, both performance improvements and brand extensions, based on the rigorous use of insights to ensure continuing relevance and with consistent brand support.

Innovation beyond the familiar

Perhaps the most controversial part of *Beyond the Familiar* is what we say about radical innovation. This is a complex and nuanced area but in summary we recommend so-called “adjacent” innovations, that is, beyond your and your customers’ current comfort zones but still exploiting your existing sources of competitive advantage.

Like our enthusiasm for continuous improvement, our suspicion of so-called “blue sky” or “blue ocean” radical innovation is currently rather unfashionable.

The trouble is that innovation has become so value-laden. Animal Farm had the one-dimensional “Four legs good, two legs bad”. Innovation rhetoric is a bit more sophisticated because it has two dimensions: “Radical good, incremental bad” and “Pioneer good, follower bad”.

In reality, most attempts at radical innovation to create a new-to-the-world category fail because the level of demand never materialises on a sufficient scale, sometimes exacerbated by the difficulty of getting the technology to work at scale.

But even if there is a viable market, the pioneer usually ends up flat on his face with arrows in his back. Most markets are dominated by a fast follower who learned from the pioneer’s mistakes,

invested heavily, executed well, and built a market lead during the crucial early growth years.

That is why we recommend adjacent innovation. Genuine breakthrough innovation seems too much like taking the shareholders’ money to the casino. Terrific if you win but the odds are stacked heavily against you. Because this is all so value-laden, however, companies like to represent their innovations, even to themselves, as more radical and pioneering than they really are, which adds to the general confusion.

I mentioned Apple before as a “simply better” company. It is also rightly famous for successful disruptive innovation. In reality, however, Apple has never successfully pioneered a completely new product category (unless your definition of category is pretty narrow). But it is brilliant at entering new markets with products that are much better and easier to use than the pioneers’ ones.

It is also outstanding at incremental innovation. In the words of Steve Jobs in November 2010, a few months before he died:

“It was this relentless improvement that was able to beat our competitors and yield the market share that it did”.

For instance, the iPad comes out, transforming the tablet market, and the second version comes out 11 months later just as the competition has caught up.

Most markets are dominated by a fast follower who learned from the pioneer’s mistakes, invested heavily, executed well, and built a market lead during the crucial early growth years.

Open organisation

Underpinning the rest of the framework is having an open organisation. The dirty truth in all organisations including yours is that everyone lies a bit to their boss, hiding bad news and not speaking up when they disagree with the boss's views. The boss always underestimates the extent to which this is happening, despite doing exactly the same to his or her own boss. That is one reason why metrics are so important, to ensure that top management isn't getting too rosy-tinted a picture of customers' actual experience.

The dirty truth in all organisations including yours is that everyone lies a bit to their boss, hiding bad news and not speaking up when they disagree with the boss's views.

Obviously, customer metrics like NPS are part of this, but employee metrics such as staff satisfaction and 360-degree data are also important to see how open the culture is to new ideas and challenges. Seán Meehan and I wrote an article on this in *Harvard Business Review*¹¹ which started with this made up example:

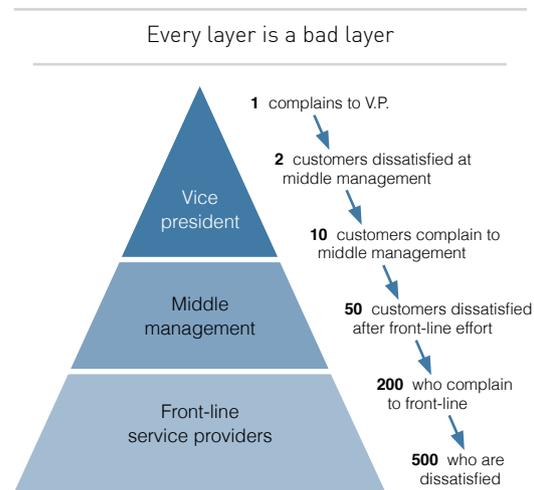
Boss: "Why is Janet leaving?"
 Colleague: "She's been unhappy for months"
 Boss: "Why didn't she tell me?"
 Colleague: "She tried."

We all think our door is always open and people bring us bad news and problems. They don't. They hide bad news and so do you. Even the chairman does it to the investors.

This chart is from a US study of large service businesses. Out of 500 dissatisfied customers, only one complains directly to the vice president responsible, still two levels below the CEO. Hence the famous quote from Jack Welch, CEO of General Electric:

"Every layer is a bad layer...obstructing swift and simple communication...We must create an atmosphere where people can speak up to somebody who can do something about their problem".

It is a bit ironic for "Neutron Jack" to talk about creating an atmosphere where people aren't afraid to speak up, but the point is still valid even if he didn't live by it himself.



Source: US Office of Consumer Affairs

The exemplar for not listening to unwelcome messages was old General Motors. In 1946 Peter Drucker's original research was commissioned by, and conducted at, GM. Everyone else thought his portrayal of the company was highly positive but, because he suggested some possible improvements, GM itself regarded it as, in his own words, "an attack on the company as hostile as any mounted by the left".

¹¹ Patrick Barwise and Seán Meehan, 'So You Think You're a Good Listener', *Harvard Business Review*, April 2008, p22.

61 years later, brand guru Wally Olins told me, "I found GM impossible to deal with. They had their own fixed ideas and always thought they were right." So, high marks for consistency.

GM was so powerful in the '40s and '50s that it took the management and unions half a century to destroy it. But they eventually succeeded, and not listening to market signals was a key part of that.

How top management teams argue but still get along

Low interpersonal conflict (high performance)	High interpersonal conflict (high performance)
1. Focus on factual current data	1. Rely on opinions, wishes and guesses
2. Build multiple alternatives	2. Stick with one or two alternatives
3. Create common goals	3. Ignore common goals
4. Use humour	4. Forget fun
5. Balanced power structure	5. Autocracy or laissez-faire
6. Manage by "consensus with qualification"	6. Manage by consensus, fiat or deadlines

Source: Eisenhardt et al, 1998

Having an open culture is also crucial within a management team. This chart is from a study of Silicon Valley companies in the 1990s, looking at how the top teams in the best companies managed to express disagreements openly but without falling out.¹²

The first point is especially relevant to marketers. Factual, current market data, especially customer insights, are a powerful weapon for getting heard, and lead to better team decision-making.

Take the time to explore multiple options and work hard to create common goals using your brand vision and the threat of competitors eating your lunch. Use humour to defuse the inevitable tensions and ensure that you have a balanced power structure rather than either autocracy or laissez-faire chaos.

The last point is also important, despite the academic jargon. People don't like autocratic bosses who don't listen. But they also don't like weak bosses who can't make their minds up and let the discussion go on and on, or rely on artificial deadlines. They like strong bosses who genuinely listen and then, if no consensus emerges, make the decision and explain why. The evidence is that if you do that, even those who argued the opposite view will throw their energy into implementing the decision.

So that is the *Beyond the Familiar* framework for turning the marketing concept into reality. If you are already doing it all, great. If not, just do it!

The role of marketing

What is the role of marketing in all this? You need to do everything you can to ensure that:

- the customer promise is relevant;
- target customers are aware of the brand and see its promise as relevant;
- everyone in the business knows the brand promise and what the company stands for;
- incremental innovation and cost reduction maximise the relevance and perceived value for money of the evolving offer;

Use humour to defuse the inevitable tensions and ensure that you have a balanced power structure rather than either autocracy or laissez-faire chaos.

¹² Kathleen M Eisenhardt, Jean L Kahwajy and L J Bourgeois III, 'Taming Interpersonal Conflict in Strategic Choice: How Top Management Teams Argue, But Still Get Along' in Vassilios Papadakis and Patrick Barwise, *Strategic Decisions*, Kluwer, 1998, pp 65-83.

The pressure to try and keep up with the ever more complex and fast-changing world of functional marketing means that marketers find it harder than ever to develop leadership skills to complement their technical marketing skills.

- innovation “beyond the familiar” meets real customer needs; and
- management decisions are, as far as possible, supported by current, factual data on customers and competitors, even – or especially - when the data don’t support the bosses’ current view.

The challenge is that, apart from the second point, none of these is mainly controlled by marketing. This has implications for marketers, the focus of my next book *Marketing Leader*¹³, which I am writing with Thomas Barta, an ex-McKinsey partner now working exclusively on marketing leadership.

Briefly, we argue that the pressure to try and keep up with the ever more complex and fast-changing world of functional marketing means that marketers find it harder than ever to develop leadership skills to complement their technical marketing skills. But our research suggests that leadership skills are at least as important as technical marketing skills as a driver of marketers’ business impact and career success.

In response, we suggest that you should aim to do three things:

- first, mobilise your boss and your boss’s boss by working on big issues that matter to the company;
- secondly, mobilise your non-marketing colleagues, especially by walking the halls. I have emphasised finance because it is so important to CEOs but you and your team also need to build your network with operations, HR, IT and, in many companies, sales and R&D;

- finally, you need to mobilise your team. Aim to be a leader of leaders so that you can delegate more of the technical marketing decisions to them and their teams and spend more time understanding the perspectives and priorities of top management and your non-marketing colleagues.

One implication of this view is that who you recruit becomes a big issue. Of course you need people with the right technical marketing skills. I don’t want to understate how hard this is, especially in areas like data analytics where everyone is chasing the same people. But you also need people who will be good team players and good brand ambassadors and collaborators beyond marketing.

You also need to work with operations and HR to ensure that they too are recruiting people, especially front-line people, who understand the brand and want customers to have a good experience.

First Direct was the UK’s first modern customer-focused retail bank, starting as a telephone bank in 1989. For its call centre, it didn’t recruit many retail banking people. Instead it especially recruited teachers and nurses. In other words, it recruited people who *wanted* customers to have a good experience, and then taught them banking. That works better than recruiting banking people and trying to make them customer-focused.

Of course you need to train and to have good IT systems and first-level supervisors, but the basic message is: hire front-line staff who are naturally customer-focused. The lawyers here will be familiar with this issue: it’s easy to recruit those with the best legal knowledge (they’re the

¹³ The publisher is McGraw-Hill and the target publication date is October 2016.

ones with the best law degrees) but you also want people who will be great at handling clients, which is harder to spot.

Do try this at home

So what should you take away from all this?

On **strategy and execution**: aim to help the company maximise the overlap between customers' needs and its own needs.

Work on things that matter to the customer and help the company do the same. That means basics first. Make sure the kitchen gets delivered on time and the phone gets answered. The subtitle of *Simply Better* is about "delivering what matters most" to customers.

Work on things that matter to the company, especially the CEO and CFO. That means you need to understand what those things are. Work with colleagues across the business. In most companies, they are the ones who will determine the short-term success and long-term value of the brand.

On **finance**: aim to maximise short-term performance *and* brand equity. Work with your finance colleagues to find an agreed set of metrics that work for your business. Make sure you and your team understand basic financial concepts and measures, including why it is often helpful to think about counterfactuals.

Aim for an evidence-based mind set. As Ed Deming is alleged to have said, "In God we trust. All others must bring data". CEOs and especially CFOs have the same preference.

On **organisation**: here are five questions (corresponding to the five boxes in *Beyond the Familiar*) that your top managers need to be able to answer positively if they really want a customer-focused, innovative company:

- Can your middle managers accurately describe your customer promise?
- Can every member of the top team - including finance, HR, legal and so on - list the top three things that most erode trust among your existing customers?
- Is your brand really the best option for customers and will it still be next month and next year?
- Have you acted on any novel insights and ideas in the last year which led to a significant innovation beyond the familiar? And finally:
- Have your front line staff asked you any uncomfortable questions or suggested any important improvements over the last three months?

I would like to finish with a clarion call from top leadership coach Marshall Goldsmith:

"Marketers must concentrate on what they can change – and that's more than they think."

Make sure you and your team understand basic financial concepts and measures, including why it is often helpful to think about counterfactuals.

This is the fifteenth in the Brands Lecture series.
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Posh Spice and Persil

Jeremy Bullmore, WPP Group

100% marketing

Rob Malcolm, Diageo

Hybrids, the heavenly bed and purple ketchup

David Aaker, Prophet

Brands beyond business

Simon Anholt, Earthspeak

The Lovemarks effect

Kevin Roberts, Saatchi & Saatchi

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Martin Glenn, Birds Eye Iglo Group Limited

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