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A Louis Vuitton bag carries things while a Rolex watch keeps time – but they are worth more than their intrinsic values

By **ADEL F DIMIAN**

IT ONLY takes a short walk down Orchard Road to understand that brand matters. Storefronts and the products in their windows vie for our attention by showing their symbols – name, colour, trademark and image all come together to represent something more than the product or service that they deliver.

In fact, these symbols represent a promise which, if the branding firm is successful, will have deep and personal meaning to us. This meaning can lead to purchase decisions, high profit margins and loyalty. But how do firms achieve what appears to be a magic act of persuasion? And what effect can this type of innovation have on a firm's profits?

A familiar example for many of us is found in the cola industry. Coke and Pepsi have shown remarkable success turning sugar and water into a profitable business. In 2009, Pepsi realised a market capitalisation of over US$105 billion, Coke US$135 billion; and both parent companies generated profits of over US$8 billion each. Not bad for sugar water with bubbles. How did they do this? Because they taste delicious and refreshing? Really, does taste matter?

Nearly every time I ask students why they prefer one cola versus the other, they inevitably mention taste: Coke has more bubbles; Pepsi is sweeter; the after-taste is different, etc. Yet most people with a cola preference taking a taste test either prefer the other cola, or mis-identify their favourite. And the response is even more interesting – usually somewhere between shock and disbelief. One student threw her Coca-cola cap on the ground and sat down in a huff upon the revelation that she had mis-identified her "favourite drink in the world". This loyalty is believed to derive from taste, but in fact, it is the work of branding that belies the intuitive logic that food and beverages must surely be driven by the intrinsic value of taste.

This latter point is important. In all products or services, there is an intrinsic value. A Louis Vuitton bag carries things. A Rolex watch keeps time. A Harley-Davidson motorcycle transports a rider from point A to B. But this intrinsic value is only part of building the total product or service value. The bonus comes from the perceived value of the brand. True, trade secrets, patents and other forms of intellectual property contribute to the total value, but only for a limited time. Eventually secrets are revealed or deemed less important, and patents expire upon serving their original purpose of giving the rightful owner a chance at business development. The brand is the only lasting component of intellectual property that creates value over time.

BLOOMBERG

Catching your attention: *The name, colour, trademark and image of the products in the shop window all come together to represent something more than the product or service that they deliver*

But a brand can have even greater impact than just creating demand. It affects all aspects of the supply chain and industry structure. For example, suppliers to the cola industry such as phosphoric acid, sugar and aluminium can suppliers are weakened in their bargaining positioning due to brand power. Try to picture a sugar industry CEO demanding a price increase from Coke or Pepsi. They would not likely have standing. Why? Simply stated, the commodity supplier needs Coke or Pepsi more than Coke or Pepsi needs them. The commodity supplier needs the volume, and also the brand. Imagine being able to say that you supply sugar to Coke. Impressive.

Other forces within an industry can be held at bay by the power of brand. New entrants – those firms who would enter your industry and compete head-to-head with you and other existing rivals – would have trouble entering. What keeps new rivals from entering the world of concentrate producers such as Coke and Pepsi? If you said the "secret formula", think again. It only takes an evening of watching the talented analytical chemists of the TV series *CSI* to realise that the chemical nature, proportions and ingredients of a cola would not take long to identify and replicate. New entrants have high barriers to enter the world of Coke and Pepsi because people identify with their brand. The red can or the blue can of cola means something; and a new brand (or colour) would not have the same compelling purchase power, and so the new entrant cannot truly enter. Brand power keeps them out.

Even other industry rivals have less power due to their brand positions. It takes 7UP nearly twice as much advertising spend to create the same impression basis points as Coke. Being a brand leader helps you stay a brand leader. And what of the downstream bottlers? Well, they simply have no power due to the volume delivered by Coke or Pepsi, and as noted, other brands do not have the same pull. It's in the bottler's interest to take the slim margins that result from an unfavourable cost structure derived from investments in plants and delivery vehicles. Coke and Pepsi merely allow bottlers to process, bottle and distribute their concentrate, reaping high margins along the way. The power of the brand finds its way into all aspects of the value chain and industry structure, benefiting those who control it.

Some would argue that a brand may have a personal effect on them, but are they getting what they really want anyway? Well, considering that we pay over a dollar for a can of sugar water with bubbles, we are hopefully getting something we want. And the secret to branding is that through years of investment, clear messaging and consistent value delivery, we do get something intangible when we identify with one cola or the other.

I once had a professor who taught a wonderful course entitled Persuasion and Society. In that course, he emphasised that when we succumb to ads or brand or disclose information about ourselves in a survey, we diminish our independence and self. He meant it as a warning to be aware. So the next time you reach for that Louis Vuitton, or Rolex, or Harley-Davidson, or Coca-Cola, be aware. You are influenced by brand.

The advantages derived from a strong brand can be easily lost. A dramatic example of the precarious nature of brand value is found in Toyota. Poised to be the No 1 car manufacturer in the world, Toyota in its eagerness to surpass General Motors, tripped in its product quality. Who among us would ever doubt the quality of a Toyota vehicle? Yet remarkably, Toyota management seemed to hide the problems within their focus to achieve the top status. In 2010, the effects of forgetting why we value Toyota were significant and the brand valuation of Toyota decreased 15 per cent, almost US$5 billion. It is important to remember that branding is not advertising – that's only the message – the brand is the value perceived by the customer for the product and services.

Clearly, a brand can have a significant impact on a business. Your customers, your supply chain, your industry – all are affected by the power of your brand. And company size should not matter. A chemist named John Pemberton over 100 years ago in a small fountain shop invented Coca-Cola. Today, Interbrand lists it as the most valuable brand in the world. Where will your company be in 100 years if you don't think about the power of brand?

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