Behold the power of the brand

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

by ADEL DMINN

T ONLY takes a short walk down Orchard Road to understand what 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, those products 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 simple 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 USS 130 billion, Coke USS 133 billion, and both parent companies generated profits of over USS 5 billion each. Not bad for sugar water with bubbles. How did they do this? Because people take in sugar and refresh ingly, does taste matter?

Nearly every time I ask students why they prefer one cola versus the other, they invariably mention taste. Coke has more bubbles, Pepsi is sweeter; the after-taste is different. Yet most people with a cola preference cannot name two or even prefer the other cola, or misidentify their favourite. And the response is even more interesting – usually somewhere between shock and disbelief. One student threw her Coca-cola cup on the ground and sat down in a huff over the revelation that she had misidentified 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 intangible 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 business 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 cut-out-trough. Eventually secrets are revealed or deemed less important, and parents expire upon serving their original purpose. In the long run, all things exist to create a chance at business development. The brand is the only lasting component of intangible property that creates value over time.

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 position 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 Coca Impressive.

Other forces within an industry can be held at bay by the power of the 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 con crete producers such as Coke and Pepsi? If you said the “secret formul a” think again. It only takes an evening of watching the tailored ana lytical chemistry 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 flavour would not have the same compelling purchase power.

Brand power keeps them out.

Even other industry rivals have less power due to their brand positions. It takes 7UP rarely twice as much advertising spend to cross 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 are not, other brands do not have the same pull. It’s in the bottler’s interest to take the slim margins that result from an unfeasible cost structure derived from investments in plants and delivery vehicles. Coke and Pepsi merely allow bottlers to process, bottle, and distribute the product through equipment, reaping high margins along the way. The power of the brand turns 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 investment, clever messaging and consistent value delivery, we get something intangible and identifiably 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 really lost. A dramatic example of the perception nature of brand value was found in Toyota. Poised to be the No. 1 car manufacturer in the world, Toyota’s super success was due to its zealousness to surpass General Motors, trips in its product quality. Why, among us would ever doubt the quality of a Toyota vehicle? Yet remarkably, Toyota management seemed to hold the problems within their focus to achieve the top status. In 2008, the effects of forgetting why we value Toyota were significant and the brand valuation of Toyota drastically decreased 15 per cent, almost US$1 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 initi ative – all are affected by the power of your brand. And company size should not matter. A chef named John Pemberton over 100 years ago in a small fountain shop invented Coca. Today, it is listed as the most valuable brand in the world. When was the last time you ran in 100 years if you don’t think about the power of branding?

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