



# Power Brands: Winning the Global Battle for Consumers' Spending

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## ANALYSIS

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### Executive Summary

Companies have practiced professional brand management for more than a century, promoting products that range from soft drinks to breakfast cereals to toothpaste to portable music players. A winning brand takes on a life of its own, becoming a valuable asset that can produce bountiful cash flows to companies and can be beneficial to shareholders.

Today, the challenge of building a power brand is greater than ever:

- **Increased media fragmentation makes it ever more difficult to reach consumers.** Forty years ago, a well-placed network-television ad campaign could reach a large majority of consumers. Today, with the Internet, social networking and hundreds of cable-TV channels, marketers need to address multiple platforms to spread the word.

- **The number of brands is proliferating.** According to the *Harvard Business Review*, 30,000 new consumer products launch each year—and 60% to 90% of them fail. The sheer number of introductions means increased competition for consumer mindshare, access to the distribution channel and marketing dollars.

The process of branding is evolving. A company's ability to produce a power brand will depend on it adapting to the two main trends currently driving success: globalization and technological innovation.

Is all the effort worthwhile? Yes. Research has found that brand-centered companies that employ a powerful mixture of brand management, foresight and innovation outperform both the stock market indexes and competitors.

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## Branding: The Key to Consumer Spending

The idea of a brand goes back centuries. The *Oxford English Dictionary (OED)* traces the word “brand” back to the 10th century, when it connoted burning a piece of wood. By the 16th century, the meaning had been broadened to include distinctive marks, including those made by burning the hide of animals with a hot iron in order to designate ownership (see Figure 1).

By the 19th century, that mark—or brand—on a product, also came to indicate specific quality standards and authenticity. Vendors applied trademarks to casks of wine, timber and metals, including gold. For example, guilds like the Goldsmiths’ Company of London stamped all their products. In this way, the use of a brand protected buyers from fraudulent goods.

Today, a power brand is a company’s best weapon in the battle for consumer spending. Indeed, the stakes are high: Consumer spending makes up about 70% of US GDP, and nearly 60% of G-20 GDP<sup>1</sup> (see Figure 2).

## Why Brands Matter

While the idea of brands is old, professional brand management goes back only about 100 years. Today, the challenge of building a power brand is greater than ever before:

- **Increased media fragmentation makes it ever more difficult to reach consumers.** Forty years ago, a well-placed network-television advertising campaign could reach a large majority of consumers. Today, with the rise of the Internet and social networking, as well as hundreds of cable-TV channels, marketers need to address multiple platforms to spread the word.
- **Brand proliferation means increased competition for consumer mindshare.** According to the *Harvard Business Review*, 30,000 new consumer products launch each year—and 60% to 90% of them fail. The sheer number of introductions means increased competition for consumer mindshare, access to the distribution channel and marketing dollars.

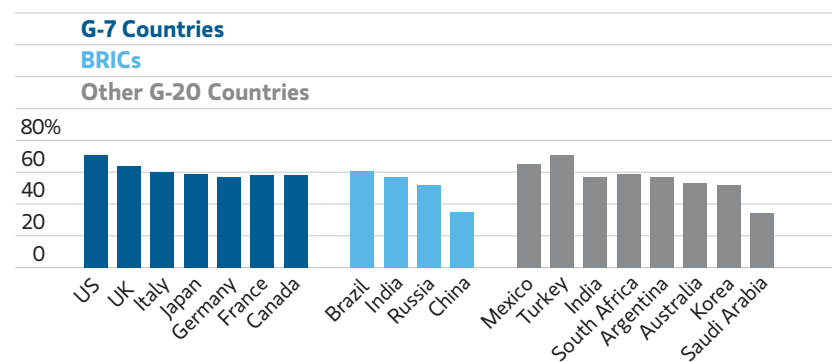
**Figure 1: The Evolution of the Word “Brand”**

First Use	Definition
c.950	A piece of wood that is, or has been, burning on the hearth
1552	The mark made by burning with a hot iron
1827	A trademark, whether made by burning or otherwise
1854	A particular sort of class of goods, as indicated by the trademarks on them
1958	The impression of a product in the minds of potential users or consumers

Source: *Oxford English Dictionary*

**Figure 2: Consumption as a Percentage of GDP**

*In the US, consumption accounts for about 70% of GDP. For the G-20 nations as a group, consumer spending represents nearly 60% of GDP.*



Source: United Nations as of Dec. 31, 2011

## Brand-Building Strategies

Given that product market saturation and media fragmentation present substantial challenges to companies striving for brand recognition, those seeking to build power brands must:

- **Forge an emotional connection between the individual consumer and the brand.** Consider Apple’s iconic labeling of its products with the letter *i*, as in iPod, iPad, iPhone and iTunes. The individual is at the core of each of these products, and by appending the product to the letter *i*, Apple suggests the user’s ability to customize the product. With this branding, Apple provides an intuitive, virtual scaffolding on which each customer can sculpt his own experience and shape the product according to his interests and needs.

Individualization is at the core of Apple’s latest product, the iPad. Businessmen may use the iPad to track the markets, teachers may download classic novels onto iBooks, while music fans may explore the latest indie rock groups through the iTunes store. In this way, each iPad is unique to each user. This customizability is one of the reasons behind Apple customers’ devotion to the brand.

- **Engage consumers and fans via charismatic and active corporate leaders.** CEOs are stepping out of the corner offices to engage with consumers. Steve Jobs was arguably as integral to Apple as its iconic trademark label (see Figure 3, page 3). Richard Branson, the British business magnate known as the face of his Virgin-branded companies, donned a spacesuit to promote Virgin

Galactic, a yet-to-fly airline which will offer suborbital space flights (see Figure 4) and a wedding dress for the ribbon-cutting at a Virgin Brides store.

- **Embrace new technologies and digital media.** Young people today are more connected and more informed than past generations. Studies show that these next-generation consumers divide their attention simultaneously between 5.6 media channels—texting, watching TV, etc.—while adults top out at about 1.8 (see Figure 5, page 4). Power brands are adapting to multitasking consumers by incorporating social media in their consumer relations models and designing interactive apps for smartphones and tablets.

- **Use a nontraditional approach in building a long-term relationship with consumers.** Creating brand value is similar to building a long-lasting friendship. Companies can demonstrate a commitment to the same issues that excite their customers and organize events or humanitarian efforts through which customers can engage with the brand. For example, Coca-Cola’s “5 BY 20” initiative is aimed at empowering 5 million women entrepreneurs by 2020 by “providing access to financing and financial services, business and life-skills training, and mentors and networks—all designed to help women overcome barriers to growing their businesses and incomes.” Through such programs, Coke has transformed the purchase of a mere beverage into an act of social change.

In this sense, consumers are increasingly allying themselves with the brand instead of simply buying it, says futurist Faith Popcorn. Companies looking to build their brand value may find that the most profitable enterprise is not increased investment in television advertising but in sustainability—defined as long-term responsible management of resources—and other social initiatives. Sustainability is especially important in building brand loyalty with younger consumers.

Take Intel, for example, which ranks in the top 20 most sustainable corporations<sup>2</sup> in the world according to Corporate

**Figure 3: Steve Jobs Introducing the iPhone**



Source: Associated Press Images, September 2007

**Figure 4: Richard Branson, Astronaut**

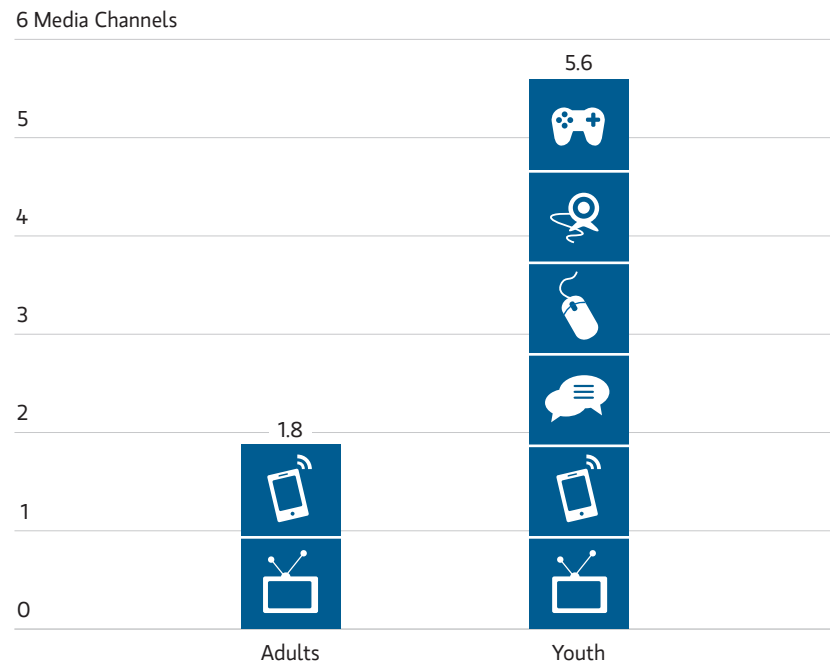


Source: Brian Smith Pictures, February 2007

Knights, a Toronto-based media, research, and financial products company. The chipmaker’s Intel Teach program has trained over 10 million teachers in 70 countries to integrate technology into their lessons to promote problem solving, critical thinking and collaboration among students. In fact, in many countries, Intel

Teach is the primary information and communications technology-training program for educators, and is recognized by various governments as essential. In Jordan, for example, teachers must complete the Intel Teach program to be eligible for a promotion and a 15% pay increase.<sup>3</sup> By empowering current

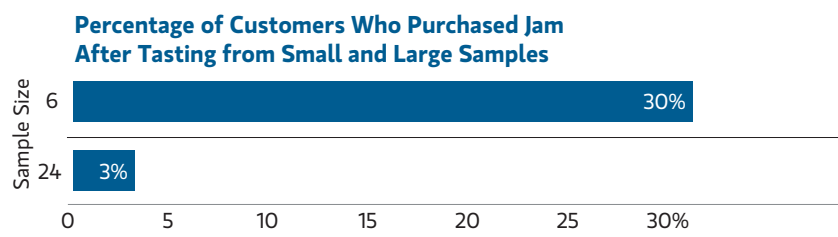
**Figure 5: “The Broadcasting Generation”:  
Simultaneous Attention Capacity**



Source: Lindstrom, Martin. *BRAND Child: Insights Into the Minds of Today's Global Kids*. London: Kogan-Page, March 2003

**Figure 6: The Paradox of Choice**

*Researcher Sheena Iyengar found that a customer's decision to purchase an item is affected by the number of choices presented. More choices doesn't necessarily lead to more purchases.*



Source: Iyengar, Sheena, *The Art Of Choosing*, New York: Hachette Book Group, March 2010

and future generations through its initiatives, Intel is essentially securing a stable, self-supporting customer base with increased earnings potential.

### Competitive Advantages

Leveraging these strategies can create competitive advantages by:

- **Enhancing a company's ability to command premium pricing.** An increased emphasis on price, often involving the heavy use of price promotions, has resulted in a growing number of commodity-like products. Leading brands can command relatively high margins by way of premium pricing, as well as reduced reliance on promotions. The power of brands to command superior pricing is well illustrated by what has come to be called the “Chivas Regal effect.” Chivas was a struggling brand of scotch whisky when, in the early 1990s, the owners dramatically raised prices above those of competitors, at which point sales took off, transforming Chivas Regal into a premium brand. Price clearly became the quality cue for this brand as the product itself was unchanged. More recently, Grey Goose redefined the vodka market and fueled the super-premium boom with the cachet of its French provenance, distinctive frosted-glass bottle and wooden case, all of which helped justify a premium price.

- **Heightening consumer awareness of the brand.** Once familiar with a brand, consumers tend to show loyalty to it, making it difficult for a competing product to succeed. This explains why Wrigley's has remained the dominant chewing gum for decades. As markets are inundated with new products, each trying to differentiate itself, consumers become paralyzed by what psychologist Barry Schwartz calls the “paradox of choice”.<sup>4</sup> A case in point is the “jam study.” In this study,<sup>5</sup> Sheena Iyengar, a business professor at Columbia University, set up a booth in a California gourmet market offering shoppers samples of jam. For several hours at a time, she would offer samples from a selection of 24 jams and then switch to a smaller, six-jam palate. On average, customers sampled two jams, regardless



of the number of offerings. Even though fewer customers stopped at the smaller than at the larger display, 30% of those sampling from the smaller assortment made purchases as compared with 3% who sampled the larger assortment (see Figure 6, page 4).

The takeaway from Iyengar's study is that a consumer's decision to purchase an item can be affected by the number of choices presented. There are other factors, too, including the information about the product or prior knowledge of the choices. When confronted with seemingly endless options, consumers will generally opt for the brand with which they are familiar. This means that brands with greater consumer awareness are more likely to end up in shoppers' carts. When faced with an aisle of soft drinks, the consumer's real choice is not between Coke, Pepsi and a myriad of small or private-label brands, but between Coke and Pepsi.

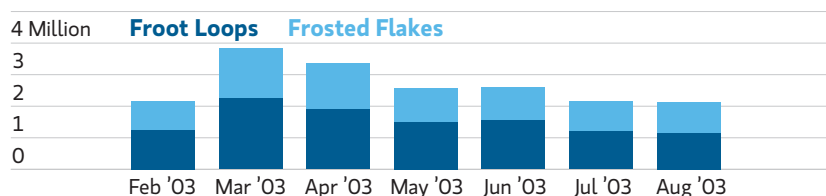
- **Extending the brand to new products.** Because brand-building can be time consuming and costly, companies with already powerful marques have the opportunity to grow via brand extensions. A new product will likely be more effective if the brand is familiar. In 2003, when Kellogg extended its cereal brands into breakfast bars, the company ramped up production to nearly 4 million bars within just two months (see Figure 7).

- **Leveraging the distribution channel.** The forces that serve to make brands powerful are self-sustaining. For instance, a leading brand is likely to enjoy superior product placement or preferred shelf space in retail outlets.

- **Identifying growth opportunities in the developing markets.** Standards of living are rising rapidly in developing economies. As a result, consumers in these markets have increasing amounts of disposable income, which they often spend on branded products because of their perceived quality. That's not to say, however, that there is a global market for a uniform product. On the contrary, varying regional tastes and cultural considerations explain why, for example, the McDonald's menu in India is centered around chicken and vegetable sandwiches such

**Figure 7: Kellogg's Breakfast Bar Production Following Its Launch**

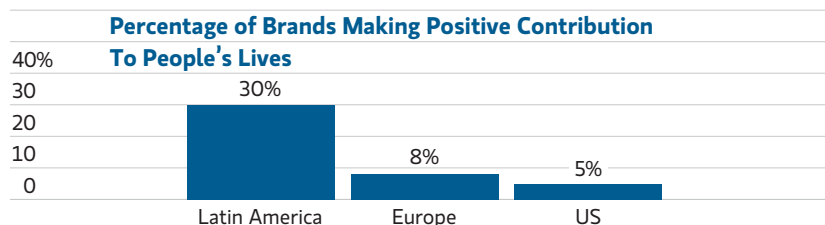
*Introducing a new product tied to a familiar brand can be a winning strategy as Kellogg's demonstrated when it launched breakfast bars based on its popular Froot Loops and Frosted Flakes cereals.*



Source: Citi Investment Research & Analysis as of March 2006

**Figure 8: Brand Power Across Markets**

*In one survey, consumers were asked if brands make a positive contribution to their life. In Latin America, nearly a third of respondents said yes.*



Source: Havas Media as of Nov. 7, 2011

as the Chicken Maharaja-Mac and the McSpicy Paneer instead of the Big Mac or Angus Chipotle BBQ Bacon Burger.

### The Future of Brand Management

Can any company today turn itself into a power brand, or is it restricted to those companies with established reputations and decades of brand management experience? A company's potential to produce a power brand today depends on its ability to adapt to two main trends currently driving brand success: globalization and technological innovation.

#### GLOBALIZATION

Globalization opens businesses to more diverse talent pools. More importantly, it can open new markets.

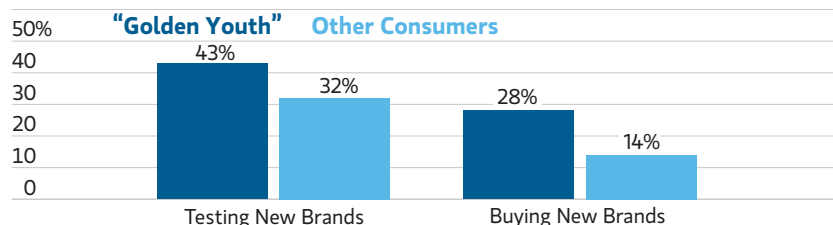
The emerging markets offer a big opportunity to build brands. In a study entitled "Meaningful Brands,"<sup>6</sup> Havas Media points out that people in fast-growing economies, such as those in Asia and Latin America, have stronger and

more positive relationships with brands than those in more developed nations. The study cites the firm's Meaningful Brand Index (MBi), which uses consumer perception to compare and track the impact brands have on individuals' lives. Based on the interviews with 50,000 people in 14 countries, the results show a direct relationship between a brand's MBi score and the level of consumer attachment. That is, the greater the contribution the brand has to consumer well-being—measured by the value it creates for individuals, communities and the environment—the larger the role it will have in people's lives and the more meaningful it will become. The percentage of respondents in Latin America who felt brands make a notable positive contribution to their lives was around 30%—almost four times greater than in Europe and six times greater than in the US (see Figure 8).

Globalization is a difficult strategy to execute. According to a Bain & Co. report,<sup>7</sup> "capturing profit can be hard,

**Figure 9: “Golden Youth” Relationship With Brands**

*“Golden youth” are China’s young urban, college graduates, mostly women, who have a relatively high standard of living. Compared with other consumers, these young adults are more open to trying new branded products.*



Source: Accenture as of Dec. 3, 2007

because it is often offset by the costs of globalization. Every opportunity for increased globalization carries a danger of reducing profit. Customer focus may blur, with products appealing to the lowest common denominator, alienating key customer segments and causing market share to fall. Globalization gone wrong can cause innovation to slow down, cause price competition to sharpen,” as well as create internal struggles. In order to succeed in this market environment, power brands must maintain the delicate balance between creating a local identity while maintaining a global footprint.

Market segmentation is crucial. To stimulate demand in markets where consumption is relatively low, Frito-Lay flavors its potato chips to appeal to local tastes. In the words of former PepsiCo International chairman and CEO, Michael White, the Pepsi unit develops “consumer insights that enable us to find ways to tailor those products in seasonings and flavors that are uniquely relevant to different consumers in different countries with different traditions and different cuisines.” So, for example, in South Asia, Frito-Lay offers a “Magic Masala” flavor, seasoned with freshly ground spices, while in Russia it offers a “Red Caviar” version.

In certain instances, foreign brands may encounter sociocultural traits that act in their favor. In his paper entitled, “Brand Culture and Consumption: Chinese Consumers and Foreign Brands,”<sup>8</sup>

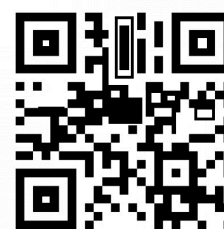
Chen Li, a professor of management science at France’s Université d’Aix, points out China has become one of the largest consumers of foreign products since opening its doors to global trade in the 1970s. Chinese consumers have accepted foreign products with enthusiasm in part due to their perceived higher quality, strong reputations, variety of offerings, attractive appearance and the freedom of choice they represent. Within a society in transition like China, the symbolic meaning of a product, as represented by its brand, rather than its utilitarian purpose, takes on a heightened emotional context. Thus, the consumption of nonlocal products is regarded as a symbol of prestige and the product’s country of origin can exert a positive influence on the consumer’s decision to buy.

According to an Accenture study,<sup>9</sup> those most susceptible to foreign branding are the “golden youth”—young urban graduates, mostly women, who have a relatively high standard of living. Consumers in this class not only are more likely to try new products, but are also more likely to purchase them (see Figure 9).

To succeed in establishing themselves as a credible foreign brand, companies must be aware of how consumers learn about brands. In a separate study,<sup>10</sup> Accenture found that Chinese consumers rely more heavily on word of mouth, product reviews and television ads as a means for obtaining information on products

**Figure 10: Marketers Direct Consumers With QR Codes**

*This is a sample QR Code (abbreviated from Quick Response Code), a type of matrix barcode with fast readability and large storage capacity compared to standard UPC barcodes. The code consists of black modules arranged in a square pattern on a white background.*



Source: Morgan Stanley Smith Barney

and services than do their counterparts in the US, France, Germany, Japan and Korea. Intrusive promotions, such as direct mail, that are positively received in other countries, have proven less effective in China.

#### USING TECHNOLOGY

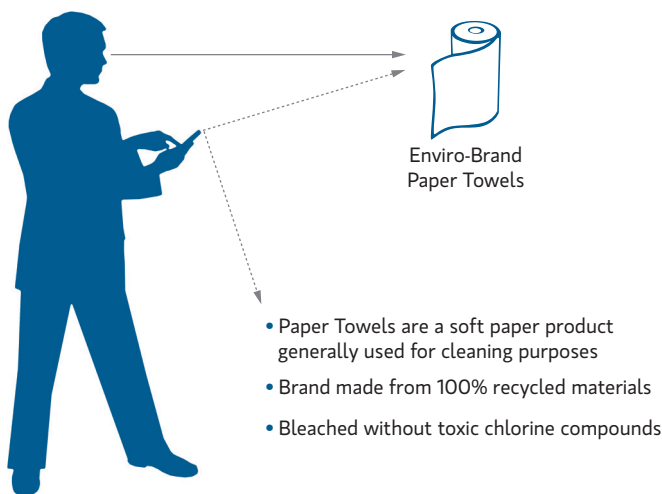
From the printing press to the television, technological innovation has helped to establish and maintain power brands. That is even more the case in the digital era. Fashion giant Ralph Lauren has begun to display a new Quick Response (QR) Code featuring its iconic polo player logo on store signage in an attempt to draw shoppers<sup>11</sup> (see Figure 10). Scanning the code with an iPhone, Blackberry or Android device opens the Ralph Lauren mobile site, allowing customers to browse merchandise or enter drawings to win tickets to sporting events. When the customer enters the contest, Ralph Lauren collects data on customer demographics and shopping habits. This information can allow for targeted, personalized advertising tailored to the individual.

Another example of technology we may soon see is Sixth Sense. Developed by researchers at MIT, Sixth Sense is a wearable gesture-interface device comprised of a pocket projector, mirror and camera. Sixth Sense implements “augmented reality” by projecting information onto objects with which a user interacts. For example, the user may go to the store and pick up a roll of paper towels. Sixth Sense then looks up the item and discerns whether it fits the consumer’s personal preferences, such as minimizing the amount of chemicals used in the production of the paper towels (see Figure 11). The goal is to help the user make better decisions. This technology, of course, is still in development, but its mass implementation may not be far off.

Those born in the decade of the ’90s are the first generation of consumers to view the Internet, email and cell phones as routine. They are not fascinated with technology in and of itself, but with the content it delivers. Understanding the future of branding and brand development means understanding the next generation of consumers. In his book, *BRAND Child*,<sup>12</sup> Martin Lindstrom summarizes the findings of his research through the world’s largest study on kids and their relationship with brands. As noted earlier, Lindstrom found that while adults were able to handle 1.8 of what he calls “media channels” simultaneously, kids have the ability to divide their attention between 5.6 channels.

Those kids are not only recipients of information, argues Lindstrom, but transmitters as well. They are what he calls the “broadcasting generation.” Not only do they interact with a product, but message others about the product, essentially doing the marketer’s job. The broadcasting generation makes its voice heard, demanding its own input. Lindstrom estimates that “tweenagers,” which he defines as children between 8 and 14 years old, spend about \$150 billion and influence a further \$150 billion of family expenditures. This is no small amount considering that total annual expenditures for individuals under 25 years of age amounted to around \$220 billion. Power brands, which are able

**Figure 11: Augmented Reality**



Source: Morgan Stanley Smith Barney

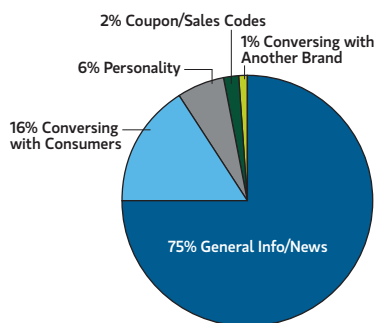
**Figure 12: The New Era of Branding**



Source: Tomfishburne.com, 2008

## Figure 13: How Brand Marketers Use Status Updates on Twitter

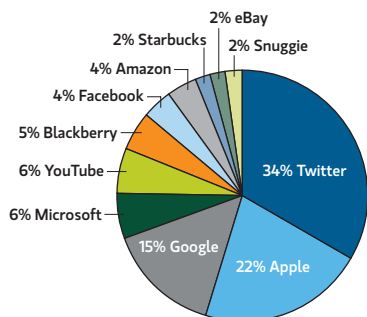
*Most of the tweets that brand marketers send out refer to general news and information on their products. Only 16% of the tweets are conversations with consumers.*



Source: 360i as of July 2010

## Figure 14: The Brands Most Mentioned on Twitter

*It's no surprise that the most-mentioned brand on Twitter is Twitter. Apple and Google are second and third place, respectively.*



Source: 360i as of July 2010

to take an interest in and focus on this growing customer base, have been able to and should continue to reap the rewards.

So how does a power brand company engage a teenager who is simultaneously having a conversation on her iPhone, watching *True Blood*, texting her 1,256 BFFs and tweeting about global warming? The answer certainly does not lie in traditional media. The same tools that fueled brand creation and propagation in the previous century are obsolete in the new “engagement era”

of branding (see Figure 12, page 7). It's difficult to grab the attention of a consumer who is engaged with five or six channels. Instead, companies need to connect with consumers on a more personalized level, be it through Facebook, Twitter or other social media sites.

According to research conducted by 360i,<sup>13</sup> an advertising agency specializing in search-engine marketing, social media, mobile marketing and Web design, few brands today are engaging the consumer

through new mass media or networking sites. While research shows that “consumers largely use Twitter as a conversational medium, most marketers are not using it that way, and there remains a ripe and largely untapped opportunity for two-way conversations between brands and consumers. Currently, only 16% of marketer tweets represent an active dialogue with consumers (see Figure 13). Those brands that do engage with consumers or are seen as permeating the “cultural fabric,” such as Apple and Google enjoy a wide following and mentions on Twitter (see Figure 14).

The branding game will only become more difficult. To create and maintain a power brand, companies will have to consistently engage the consumer, adopt new technology and remain flexible enough to quickly shift gears as consumer tastes and preferences evolve.

### BACK TO THE FUTURE

While power brands should be at the forefront of innovation, they should not neglect the past. In fact, the balance between past and present is one of the main themes in Landor Associates' 2010 and 2011 Breakaway Brands<sup>14</sup> studies. They show that technology can also increase anxiety, as some users are unable to “unplug” their digital devices and just relax. To that end, branding is shifting towards design simplification and reinventing elements of the past while retaining the complexity of the present. In their book, *Brand Storming: Managing Brands in the Era of Complexity*,<sup>15</sup> Garry Titterton and Michele Fioroni note that “often re-proposing the past reveals elements of continuity with the present which can be used in planning strategies for the future.”

The reappearance of brands once thought to be extinct is not uncommon. Volkswagen reintroduced its iconic Beetle in 2010 after a seven-year absence. The continuity of design speaks to the car's reliability giving it appeal across generations, while improved features, such as keyless entry, push-button start, electromechanical power steering system and sport suspension keep it functionally up to date.



## The Value of Power Brands

Is all the effort worth it? As noted earlier, investing in a company's brand has proven to be a sound business practice. Brand-centered companies, which employ the powerful mixture of brand management, foresight, and innovation, have outperformed both the market indexes as well as their competition.

### BRAND BEHEMOTHS

In March 2006, we collaborated with marketing professors Peter N. Golder and Joel H. Steckel of New York University's Stern School of Business to identify what we called "Brand Behemoths."<sup>16</sup> By that, we meant companies that successfully leverage a leadership position in one category or region and extend that franchise into new markets. Examining more than 3,500 consumer nondurable brands, we identified 10 Brand Behemoths for 2010, four years forward from the onset of the research project.<sup>17</sup>

Our study of the 2010 Brand Behemoths' potential market share was based on the following criteria:

- **Current market share as well as the company's market share advantage over the No. 2 and No. 3 companies.** This is based on the premise that the larger the company's market share advantage over its nearest competitors, the more likely it is to maintain its lead.

- **Global and regional market shares.** A company that is strong globally or locally can leverage its knowledge into other markets.

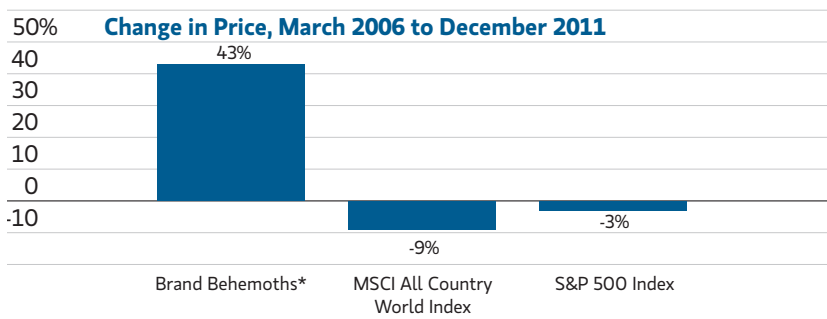
- **Leadership position in more than one product category.** This enables companies to leverage their distribution systems.

- **The market share stability—or lack thereof—over time.**

By the end of 2011, each of the 10 identified in the 2006 report had outperformed the S&P 500 and the MSCI All Country World Index. On an equal-weighted basis, the Brand Behemoths outperformed the S&P 500 and MSCI All Country World Index by 46 percentage points and 52 percentage points, respectively, from March 2006

## Figure 15: Brand Behemoths Outperformed US and Global Indexes

*In the March 2006 to December 2011 period, the top 10 companies on the list handily beat US and global equity market indexes.*

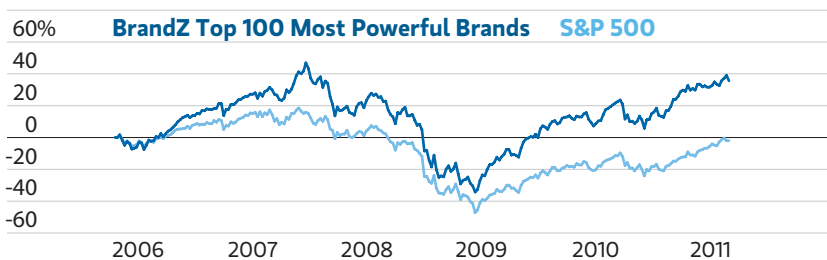


\*Nestle, Colgate-Palmolive, Unilever, Kimberly-Clark, Wrigley, L'Oreal, Procter & Gamble, Kellogg, Pepsico and Danone

Source: FactSet as of Dec. 30, 2011

## Figure 16: BrandZ Top 100 Versus the S&P 500 Index

*Another list of companies with power brands, the BrandZ Top100 Most Powerful Brands has outpaced the S&P 500.*



Source: Millward Brown Optimor as of March 4, 2011

through December 2011 (see Figure 15). Millward Brown Optimor's *BrandZ Top 100 Most Powerful Brands*<sup>18</sup> and Interbrand's *Best Global Brands*<sup>19</sup> reports independently support the conclusion that power brands outperform the broader equity market indexes.

### BRANDZ TOP 100 MOST POWERFUL BRANDS

Millward Brown Optimor developed the *BrandZ Top 100 Most Powerful Brands* study in conjunction with the *Financial Times*, Bloomberg, and Datamonitor in order to fuse consumer measures of brand equity with financial measures, thereby

determining the financial value of brands. The study draws on the unique BrandZ database, which contains more than 2 million in-depth consumer interviews conducted in 30 countries. Brand value is calculated by:

1. Determining the intangible earnings attributable to a brand through country-, market-, and brand-specific customer research through the BrandZ database.
2. Multiplying the intangible earnings attributable to a brand by a brand earnings multiple, which is an estimate of brand-driven earnings' growth potential. The multiple is derived from both financial analyst projections and

## Figure 17: Interbrand's Best Versus the Benchmark

Over a seven-year period, a set of companies on the Interbrand Best Global Brands list beat a broad measure of all other US stocks, and did so with a lower beta, or less market volatility.

	Monthly Return	Alpha	Beta
Interbrand*	1.98	0.57	0.85
Benchmark**	1.34	-0.25	1.07

\*Interbrand Best Global Brands list, 1993 through 2000

\*\*Composite of all stocks traded in the US between 1993 and 2000, excluding those in the Interbrand list

Source: Thomas J. Madden, Frank Fehle and Susan M. Fournier, "Brands Matter: An Empirical Investigation of Brand-Building Activities and the Creation of Shareholder Value," May 2002

consumer data. The end result is the brand value of a company.

3. The list of the Most Powerful Brands is rebalanced annually to reflect changes in brand rankings.

The BrandZ 100 Most Powerful Brands list has outperformed the S&P 500 by more than 37 percentage points from March 2006 through March 2011 (the latest data available) (see Figure 16, page 9).

### INTERBRAND'S BEST GLOBAL BRANDS

Interbrand, a "leading authority on the financial valuation of the brand,"<sup>20</sup> also publishes an annual list of top global brands. Interbrand looks at the management and investment in a company's brand as a business asset. Three key aspects go into assessing the strength of a global brand: the financial performance of the branded products or services; the role of the purchase-decision process; and the strength of the brand.

In their 2002 "Brands Matter"<sup>21</sup> study, Professors Thomas J. Madden, Frank Fehle, and Susan M. Fournier sought to establish a stronger link between brand and shareholder value. They utilized the Interbrand Best Global Brands list as a

proxy for companies that make brand-building a key element in their business models and compared those companies' performance to that of a composite of all other stocks traded in the US between 1993 and 2000. The study showed that the Interbrand list significantly outperformed the markets, yielding an average monthly return of 1.98% as compared with 1.34% for the benchmark.

Madden, et al. were not only interested in the returns of the strong-branded companies, but also in their risk profiles. To assess this, they performed a linear regression analysis to determine the portfolios' alpha and beta coefficients. Beta represents a security's tendency to respond to market swings—the higher the beta, the more volatile, and therefore more risky, the security. Alpha is the value added a manager brings to a company's performance. According to the *Brands Matter* study, Interbrand's best not only produced better returns but did so with considerably less market risk; its beta was 0.85 as compared to the benchmark's 1.07. The strong-branded companies also presented a significantly higher alpha of 0.57 compared to the benchmark of -0.25 (see Figure 17).

### POWER BRAND COMPANIES VERSUS COMPETITORS

A study conducted by Booz Allen Hamilton also found that "brand-guided" companies—those companies which actively use the brand to drive business decisions and manage the company—significantly outperform not only the general market, but their direct competitors as well. The study established that brand-guided companies, on average, have profit margins nearly twice their respective industry average. Brand-guided banks, for example, showed a return on equity (ROE) of 19% at the time of the study compared to the 8% ROE of other banks. Similarly, in the industrial-goods sector, brand-guided companies achieved earnings before income taxes, depreciation and amortization margins of 17%, compared to the 10% for the remaining players.

### Power Brands: Winning the Global Battle for Consumers' Spending

While producing and maintaining a power brand today is considerably more difficult than it has been in the past, once a brand penetrates the social fabric and is recognizable, it is likely to continue to see earnings growth. This is because power brand companies are more likely to interact with consumers, building relationships via social media channels rather than simply spamming their inboxes with advertisements; they undertake sustainability initiatives and create socially impactful campaigns to which their consumers can actively contribute; and they create customizable products, easily adaptable to individual needs. Power brand companies' efforts are paid back through customer loyalty—and that's a powerful payback.



## Appendix: Power Brands by Average Rank

Rank	Power Brand	Interbrand	BrandZ	CoreBrand	Brand Behemoths	Average Rank
1	CocaCola	1	6	1	4	3
2	Kellogg			6	8	7
3	Campbell Soup			3	16	10
4	McDonalds	6	4	20	12	11
5	General Electric	5	10	21		12
6	Microsoft	3	5	35		14
7	IBM	2	3	40		15
8	Walmart		15	16		16
9	UPS	27	17	8		17
10	Apple	8	1	45		18
11	BMW	15	30	13		19
12	Amazon	26	14			20
13	Disney	9	38	15		21
14	Oracle	20	22			21
15	AT&T		7	36		22
16	Louis Vuitton	18	26			22
17	Toyota	11	27	31		23
18	SAP	24	23			24
19	Gillette	16	32			24
20	American Express	23	40	10		24
21	Pepsi	22	63	12	5	26
22	Procter & Gamble			48	3	26
23	Google	4	2	72		26
24	Cisco	13	44			29
25	Danone	52			6	29
26	Hershey			2	57	30
27	HSBC	32	28			30
28	Colgate-Palmolive	51	55	7	9	31
29	Honda	19	56	17		31
30	Kraft			54	10	32
31	Intel	7	58			33
32	Nestle	55		43	2	33
33	L'Oreal	40	46	39	11	34
34	Estee Lauder			26	45	36
35	Volkswagen	47		24		36
36	Visa	75	20	14		36
37	Budweiser	29	45			37
38	Verizon		13	63		38
39	Mastercard		60	18		39
40	Hewlett-Packard	10	18	91		40
41	BlackBerry	56	25			41
42	H&M	21	62			42
43	FedEx		73	11		42
44	Samsung	17	67			42
45	Avon	65		44	20	43
46	Johnson & Johnson	83		4		44
47	Nike	25	57	49		44
48	Exxon Mobil		41	47		44
49	Citi	42	47			45
50	Accenture	45	49			47
51	Nokia	14	81			48
52	Sony	35	85	27		49
53	Dell	43		56		50
54	Target		65	34		50
55	Harley Davidson	100		5		53
56	Ford	50		60		55
57	Siemens	46	70			58
58	Canon	33		90		62
59	Yahoo	76		50		63
60	Nintendo	48	79			64
61	Starbucks	96	72	23		64
62	Shell	74	51	68		64
63	Home Depot		89	41		65
64	Zara	44	86			65
65	Xerox	57		76		67
66	GAP	84		51		68
67	Heinz	49		86		68
68	eBay	36	82	87		68
69	Hermes	66	71			69
70	Goldman Sachs	38	100			69
71	Porsche	72	66			69
72	Clorox			99	43	71
73	Banco Santander	68	77			73
74	Heineken	91			55	73
75	Morgan Stanley	54		95		75
76	Nissan	90	88	59		79
77	Tiffany & Co.	73		97		85
78	Barclays	79	96			88
79	Red Bull		93		82	88
80	Bank of America		92	93		93

Note: Companies on two or more of the four lists, ranked by average rank. "Brand Behemoths" is aggregated from 2004 market share data by company based on over 3,500 brands that compete in the 30 consumer-product categories. As a result, the data excluded brands in the technology sector, for example.

Source: Interbrand, October 2011; Millward Brown Optimor, March 2011; CoreBrand, September 2011;<sup>22</sup> Kerschner, Edward M. and Michael Geraghty, "Brand Behemoths: Executing Brand Leadership on a Global Basis," Citigroup, 2006



## Footnotes

1. The G-20 is comprised of the 19 countries we have listed plus the European Union (EU), which is represented by the president of the European Council and the European Central Bank. We have excluded the EU from our calculation to prevent double counting of those countries which are members of both the EU and the G-20, such as Italy and France.
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17. We aggregated 2004 market-share data by company based on over 3,500 brands that compete in the 30 product categories. We then sorted the data into eight regions/countries: China, East Asia, Eastern Europe, India, Japan, Latin and South America, the US and Western Europe. Given that we examined 30 product categories in eight regions, there are 240 category/region combinations for companies to compete in. We then asked Professors Golder and Steckel to forecast the market leaders in 2010 for the 240 category/region combinations.
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## Index Definitions

**MSCI ALL COUNTRY WORLD INDEX** This free-float-adjusted, market-capitalization index is designed to measure equity market performance in the developed and emerging markets.

**S&P 500 INDEX**  
Widely regarded as the best single gauge of the US equities market, this capitalization-weighted index includes a representative sample of 500 leading companies in leading industries of the US economy.

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