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Brands In The Boardroom

Ruchi Gunewardene argues a case for empowering enterprises to boldly go where few have gone before.

In Sri Lanka, the role and responsibilities of brands are thought to be best left to marketing managers. Whilst the role of finance and business strategy is discussed in the boardrooms of companies, for too long has marketing been deprived of a seat at the board table – primarily due to its own failings and inability to articulate a case to be there!

Value can be created through inculcating a brand-centric approach to management and brands can play a role in delivering greater value to the shareholder. As proprietary processes or breakthrough products become increasingly difficult to establish, it is the knowledge base that resides in the business and the brands that companies own which become central to differentiating businesses from one another, and for creating greater value.

The conventional way of defining a brand is to limit it to the products and services that are marketed to consumers. It is this perception that limits the responsibility of the marketing department with the other functions of the company. Marketing has been unable to find the link between what it is doing and the value-creation process for which the CEO is responsible.

However, with greater acceptance that brands play an important role in generating and sustaining the financial performance of companies, the role played by marketers is increasing. With intensive competition in virtually every industry, strong brands help companies communicate why their products and services are uniquely able to satisfy customer needs, and why they are superior.

Competitiveness now depends on being able to satisfy not just the functional requirements of customers, but also their more intangible needs. It means understanding not just what you can *do for* them, but also what you can *mean to* them. This drives consumers to purchase products or services and thereby enables the creation of revenue for the company.

Establishing greater meaning is what drives companies to invest in community-service projects. It has a dual purpose of giving back to the economy whilst also creating greater empathy with customers, suppliers and other stakeholders.

Since revenue generation is the lifeblood of all commercial enterprises, it would logically follow that management accountability and boardroom discussions should begin to centre around these brand-related issues… at least, checking the health of the brand through a simple brand scorecard that is linked to the management's balanced scorecard.

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THE BRAND AS AN ENTERPRISE: A corporate definition of 'brand' refers to the whole organisation within which the specific logo and associated visual elements – the larger bundle of 'visual and marketing intangibles' and the 'associated goodwill' – are deployed.

A combination of these – together with the culture, people and programmes of an organisation – provide a basis for differentiation and value creation within an organisation. Taken as a whole, they create a specific value proposition and strong customer relationships.

The significance of this to the success of an enterprise would, therefore, be to make the CEO the ultimate brand manager of his or her organisation. In this role, the CEO would need to constantly communicate with all stakeholder audiences. Rather than merely increasing the preference of customers for buying the company's products and services, the brand becomes a tool for affecting the preference of other audiences to do business with the organisation. For example, the brand may favourably affect staff, suppliers, business partners, the trade, regulators and providers of capital. The benefits of a strong organisational brand are not only increased demand and distribution, but also lower costs of materials, personnel, debt and equity.

HOW BRANDS CREATE VALUE: The enterprise brand has an impact on four major audiences: consumers, suppliers, staff and investors/financiers. For each of these audiences, market research can be done to analyse both the extent and nature of the awareness, and the image profile that the brand enjoys, to capture the impact of these on the subsequent behaviour of that audience.

With consumers, the impact of brand health drives both profitability and growth. With suppliers and staff, the impact of brands is evident in lower costs. With investors and financiers, the benefit of strong brands is seen in lower funding costs. On the demand side, consumers are willing to pay higher prices, give a higher share of their requirements, repeat purchases and purchase more cross-sold products. Trusted brands also grow markets. Brands grow market share, increase prices, increase loyalty and extend the footprint through brand extension.

Brands also affect the cost side of the economic model. Trade buyers stock well-branded products more readily and charge less for

doing so. Staff stay with strongly-branded employers and are more motivated. Most importantly, brands reduce the cost of capital by influencing investors and bankers.

ENHANCING VALUE: Value creation is a function of three primary variables – profitability, growth and risk. Investors care about the level of free cash flow of a company (profitability), the prospects for increasing cash flow (growth) and the volatility of these cash flows (risk).

Brands create preference (the basis for profitability), frequency (the basis for growth) and loyalty (the basis for reduced risk), providing the bedrock for enhancing value.

Studies indicate that brands play a meaningful role in supporting superior levels of profitability and also demonstrate the impact of brands in reducing earnings volatility. By controlling profitability, brand health acts as a powerful proxy for growth and risk.

Today, nearly every global company has jumped on to the CSR bandwagon and other initiatives to differentiate their brands. However, many companies in Sri Lanka do not apply a strategic approach to CSR. It is highly fragmented and disjointed, being more like CSR for the sake of publicity, rather than a sustainable programme that gives long-term value to the community. Strategic CSR initiatives must pervade the entire company and should not be limited to a social-responsibility project. It has internal implications such as a company's recruitment policy (whether it hires disabled/disadvantaged people), remuneration (setting standards such as the gap between the highest paid and the lowest paid), corporate governance, etc.

THE CEO'S ROLE IN ENHANCING INTANGIBLE ASSETS: Examining the broader picture of value creation, there is evidence of a dramatic shift in value from tangible to intangible assets in publicly-listed companies. This is seen in the divergence between the net asset value of companies and their market capitalisation. The aggregate market-to-book ratio of the S&P 500 (the broad-based index of the 500 leading companies in the US) rose steadily from an average of around 1.4 at the beginning of the 1980s to around 3.5 in the mid 1990s. It accelerated rapidly in the late 1990s to reach a peak of 7.3 – at the height of the dot-com bubble in early 2000, before falling back to its current level of around 4.7.

A market-to-book ratio of 4.7 implies that the tangible assets of a business (land, equipment, inventory, networking capital and so on) account for under 25 per cent of the value that investors are placing on a company. Intangible assets such as patents, business systems, distribution rights, brands, customer databases, and the quality of a company's management and workforce, account for the remaining 75 per cent.

The need to protect and enhance existing assets whilst driving greater value by expanding the intangible asset base through acquisition of intellectual properties is a key consideration for CEOs operating in the modern business world.

How else can one explain recent acquisitions of the two Internet portals YouTube, which was bought by Google, and MySpace, which was bought by News Corp, for US$ 1.65 billion and US$ 560 million respectively? Both these Internet portals were set up by young people under the age of 30 who understood the power of the Internet and just had simple ideas which were quickly seen by established companies as great opportunities.

Similarly, the acquisition of management talent is a huge business in developed markets. And having acquired them, retaining that talent costs an immense amount of money in terms of stock-option grants, etc.

Exclusive rights such as those of South Asia Gateway Terminals – which owns and operates the Queen Elizabeth Quay in the Port of Colombo, where John Keells Holdings is a key stakeholder – provides huge advantages to this company and the creation of shareholder wealth.

As commerce becomes more competitive and as more companies race towards driving greater shareholder value, the need for the CEO is to be able to see beyond the day-to-day operations and look at new and innovative ways of value creation around enhancing or acquiring intangibles.

The boardroom discussion around brands and intangible assets would, therefore, seem to operate at two levels. On one level, the need to manage brands in a holistic and strategic sense through monitoring the key brand indicators which would be reviewed along with the financial performance for the period. And at the next level, the need to look at the bigger picture where the enterprise should be hungry to acquire and build other intangible assets which would complement its business. Here, companies should be searching for joint-venture opportunities, synergies, building alliances, new partnerships, acquisitions, mergers and other means of acquiring intangible assets for the creation of shareholder value.

The author is the founder of STING Consultants, Sri Lanka's only pure strategic-marketing and brand-consulting company. STING Consultant's associate companies include &Brand (strategic branding and creation), Brand Finance Lanka (brand valuation) and Superbrands Lanka (brand-recognition programme).

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