Hype or Hope?

The value of a brand.

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“A great brand is a story that’s never completely told. A brand is a metaphorical story that connects with something very deep – a fundamental appreciation of mythology. Stories create the emotional context people need to locate themselves in a larger experience.”

Scott Bedbury (ex. Starbucks Chief Marketing Officer)

Hype or hope?

Corporate behemoths like Nike, Apple, Google etc are often referenced when attempting to define what a brand is. The names immediately invoke familiar and ubiquitous brand visuals such as logos, imagery and fonts - from McDonald's golden arches to Coca-Cola's swirling script, Apple's minimalist vibe to Google's multi-coloured sequence. However, restricting the idea of brands to mere aesthetics alone may be missing the point.

Marty Neumeier, an American author and speaker who writes on the topics of brand, design, innovation, and creativity, defines brand by first laying out what a brand is not: "A brand is not a logo. A brand is not an identity. A brand is not a product." According to Neumeier, "a brand is a person's gut feeling about a product, service, or organisation."

Through the course of this paper, we will attempt to investigate exactly what it is that makes a brand successful. Furthermore, especially in the context of Financial Services, how brand can be instrumental to the success or failure of a firm; differentiating it from competition and instilling a sense of emotional loyalty with investors, customers and employees - and consequently delivering financial value.

Branding - The evolution

The term "brand" first emerged centuries ago as a way for cattle ranchers to identify their animals. With the rise of packaged goods in the 19th century, producers continued this trend by branding a wide array of products to indicate their source. In the late 1880s for example, Coca-Cola was competing with many similar soda producers in the market. There needed to be an obvious and easily relatable, distinguishing factor to compel a customer to reach for Coca-Cola in preference to other dark, carbonated drinks on the shelf. The distinctive white and red Coca-Cola logo in its cursive font has now become iconic.

Branding has since evolved further. Distinctive aesthetics are important but not enough. These days, consumers have more information about products and more choice than ever before – thus it is imperative for firms to differentiate in order to stand out. Increasingly, success is not determined by the biggest advertising budget or the most recognisable logo. It's determined by who makes the greatest emotional connections.

Large corporations increasingly consider brand value as a significant asset on their balance sheets. Branding specialists 'Interbrand' estimated that the combined total value of the top 100 brands in the world crossed the two trillion dollar threshold in 2018, an increase of 7.7% from 2017 (1). Therefore, creating differentiation (and consequently, value) through a brand will become ever more important in the years to come.

(1) Interbrand

The value of brands

Even though the value of a brand in itself can never be determined through exact science, there are a number of different methodologies to place a financial value on a brand:

- Cost incurred in creation – this is the most straight-forward method, equivalent to determining the monetary value that went into building the tangible elements of a brand. The costs that have been incurred since inception are totalled and may include expenditure on historical advertising, promotion expenditure, the cost of campaign creation, licensing and registration costs plus the cost of any trademarks.

- Market-based valuation – a value is arrived at after researching the prices of competitors in the marketplace. This would normally use one or more points of comparison between the brand in question and analogous brands, considering brand valuations, comparable company transactions and stock market quotations.

- Potential future value – this valuation approach emphasises the potential value the brand can offer in the future and is often referred to as the 'in-use' approach. To calculate brand value, this approach uses future net earnings that can be attributed directly to the brand to determine its current value. The brand value using this method is equal to the value of income, cash flow or cost savings actually or hypothetically achieved due to the reputation or recognition of the brand. This is a useful method as it considers the fluidity of the market and rapidly changing public perceptions.

Each method has its pros and cons, yet only method 3 considers the future performance of the business and considers the brand strategy as contributing to the future success or failure of the business. Clearly a well-executed brand strategy can help a business gain recognition, build trust, increase financial value, generate referrals and motivate employees. Conversely, an ill-thought through and mis-opportune brand move can effectively destroy a business.

Financial Services

Arguably, post the financial crisis of 2007-2009, brand has become even more important for the Financial Services sector – particularly aspects that relate to consumers' perception of trust and reputation. For instance, a 2016 UK YouGov survey placed the reputation of the Financial Services industry at 26th out of 26 (lower even than the gambling industry).

Many established banks have responded by trying to re-build their brands or by creating completely new ones – seeing this as a strategic priority to maintain and expand market share.

Challenger banks like Starling and Monzo have recognised the opportunity for them, as have more established brands like Handelsbanken and Triodos, and seek to carve out a unique brand identity which combines clear brand purpose with brilliant execution. This approach is used by these players to cultivate confidence and encourage customers to build a relationship with them.

Case Study - Monzo

With over 3.9 million users since its inception, Monzo has sought to build a brand that has customer experience at its heart. Monzo purports to be the, “bank for everyone, that works with you, for you”. It provides a great example of a brand vision being brought to life holistically, across all aspects of the organisation that a customer sees and with which they interact.

The Monzo brand expands beyond the design of their logo and ‘hot coral’ card into the user experience itself. Digital design considers usability, interaction, performance and technologies in order to deliver a service which users’ value. All these aspects have been developed and continuously improved through regular engagement and interaction with customers.

Monzo has taken aim at the traditional branch banking model which it paints as increasingly outdated, with inconvenient opening hours, frustrating call-centres and unnecessary emphasis on form-filling. Instead, Monzo positions itself as a response to the needs of modern, digitally savvy and highly discerning personal banking consumers for whom convenience is key and waiting in line on the high street is unacceptable.

However, the apparent success story is not entirely unqualified. Monzo continues to make losses and in 2019, despite their untraded shares purported to have increased in value since launch by a multiple of 25 and their valuation being estimated at c.£2bn. , the neobank still clearly needed to find ways to generate revenue (e.g. becoming the primary account for most users, growing their unsecured lending book and through levying fees for ‘valued services’).

Their focus on growth rather than profitability, doubling customer numbers in 2020, just ahead of the COVID crisis, now looks to have been ill-conceived. With a recessionary economy likely to be with us for the foreseeable future, profitability may now be even more elusive.

GBP	FY, 2017	FY, 2018	FY, 2019	FY, 2020
Net operating income	120.0k	1.8m	9.2m	35.7m
Operating expenses	(8.0m)	(34.9m)	(59.9m)	(151.1m)
Pre-tax profit	(7.9m)	(33.1m)	(50.7m)	(115.5m)
Income tax expense	1.2m	2.5m	3.5m	1.7m
Net income (loss)				

In June 2020, Monzo completed a funding round at a 40 per cent discount to its previous valuation, as the coronavirus hit its growth outlook. One month later the bank warned that the pandemic had threatened its ability to continue to operate.

Worse still, if the mark of a great business and a valued brand is to be there when customers need you, Monzo failed many of its customers. At the height of the lockdown, hundreds of its customers complained they had been shut out of their accounts for sometimes weeks at a time, with Monzo freezing accounts without notice. This defining moment has turned fans to critics and, just as social media amplified the positive, it is now doing the same with the negative. There are now almost 5,000 members of a Facebook group called “Monzo stole our money” and on Trustpilot, 12 per cent of reviews are now “Bad”.

Note: After raising £20 million with us in their third crowdfunding round in 2018, challenger bank Monzo closed a £113 million funding round led by YCombinator (YC) Continuity. This brings Monzo’s post-money valuation to £2 billion [Crowdcube (2019)]

Case Study - Virgin Money

When Clydesdale and Yorkshire Bank Group (CYBG) took over Virgin Money, it created the UK's sixth largest bank with six million customers and a total lending capacity of £70bn. However, whilst the scale of the takeover was significant, the headline-grabbing aspect of the transaction was CYBG's investment in the Virgin Money brand.

Instead of stamping its own name on the venture or even co-branding Financial Services offerings, CYBG decided to take an alternative approach to their branding strategy – all CYBG businesses were to be rebranded as Virgin Money. This meant CYBG had to license the Virgin Money brand for £12m a year, a figure set to rise to £15m by 2022.

The salient value of the brand is evident in this deal. Virgin's status as one of the world's most recognisable brands has been a function of the creativity, commercial nous and hard work put into cultivating its reputation over the years. Virgin Money's £10m advertising campaign, launched in August 2010, pivoted around its heritage, reminding consumers that Virgin was a brand to be trusted (contrary to popular public opinion towards banking, particularly at that time). It promoted a 'different', 'better kind of bank' which would 'put customer service ahead of cost-cutting.' The deal is a definitive illustration of how it pays to invest in a Financial Services brand as Sir Richard Branson (founder and investor in the Virgin brand) secures 1% of the revenues from Virgin Money brand royalties (on top of other shares and profits).

While the deal with CYBG appears to be a prima-facie success for Richard Branson, who was able to successfully monetise the Virgin Money brand, the transaction does not come without its inherent risks.

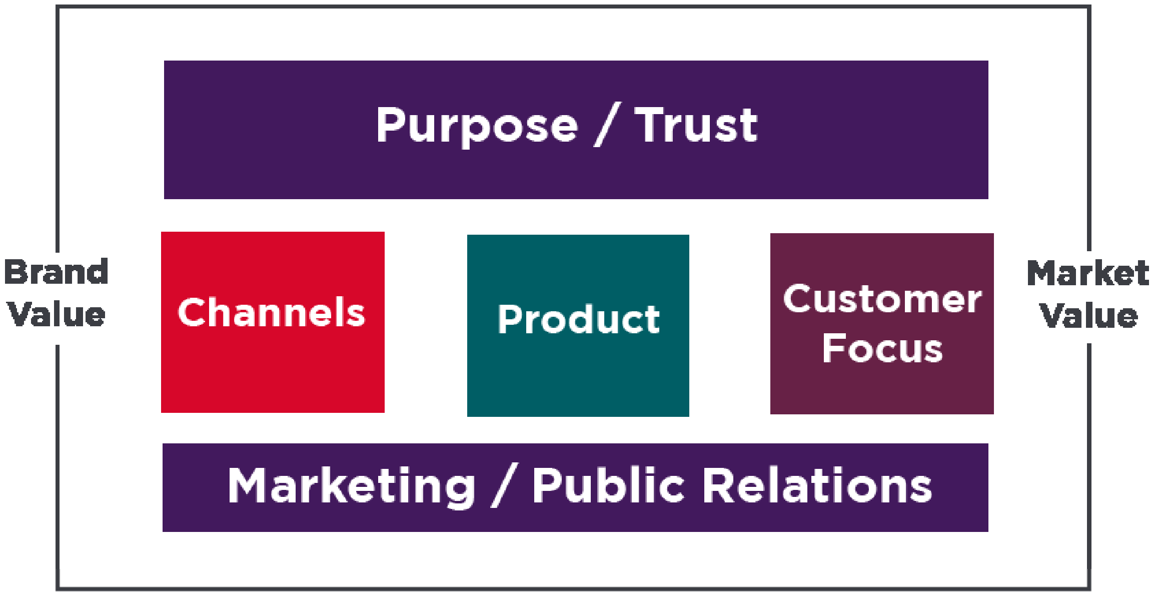
Due to global name recognition of the Virgin brand and its presence in a wide range of industries (e.g. Virgin Media, Virgin Atlantic etc), CYBG has assumed the risk of significant reputational and financial damage to its name in cases where the Virgin brand as a whole comes into disrepute.

This may have come to roost with the global pandemic and the damage that has been done to air carriers including Virgin Atlantic and Virgin Australia. Indeed, as the discussion raged on whether the airline merited a bail out, Forbes described Virgin Atlantic as "a stronger brand than business" as it posted a £45m operating loss in 2018 and generated a negative 1.6% margin compared to British Airways' 15.6% margin in the corresponding period. An example of contagion risk for Virgin Money perhaps.

Source: MoneySavingExpert (2019)

“The whole is greater than the sum of its parts”

This phrase is purported to have first been coined by the philosopher Aristotle and aptly defines the synergy of the brand parts that ultimately determine brand value and sustainable market value.



Looking at each of the components that together make up a brand:

- **Purpose/ Trust** – authenticity is key in the delivery of brand experience. Businesses must first look inwards to determine their purpose or reason for existing and at their core values, before distilling them into a brand strategy. Aping successful competitors can often be a recipe for disaster as the defining elements of successful branding are honesty of purpose, creativity, originality and consistency in delivering these elements. Customers are increasingly savvy and able to distinguish between a genuine narrative and a gimmick and are more and more looking to be engaged with passion and integrity. As Oscar Wilde said “Be yourself, everyone else is already taken.”

- **Channel** – with consumers accessing information, products and services via smartphone, tablet and laptop, as well as seeking human interaction to resolve queries or concerns through webchat, telephone and face-to-face, businesses are experiencing new challenges in how they approach distribution. This is compounded by consumers’ desire to operate across all, or a number of, these channels and their expectation of being able to pick up at the exact point from any previous channel.

  The challenges businesses face manifest themselves in finding the optimum way for their target customers and themselves, to communicate products, services, offers and information, and to market their brand offering. It’s not enough to have the right combination of channels; businesses also need to send the right kind of message across those channels; to measure the impact of the message and be ready to adjust messaging based on what’s seen. Financial brands must now use different creative messaging for each channel.

- **Customer Focus** – personalisation in its simplest terms is recommending the right product to the right consumer at the right time for them. Successful businesses are generally one step ahead of their customers’ preferences and resist the short-term convenience trap of targeting their entire customer base with the same generic messaging. Successful businesses tend to analyse individual customer behaviours to detect preferences and values and then present only the most relevant product at the appropriate time. Personalised engagement with customers not only convinces first-time customers to remain loyal, but also leads to successful, needs-based sales.

Similarly, successful businesses attempt to identify and circumscribe patterns of consumer behaviour (from which they segment customers into relevant behavioural profiles) instead of treating the entire customer base as a monolith. Segmentation breaks down the target market into smaller groups based on their common interests, tendencies, and previous behaviour patterns, allowing businesses to better communicate and interact with each one of these segments in the future. By tracking customers' spending habits, visiting or purchasing frequencies and general consumption tendencies, it is possible to increase retention rates and increase share of customers spend.

- **Product** – it probably goes without saying that a product or service which serves its intended purpose and provides customers with the quality they are looking for is an imperative. History is littered with failed ventures that had great products which failed to sell at the right price and/or reach their intended customers. For example, Euro Disney, despite having a proven product and renaming to Disneyland Paris, is still propped up by the Disney Corporation. Similarly, whilst the DMC DeLorean car that featured in 'Back to the Future' became a legend, the car and the company failed to capture market share and the business failed in high profile fashion.

- **Marketing/ Public Relations** – whilst advertisements and sponsorships were traditionally how most businesses utilised their marketing budget – the dynamic has now changed. Advertising budgets are now allocated in a number of different ways, targeted at reaching appropriate but highly segmented consumer groups. Traditional promotion methods are still used but interspersed with social media, search engines and media engagement (amongst others).

Lessons from the past - brand damage

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." ~ Warren Buffett

Having outlined the significance of brand in generating and perpetuating the success of a business, it is also important to realise that wrong turns in brand strategy may not be just ineffective but actually counter-productive, causing financial and reputational damage.

The multi-faceted nature of banking means that businesses must carefully evaluate a complex set of interconnected factors before embarking on initiatives that may have unintended consequences – for example:

- In 2013, JP Morgan's #AskJPM campaign decided to conduct a well-publicised Twitter chat. However, the bank omitted to consider the anti-Wall Street sentiment prevalent in some sections of the internet in the aftermath of the #Occupy movement. Disgruntled customers, activists and bloggers had a field day. Instead of asking genuine questions, the bank's account was flooded with negativity and ridicule, resulting in public embarrassment.

- In 2009, HSBC had to completely re-do its global private banking marketing campaign and spent millions to scrap its US campaign message "Assume Nothing" because, when it was translated into overseas markets and languages, it became "Do Nothing".

- The precarious nature of reputational prestige is nowhere more evident than in the case of Nike. The company's Oregon Project closed down as the head coach Alberto Salazar was banned for four years after being found guilty of doping violations. Just weeks after, in October 2019, Nike announced that their Chief Executive would step down from the role in 2020.

- UK's Abbey National Building Society launched an ambitious rebranding strategy in 2003 after posting a record loss of nearly £1bn. It changed its name to the snappier "Abbey", abandoned its trademark image and set aside £30m in what was billed as a campaign to revolutionise the banking industry. However, in hindsight, this proved to be a case of 'too little, too late'. Not only did customer confidence remain at an all-time low, most analysts in the industry assessed that the reputational damage suffered was irreparable and beyond redemption, despite the vigorous and expensive rebranding campaign. This probably contributed to the ultimate acquisition of Abbey by Grupo Santander in 2004.

- More recently, Amazon launched a retail site in Sweden, its first in the Nordics, and made several blunders. It picked the Argentine flag rather than a Swedish flag on the 'country picker'. Even worse, its use of an automatic translator picked the wrong words on occasions, leading to nonsensical and at times vulgar product listings e.g. a collection of second world war-era Russian infantry figurines was translated as "Russian toddlers".

Branding requires continuous evolution and care

If there is one lesson to be learned from various brand successes and failures, it is that businesses must invest utmost care in each and all of the component parts which constitute their brand. This inevitably entails ensuring all aspects operate in synergy and that any revisions or fine tuning considers the potential impact on other aspects, as well as on the brand overall. Strategy invariably means looking to remain one step ahead of competitors; ideally anticipating existing and new customers' expectations. The market and consumer expectations change frequently and so, therefore, brand strategy must also evolve.

The last word, perhaps prophetically given that it predates the pandemic, may be given to Sir Richard Branson, as one of the foremost champions and beneficiaries of brand.

"Branding demands commitment; commitment to continual re-invention; striking chords with people to stir their emotions; and commitment to imagination. It is easy to be cynical about such things, much harder to be successful."

To discuss how Johnston Carmichael can help you determine the correct business strategy to help you meet your goals, or assist you with performance optimisation across a wide range of operational challenges, please get in touch.

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