

# Strategic Chronicle™

*A Newsletter for Clients and Associates of KLM, Inc.*

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## The Strategic Significance of Brands

The Brand has risen to occupy a place of paramount importance on the pages of such stalwart business publications as Financial World, Business Week, and Fortune magazine. In the 90's, when these reputable magazines first started reporting financial valuations for brands, much to everyone's surprise, these valuations were often greatly in excess of the annual revenues of the companies surveyed. As the reality and significance of these numbers sunk into the corporate world, the concept of "the Brand" quickly rose to a new level of strategic significance.

Still many start-ups, technology driven companies, and others in business-to-business and non-consumer markets fail to recognize that this Brand phenomenon applies to all organizations. These individuals

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have been accustomed to thinking of brands as a "marketing concern," or as only of interest to those who provide consumer goods or services. However, the Brand, in virtue of its significant financial value, and enormous potential to drive economic markets, has become a major strategic factor in the corporate world providing competitive advantage, delivering shareholder value, creating wealth, and ensuring social prosperity.

### The Emergence of the Brand

Fifteen years ago "the Brand" wasn't even on the radar screen for senior corporate executives. At

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best, "the brand," was limited to the marketing department of consumer packaged goods enterprises as a tool of marketing.

But then, during the early 1990s, a new corporate strategy, "growth through acquisitions," emerged and initiated a now famous wave of merger and acquisition activity that has lasted until our present day. However, as visionary corporate executives began to acquire companies, they encountered an unforeseen obstacle in setting the value of their acquisition targets. In days past, book value and some multiple of revenues had been adequate to strike an acquisition deal. But suddenly, attractive companies, with enhanced market capitalizations, weren't to be had at book value driven prices because of their "intangible assets." As accommodations were reached and increasingly pricey deals were struck, a whole new concept emerged that has since found its way into the top ranks of corporate management. It was the concept of "intellectual capital," and it came to refer to a range of intangible intellectual assets, but most primarily, as so many of these early and astounding deals revolved around famous brands, to "the Brand."

As we look back today, we can see that the beginning of the decade of the 1990s was the beginning of a tremendous increase in economic activity worldwide. Mergers, acquisitions, new financial vehicles, and complex business arrangements emerged to radically

change the economic landscape and companies of every shape and size for the better. During this time, mergers and acquisitions were revealing that what made a company attractive to an acquirer often wasn't captured on its balance sheet, be it a famous brand or patented technology or the promise of a totally revolutionary business concept.

As "growth through acquisitions" gained momentum, the paradigm shift that led from valuing and managing traditional physical assets to valuing and managing intangible and intellectual capital assets came to pass. And with it, emerged the shift toward the strategic management of intellectual capital assets that has changed the priorities of corporate planning forever.

### The Rise of Strategic Brand Management

As Brands emerged as a bundle of profoundly important intellectual assets, the Brand and Brand Strategy grew rapidly throughout the 1990s, increasing in importance, and often becoming the corporate strategy itself.

Soon, the marketplace became flooded with new brands, trademarks, slogans, and the understanding of the value of brands and branding began to spread beyond consumer goods into industries that didn't even sell to consumers. Intel Corporation, with its "Intel Inside" brand strategy began to teach technology players how to increase gross margins with a product line brand. Pharmaceutical giants adopted product branding architectures from food and beverage companies to turn drugs like fluoxetine hydrochloride into Prozac, and then to go on to drive sales to record-breaking levels with demand created by direct-to-consumer advertising and imaginative line extensions.

However, despite the spread of brands into non-consumer industries, many enterprises still viewed the corporate brand as a mere trade name. But soon they too began to recognize that well-branded enterprises found it easier to command respect and set policy with governments, influence and establish industry-wide standards, find partners for strategic alliances, obtain new sources of capital, and that it was less expensive to expand globally when the corporation itself was well-recognized and regarded.

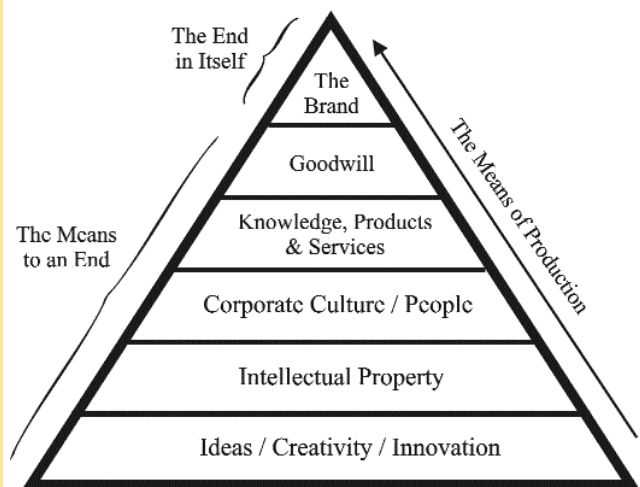
## The Theory of the Brand

The strategic thinking surrounding brands advanced by leaps and bounds during the 1990s to become the province of the most successful executives and strategic thinkers.

Spurred by the emerging theory of intellectual capital assets, the Brand was soon recognized as the ultimate intellectual capital asset, the *raison d'être* for all other forms of intellectual capital, and as an end-in-itself for any and every successful enterprise, undertaking, or corporate entity.

The diagram below articulates this supremacy of the brand and its relationship to other the elements of intellectual capital, demonstrating how means-to-ends roll up and distill their value into the brand as the ultimate intellectual capital asset.

### The Brand and Intellectual Capital



This model portrays the general categories of intellectual capital assets, such as ideas and innovation, intellectual property, corporate culture, and human resources such as talent and expertise. These intangible assets culminate in knowledge-based products and services that create goodwill and form the structure of what the Brand means to its constituency and its surrounding world.

In and of themselves, these prior intangible assets lack the orchestration and integration that they receive when they are organized with meaning and significance under the identity of a brand in the marketplace. The Brand distills and assembles and incarnates all of the other intangible intellectual capital assets in an enterprise into the meaning of a Brand in the minds of customers, consumers, and the society at large.

In time, Brands began to penetrate beyond the corporate world. Suddenly governments, nonprofit organizations, and civic entities began to realize that they needed a Brand to allow them to compete more effectively in their strategic arenas, whether to deter terrorism, attract tourism, or obtain grant money. Suddenly every industry and every undertaking was learning the Brand business model.

## **The Importance of Brands**

Executive leadership within every organization should recognize that Brands are more than just the name of the company, a trademark for a product, or a service mark for a service. The Brand is a complex concept that creates organizational value and performs a number of important functions for every enterprise. Brands and their combined Brand Equity constitute the major economic force within the entire global economy, delivering marketplace value, shareholder wealth, livelihood, prosperity, and culture.

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There are hundreds of thousands of brands within this world, but only a few hundred Brands that move markets and are highly valued. Today, successful Brands are recognized as rare and valuable assets that must be exploited carefully, with wise and knowledgeable management that retains their financial value, their economic power, and their social significance.

Brands have become the most valuable asset within any enterprise, quintessentializing the knowledge, the art, the science, and the work of each person in each work day, making them the ultimate symbol of much that is good and true and beautiful within our global economy.

A revised version of this article was published during April of 2004 by Globe White Page Ltd., London, England, as the introductory chapter to their new book, *Brands in the Boardroom: Key Branding Issues for Senior Executives*. Copyright 2004, Dr. Lindsay Moore and Mrs. Lesley Craig, Esq. All rights reserved.

## **The New Market State and Corporate Social Responsibility**

Modern technology, globalization, the multinational corporation, and large amounts of unengaged, surplus capital<sup>1</sup> are heralding a new era that is changing the traditional boundaries between government and business and that underlies the new concern about corporate social responsibility in the world of business.

In the western world, governments are increasingly aspiring to model their operations after the science and efficiency of the corporate business model. These efforts, particularly in the U.S., are changing the governmental operating model and driving government to spin-off many of its traditional social responsibilities to the world of business.

Simultaneously, business, with its significant wealth and its ability to deliver increasing profitability, is assuming new responsibility for many previously governmental areas, such as the environmental, individual health, the redress of economic inequities, specific social problems, continuous adult education, and the financial fostering of culture.

In an interesting turn-about, the state is becoming more driven by market dynamics and the corporate principles of operational effectiveness, and the world of business is becoming more concerned and involved with social and cultural responsibilities previously left to government and non-profit institutions.

## **The Multinational Corporation**

Recent studies, published in *Global Inc.*<sup>2</sup>, report that of the 100 largest “economies” in the world during 2002, only 47 of them are nation states, with the other 53 being multinational corporations. For example, Wal-Mart Stores, the world’s largest corporation during 2002, with annual sales approaching \$250 billion exceeded the gross domestic products of all but 17 of the world’s 208 nations as reported by the World Bank.

1) “Surplus capital,” often referred to as “overhang” by venture capitalists, refers to the as yet uninvested money in their coffers that only awaits good investment opportunities.

2) *Global Inc.: An Atlas of the Multinational Corporation*, by Medard Gabel, 2003.

These numbers point to a remarkable transformation in the world and de facto portend a promising change in the human condition.

Advances in political and social freedom achieved over the last 100 years have led to enhanced levels of individual education and greatly increased personal and societal wealth around the world. Recent statistics reported in the Wall Street Journal suggest that within the U.S. individual incomes have doubled since 1960, 70% of the citizens now own their own homes, the average home size has doubled, people live twice as long as their 19th century forebears, the air and water are cleaner, and crime rates are decreasing.

As many commentators on rising affluence and improved living conditions have observed, the life lived today by the average employee in America is better in health, comfort, personal fulfillment, and well-being than that enjoyed by the Queens of England in centuries past.

Today, there are more than 63,000 multinational corporations, employing over 90 million people across both the developed and developing worlds. What is emerging is a world economy, where the world's largest corporations are larger in economic size than most of the nations in the world, and the citizens on the street experience greater well-being than the royalty of centuries past.

Within this environment, the old topography of government and business is rapidly changing, and with these changes, so too are the responsibilities of both government and business shifting.

### **The Emergence of the *Market State***

The shifting roles between government and business can be understood by considering the new theory of “market statehood” advanced by Professor Philip

Bobbitt, a historian and constitutional scholar, wherein the new emerging “market state” is juxtaposed to the now passing nation state.<sup>3</sup>

The nation state arose after the Civil War in the United States, and in Europe at the end of World War I with the destruction of the 19th century empires. The role of these new nation states was to advance the welfare of their people by becoming responsible for the economic well-being of their citizens.

During the 20th century, three primary models of nation statehood vied to better the material well-being of their people. The fascist model, adopted by Germany and Italy, under the leadership of Adolf Hitler and Benito

Mussolini. The communist model, advanced in the Soviet Union by Valdimir Lenin and Joseph Stalin. And the parliamentarian-capitalistic model adopted and advanced by the U.S. and the U.K. under the leadership of Franklin Roosevelt and Winston Churchill. World War II, and the subsequent “cold war” era, provided the stage upon which each theory of nation statehood advanced its claims until it became clear that the greatest true welfare for the greatest number was provided through individual freedom, democracy, parliamentary-representational government, and a capitalistic economy.

In the United States, the nation state pursued the material wealth of its citizens by maximizing the opportunities for individual advancement and by ensuring a fair distribution of the emerging wealth.

<sup>3</sup> *The Shield of Achilles: War, Peace and the Course of History*, by Philip Bobbitt, Alfred A. Knopf, 2002.

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During this time, business and government worked hand-in-glove to accomplish this work through the government regulation of markets and the operation of social welfare programs.

Toward the end of the era of the nation state, in the U.S. it became increasingly clear that markets provided the most effective way to run an economy, and thus the incentives and dynamics of the marketplace increasingly replaced regulation and governmental social programs.

Today, under the emerging market state, the state finds its legitimacy in fostering the free enterprise and free markets necessary to increase the aggregate wealth of the citizenry, in continuing to maximize opportunities for individual advancement, in encouraging the growth of public-private partnerships, and in devolving the welfare state.

Thus we see a trend toward (i) the deregulation of industries making markets more dynamic and fruitful, (ii) the emergence of public-private partnerships such as those between government and business evidenced during the recent Iraqi war, and (iii) the disappearance of traditional welfare programs in favor of job retraining programs and the continuing education that suit individuals to play new, expanded roles within the changing economy.

### **Business and Social Responsibility**

This new state model, with its shifted conception of the role of the state, reciprocally puts a new emphasis upon business and its role in society, thus inaugurating a new distribution of responsibility between the state and business.

As government structures the market dynamics that drive wealth and prosperity, business emerges to provide opportunity, livelihood, health care, continuing education, social mobility, and to assume new social and cultural responsibility for society.

Since the 1970s, with the emergence of small business, public markets, deregulation, and the upsurge in non-profit organizations, the marketplace has increasingly been left to deal with social problems through philanthropy. As welfare continues to devolve and the non-profits are attacked for their inefficiencies and

## **The Theory of the Modern State**

The ongoing development and evolution of the modern state, as presented by Philip Bobbitt, can be traced through the following stages:

### **1) The Princely States (1494 - 1648)**

The princely states, that evolved in Italy during the Renaissance, replaced the previous feudal lords by offering citizens the first significance territorial protection and security in return for granting individual princes territorial power. Under these arrangements, princes hired mercenaries to protect their territories and the trade routes that ran through them. In return, the princes collected taxes and normalized daily commerce and relations within their domains.

### **2) The Kingly States (1648 - 1776)**

The kingly states emerged under the concept of the divine, God-given right to rule enjoyed by kings. During this era, the state continued to fulfill its responsibility to provide security, albeit for greater territorial areas, through the creation of armies and navies. In return, the subjects of the regime enjoyed a kind of participation in the king's divine status and the glory of his dynasty.

### **3) The State-Nation (1776 - 1914)**

During the late 18th century, a new order arose under the ideas of freedom and democracy that united a population around a common participation in a national, ethno-cultural identity. During this era, we see the rise of imperialism, and the expansion and exploitation of national identity.

### **4) The Nation State (1914 - 1991)**

Toward the turn of the 19th century, the nation state emerged to benefit the people it governed by providing for the economic welfare of its citizens. During this era, communism, facism, and parliamentarianism competed to provide the greatest welfare to its citizenry.

### **5) The Market State (1991 - )**

Emerging during the 1990s in the U.S. and Western Europe with the global economy, the market state exists to maximize the opportunity for people to advance themselves and to ensure the existence of the market structures that provide for wealth and social prosperity.

failure to deliver social and cultural benefits, business is challenged to apply its wealth and operational efficiencies for the common good. Thus, the areas targeted by governmental social

Today, under the new market state and the ethos of corporate social responsibility, success in the marketplace emerges from pursuing those paths for business development that also improve society, build the culture, and develop wealth for prosperity.

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programs and non-profit initiatives, long inadequately funded with tax dollars and philanthropy, become the new focus of business as a matter of corporate social responsibility.

Corporations, if they will remain successful in the marketplace, must adopt and make congruent and contiguous with their strategies, the well-being of the societies within which they operate. Thus, previously governmental concerns of sustainable development, education, environmental protection, and public health, are the concerns of business as well for this is market-building at its most essential and the assurance of ongoing consumption, competitive advantage, and profitability.

Today, these are matters of corporate strategy, no less than are global market penetration and building brand awareness. But not just as public relations or expediencies of brand management, but under a new business worldview that sees societal success as corporate success, and corporate success as societal well-being and advancement.

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