

Strategic Chronicle

A Newsletter for Clients and Associates of KLM, Inc.

Issue No. 1

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New Thinking About the Value of Strategy

During the 1960s and the 1970s, “strategic planning” emerged as the model for corporate planning.

By the 1980s, the value of strategic planning began to be called into question, most notably by Jack Welch, the famous CEO of General Electric. Welch boldly eliminated his once acclaimed planning department, believing it had lost touch with both the organization and the real world.

By the early 1990s, management guru Tom Peters delivered the death blow to strategic planning with his shocking dictum that “Strategic Planning is Dead.” Things were changing too fast for planning. We couldn’t see into the future so why plan for it? Ivory tower thinking clearly could not be implemented. Given their dramatic impact on profitability, “reengineering,” “downsizing,” and “rightsizing”



*One ship drives east and another drives west
With the self same winds that blow.
'Tis the set of the sails,
And not the gales,
That tells us the way to go.*

- Ella Wheeler Wilcox, *Fate*, 1897

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became the rage. Then, as the *dot coms* emerged, “business models” seemed to be the new strategic wave.

Today, after the failure of the “business-model-as-strategy,” and the optimization of production and efficiency initiatives, *strategy* is reemerging as high level creative thinking. Today, *strategy* is the new wave in corporate planning to address the need for growth, profitability, and sustainable competitive advantage.

With rapid change and increasing uncertainty, leaders need new strategies to stay at the front of change and win against competition. Enterprises committed to thinking strategically optimize their ability to shape and leverage change to their advantage. Because neither a business model nor efficiency initiatives can provide a *sustainable competitive advantage*, wise leaders are re-valuing the role of creative, strategic thinking.

Today the outcome of strategic thinking is no longer a neatly bound plan, written in stone, and placed on the shelf for occasional reference. It is a creative, intelligent readiness, built upon an awareness of market realities, organizational competencies, and brand equities. It is supported with far-sighted vision, strategic flexibility, contingency thinking, and it is situated to change as the changes emerge.

Why Do We Need a Brand Strategy?

With the dawn, during the mid 1990s, of the Age of Intellectual Capital, came the realization that *the real wealth in the modern enterprise is located in the intangible assets of that enterprise* and not in the “traditional (tangible) assets” such as real estate, plant, equipment, inventory, cash, and the like.

To understand the importance of these *intangible assets*, we need only look at the market capitalization of many of today’s most successful corporations, or at the prices paid well beyond conventional assets in recent mergers and acquisitions.

Consider Microsoft. In 2000, with a market capitalization of over \$423 billion, Microsoft reported revenues of only \$23 billion! If we check its balance sheet, and add its stated conventional assets of \$52 billion to its annual revenues, we are still left with \$348 billion worth of market cap of unspecified value?

What accounts for this \$348 billion? Experts agree this represents Microsoft’s *intangible assets* or “Intellectual Capital.” These days, on average, the *intangible assets* in many successful organizations are worth more than their traditional assets plus annual revenues.

A simple index of all the elements of Intellectual Capital, is “the Brand.” The *Brand* has become the distillation, as *Brand Equity*, of most *intangible assets* and the Intellectual Capital wealth that an enterprise has created over time.

Considering this, we can see why “the Brand” has moved to the center of corporate strategy. Increasingly, it is becoming one of the most valuable assets in the enterprise. Furthermore, it is a primary strategic asset as regards both *competitive strategy* and *sustainable competitive advantage*.

If this seems like an overstatement, consider the fact that all enterprises, from commodities to consumer packaged goods, possess, often unrecognized and entirely unleveraged, a brand or brands which are either accumulating or losing Brand Equity with the wisdom of each organizational act.

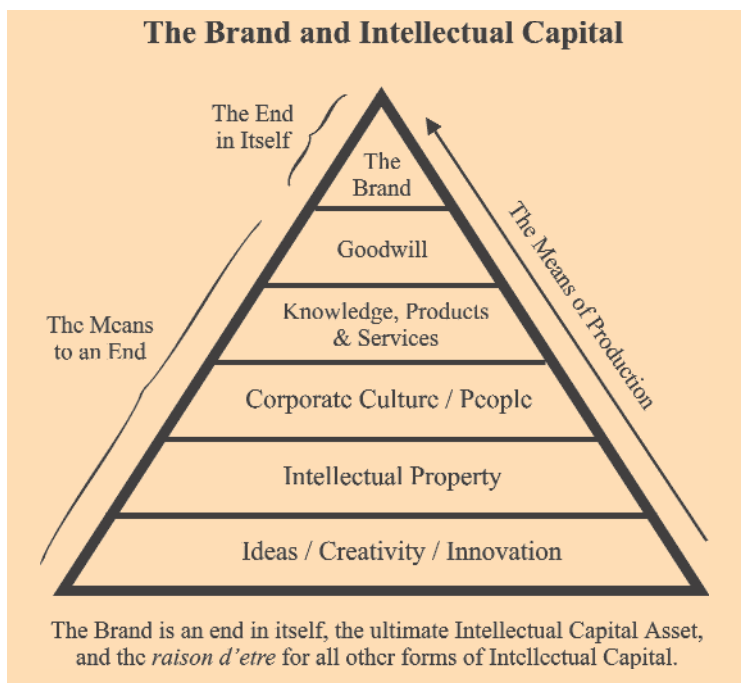
Whether it is “merely” the name of the enterprise, a product, a service, a house mark or a subbrand, we are all operating under an identity, which is *de facto* the brand or brands of the enterprise.

As we realize this largely unrecognized role of “the Brand,” our paradigm shifts, and the Brand, which we thought was, at best, the concern of the VP of Marketing, now understood as Brand Equity, becomes the ongoing concern of the CEO and the entire executive team.

If the Brand is the central Intellectual Capital asset, then a Brand Strategy is essential to managing that asset effectively. In other words, if we do not know what the enter-

prise stands for; and if we are not driving what it stands for into the minds of the consumers, customers, employees, and other stakeholders; and, if what it stands for isn’t a unique, well-articulated, and ownable “position” - then we haven’t yet really positioned the enterprise. In the absence of such a unique position, we are not either leveraging our Brand Equities into new wealth or commanding an orchestrated, sustainable, competitive advantage upon which to build reliable long-term success.

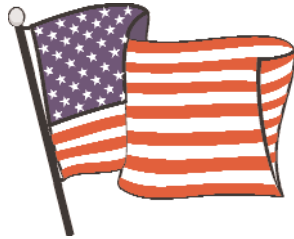
Consider that your Brand may be your most valuable corporate asset, and the asset you can most uniquely and powerfully leverage into a sustainable competitive advantage.



The State as a Brand

Brand gurus have long declared that all public entities and identities, and not just consumer packaged goods, are “Brands.” Today we see the truth of that assertion as we recognize the emergence of the “Brand-State.”

The tragic events of September 11th have brought to the foreground a number of unfortunate misunderstandings about America.



While America suffers under the recent terrorist attacks and the loss of innocent life, the likely perpetrators see their successful attack against America as a victory against capitalism, global corporations, and the Americanization of the world.

Thus the emergence of the “Brand-State,” and the need, at least for America, to define, clarify and refine what its “Brand” shall stand for in the minds of the citizens of the world.

On October 2, 2001, President Bush swore in his newly appointed Undersecretary of State for Public Diplomacy, Ms. Charlotte Beers. Ms. Beers, a well-known Madison Avenue executive, and former Chairwoman of J. Walter Thompson, is now called to leverage her years in advertising to sell America to the world.

It will not be easy, not just because branding a nation is a new challenge, but also because much of the most essential target audience is outside the reach of the traditional advertising and marketing tools of television, radio, print and online media. These difficulties are further compounded by the anti-American sentiment present in many of the most important-to-penetrate regions.

Ms. Beers indicated in the Wall Street Journal that she will endeavor to redefine and improve the image of America, initially through employing online resources (see www.usinfo.state.gov) and “dramatic photography” to put a human face on the recent tragic events, and to craft positive emotional connections. Watch the Quick Time movie at the web site entitled, “Defeating Terror, Defending Freedom.” It will send chills through you, with dramatic imagery you won’t forget!

The Theory of Branding

1. **Create an identity that stands for a set of values.**
2. **Emblazon your product(s) or service(s) with it.**
3. **Communicate it consistently.**
4. **Grow and change with the marketplace and the consumer.**
5. **Become a way of life for a loyal franchise of customers and consumers.**
6. **Attract new users and grow unendingly.**

A Theme Park for Dracula?

During the early 1990s, with the success of Walt Disney World in Florida, it seemed that theme parks were the brand building tool of choice for any Brand which could offer entertainment and rich media.

While the capital-intensive trend has passed in the U.S., it has finally reached the planners in Romania who are responsible for developing a capitalist economy. Mr. Dan Matel-Agathon, Romania's Tourism Minister and a Chevalier in the Order of Dracula, is hard at work on his contribution to providing jobs, tourism, and gross domestic product - Dracula Park !



Historically, Romanians have celebrated *Vlad Tepes*, (more commonly known as *Dracula*, which means "son of Vlad Dracul"), a heroic count who fought off foreign invaders and civilized south-western Europe during the 15th century.

Dracula lived during a time when Transylvania was at the frontier of both the Austrian Hapsburg Empire and the Ottoman Turks. War and violence were unending, and Dracula's particular reputation emerged amid atrocities and cruelty.

Dracula ruled the region in today's Romania known as Transylvania, gaining and losing his throne on more than one occasion amid war with the Turks. He gained the name *Vlad Tepes*, which means "Vlad the Impaler," because of his method of torturing invaders by impaling them and leaving them to die in agony.

While accepting the cruelty which was the order of the day during the 15th century, Romanians have always denied that Dracula was a vampire — until today. Now driven by the need to build a post-communist economy, Romania has moderated its previous rejection of Dracula as a vampire and shifted its focus to leveraging the Transylvanian myth for economic gain.

Dracula Park will sport vampires, a Center for Vampirology, a golf course with scary encounters, a Medieval food court, Draculabilia such as stakes, fangs, watches, and visitor portraits drawn with your own blood — all within a Medieval fortress.

Where do people get such an idea? Well, much of it is in the planning stages. A first \$5 million public offering is scheduled for the Romanian stock market during late 2001. It is to be followed by a second for \$15 million, with an opening date set for 2003.

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