Marketers' mission

Unlocking the boardroom

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Martin Roll – regarded as the 'Asian Branding Guru' and author of the global bestseller 'Asian Brand Strategy' – was in Sri Lanka last year, to share key insights on strategic brand building with Sri Lankan CEOs and marketers.

During the panel discussion which ensued, one participant asked the reason why long-term strategic brand development, which is an important aspect of marketing, is not valued by Sri Lankan companies.

The immediate response of one of the leading CEOs from the banking sector in the panel reflected the never-ending battle of marketers to gain influencing power in boardrooms; he said that the biggest problem in Sri Lankan boardrooms was that they were dominated by finance specialists who value only tangible assets and as a result, there were fewer opportunities for marketers to raise their voice.

As quite rightly discussed at the forum, the dominance of finance professionals in the boardroom is limiting the utilisation of non-financial management information – such as brand value, customer satisfaction and sustainability intelligence – in taking long-term strategic decisions which fine-tune the direction of any company.

It is true that the board is supposed to be accountable to shareholders for the proper management of company assets. However, boards of directors are not required (or do not take the trouble) to report to investors what they are doing with their most important assets created through marketing efforts such as 'branding'.

Who is blamed for not having enough marketers and marketers' voice in boardrooms? Is it because companies do not recognise the value of marketing in deciding on the strategic direction of an organisation or marketers' inability to understand boardroom language?

It is important for any marketer to understand the real cause of their role not being sufficiently recognised at boardroom level and how to fix the issue.

As Peter Drucker said, the only two functions of any organisation are innovation and marketing. Irrespective how innovative a company is, how committed the employees are and how competent the top management is, unless the company connects with the customer, success will be elusive.

The top management should constantly evaluate their strategic decision in the context of customer feedback, what the customers' value and how the customers can help the company in co-creating value. This process is only possible with the presence of a marketer at board level. But so far how successfully marketers 'market' this idea is questionable!

At the same time with marketers' knowledge about customers and other stakeholders, marketing plays a central role in leveraging internal capabilities. But to assert such a central role within any company, marketers should be able to understand the different aspects of the company, its strategies, resources and limitations. Marketers are often involved in their own jobs and fail to leverage their centrality in a company. This has made the marketers' case to justify their presence in the boardroom worse and more difficult.

Though that is the case, it has been long argued that one of the fundamental challenges of marketing that has undermined the credibility of marketing, threatened the standing of marketing within a company and even questioned the existence of the very discipline as a distinct entity is marketing's failure to quantify its outcomes and justify investments into marketing activities.

Marketing fundamentally differs from other functions within a company like finance or operations in a few aspects. As marketing deals with people, their attitudes, inner feelings and eventual behaviours, they are not as predictable as an outcome of a machine or production process. It is always a complex mental progression which cannot be explained through straight forward methods. As a result, there can be a considerable time lag between marketing actions and the intended outcomes.

Further, measuring these outcomes will have to involve both financial and nonfinancial metrics. Given these underlying challenges, it is often challenging for the marketer to survive at board level since nonfinancial metrics are not an inbuilt element in boardroom language.

Having said that, marketers can't get away with the responsibility of their own weaknesses in failing to make an impression at the board level. Many companies still continue to equate marketing with advertising and sales. But marketing has long evolved from being a tactical departmental function to an organisation-wide strategic discipline. But marketers are still struggling to highlight this and develop a strong case to open the door of a boardroom.

In order for marketing to rise up to boardroom level, marketers should be able to thoroughly understand the strategic imperatives of the company across the board. Such a state can be reached through formalised internal cross disciplinary training. Such a training system would allow marketers to understand the dynamics of corporate strategy and also enable marketers to effectively leverage the collective internal resources towards ensuring profitability and optimal results. This will strengthen the position of marketers in the company and open the window to formulate a strategic intent with marketing at its centre.

It is required for marketing departments to become more accountable by linking marketing actions and policies with financial results. Marketers should become capable in analytics and finance. It is evident that marketers hate finance.

To cite a simple example, if you analyse SLIM exam results for the subject Finance for Marketing, the poor emphasis of marketers towards financial aspects is proved. However, 'finance' is an integral part of boardroom language and marketers should master it to be competitive and in turn reserve a seat in the boardroom.

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In conclusion, it is important to note that boardroom discussions are dominated by the left brain, which represents extreme logical thinking, and marketing is conquered by the right brain. However, it is also noteworthy to mention that when deciding the strategic intent, it is important to count on both aspects.

This will convert the board with the right balance and mix of skills which represent the wider population in an organisation. At the same time, marketers should proactively think of ways and means to bring quantifiable results in everything they do. It is important for marketers to understand how boards work, identify input required by the board and deliver accordingly.

Martin Roll in his presentation to Sri Lankan CEOs said: "Right now marketers are lame ducks and they need to be elevated to the boardroom."

This statement is a true challenge for all marketers in Sri Lanka.

Asia's view of branding needs to change - Martin Roll

Shift in mindset, practices in boardrooms vital to build stronger brands in the region

The face of business in Asia is changing faster than one can blink one's eyes. Asian companies that used to be back-end workhorses, manufacturing consumer goods cheaply for Western companies, are slowly realizing the benefits of branding.

A case in point is Pantech, a South Korean firm which began by selling pagers in the early 1990s. By the end of the 1990s, Pantech was selling mobile phones as an original equipment manufacturer (OEM) to Western companies like Motorola and Audiovox. But Pantech's 42-yearold chairman Park Byong Yeop knew that in the face of cheaper competition, his business model had to change.

In the past few years, Pantech had heavily invested in developing its brand, allowing the company to more than double margins. In 2004, Pantech sponsored the hit TV series *Lovers in Paris* and used the South Korean pop star BoA to advertise its products. Soon after the release of the series, Koreans were buying 1,000 Pantech phones a day in just one electronics market alone. Park aims to sell 80% of the mobile phones under Pantech's brand name in 2005, up from just 31% in 2004. The company spends seven per cent of sales on research and development (R&D) and has earmarked US$ 200 million to develop the brand's identity in 2005.

Park is portrayed in local media as a successful entrepreneur rather than someone who inherited a conglomerate. His vision is to become the world's number five mobile phone maker, and targets shipment of 28 million handset units and sales of US$ 3 billion in 2005. Pantech has come a long way from its modest beginnings as an OEM only 15 years ago.

In a market where competition implies slashing prices on their unbranded products, Asian businesses are slowly becoming more attentive to the power of brand identity in capturing consumers and returning larger profits on their investments. Firms are realizing that whereas they were wearing themselves down on razor-thin margins to compete with the next supplier, they could increase returns by investing in their brands. This then is the shift in thinking that is pushing boardrooms in Asia toward creating strong brands to differentiate themselves and consequently realize greater profits.

Most Asian firms, however, still view branding as advertising or logo design. If firms are to benefit from branding, they must recognize that it impacts the entire business – the structure, goals, attitude and the very outlook of those in the boardroom. Managers will need to see branding not as an appendage to the ongoing business, but rather as an infusion which seeps through the very spirit of the organization, as a healthy return on investment (ROI). In fact, it will require a shift in focus and priority for every functional aspect of the organization aligned around multiple customer touch points.

Before branding can be taken on board, however, it is important to understand its implications, its various shades and hues, its forms and practices, its purpose and its advantage. It is no less than a paradigm shift that executives must undertake across Asian boardrooms.

Lack of value creation

A 2003 report by Goldman Sachs forecast that, by 2041, China will have overtaken the US economy in size and will become the world's largest economy. The Indian economy would be larger than Japan's by 2032. China and India are indeed leading Asia's growth path, with implications for industries and companies all over the world. But as Rajat Gupta, a senior partner with McKinsey & Co (and former worldwide managing director), has said: "Though Asia has been growing, the growth has not been enough to make it a superpower. For Asia to earn the right to be a superpower, we not only need to make a significant contribution to the world economy, but also and perhaps more importantly we need to see the emergence of several successful global companies out of Asia."

Martin Roll

The changes in the Asian competitive environment are driven by several factors: the rapid development of China and India; increasing deregulation and trade liberalization; and the implications of new demographic and social trends throughout the region. These changes involve entire value chains in manufacturing and services, issues related to efficiencies in operations and productivity gains, innovation and design, a reduced focus on broad diversification, which has been the prevalent structure of Asian businesses particularly within Asian family businesses, and distribution and collaboration within industries.

The eroding low-cost advantage

A large part of Asia's economic development until now can be attributed to low-cost advantages which enabled Asian companies to gain market share from other suppliers. In the past two decades, Asian countries have slowly but surely attracted many industries: light manufacturing in Guangdong, electrical equipment in Guangxi and software development in Bangalore. But Western companies, by buying some of these Asian firms or aggressively outsourcing some of their operations, are already streamlining their cost structures. Low cost alone no longer provides a significant advantage. The cut-throat competition in many industries, resulting in tremendous pressure on margins, has forced companies to look for additional measures to survive and grow their businesses. One example is mobile phones, where contract manufacturers are doing well if they reach 15% in gross margins while brand owners can reach margins double that.

Asia is still one of the world's biggest providers of commodity products. At the same time, Asian manufacturers mostly produce for other companies and the majority of these products are therefore non-branded. In other words, these are volume products without strong brand identities. Instead, the largest part of the financial value is captured by the manufacturers' customers – the next player in the value chain – primarily driven by strong brand strategies and successfully planned and executed marketing programs.

The difference in the proportion of value captured as represented by the Asian manufacturing price and the Western retail price serves as a good example. A branded sports shoe is produced in Asia at an estimated US$ 5, sold to the sports shoe brand for US$ 10 and the consumer buys it in the retail store for US$ 100 – in other words, a twentyfold increase throughout the "product-to-brand" value chain. This leaves the Asian manufacturer with only a fraction of the substantial value that consumers are willing to pay for the brand in the end.

Figure 1.1 illustrates four scenarios of how a brand is integrated in the value chain. In certain cases, companies are vertically integrated and can own part of the channels, including retail outlets, the distributors and/or the production facilities. For example, Nike operates many of its own retail outlets.

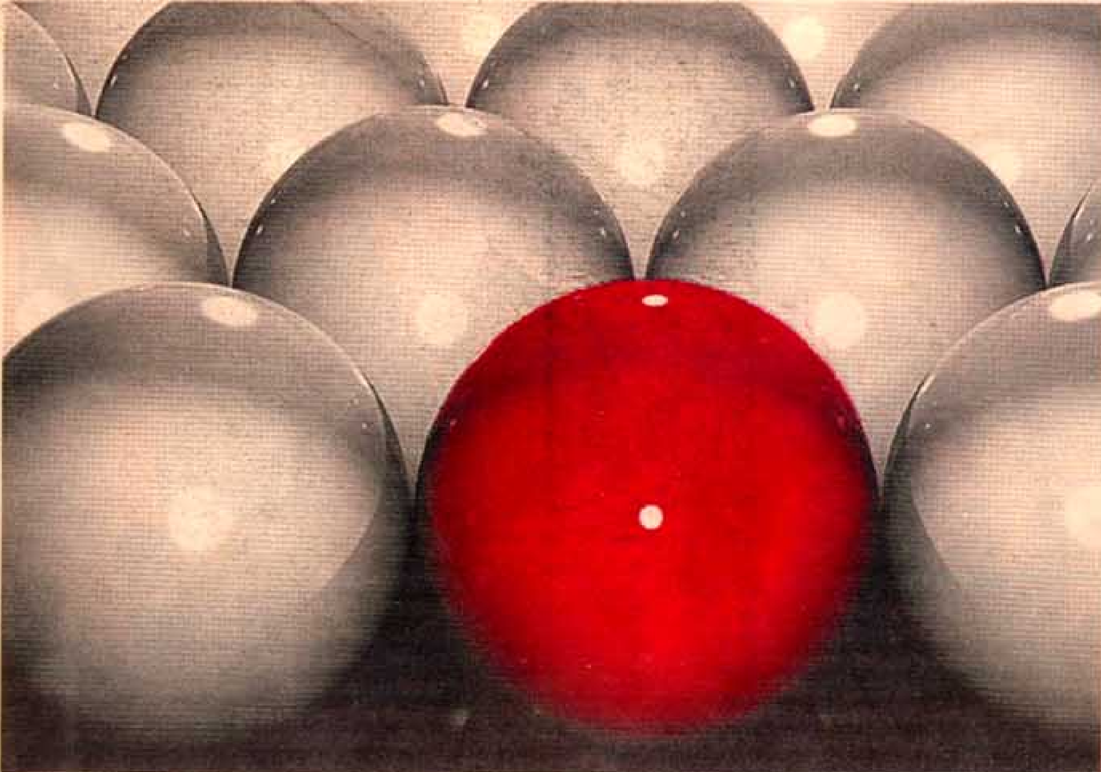
In the last 10 years, the number of distributors in the sports goods industry has decreased more than 50% as many sports brands have become distributors themselves. This is particularly the trend among the largest brands. The sports shoe brand captures an estimated 40–95% of the entire financial value depending on its level of vertical integration. In other words, brands capture a significant portion of the total value.

Successful global companies share certain common characteristics, one of which is strong brand equity in the market. Despite Asia's size and economic growth, it has not seen the emergence of many strong and international brands.

Less than 10 global brands originating from Asia

In a study measuring the financial value of worldwide brands conducted by Interbrand and Business Week in 2004, one important finding was that only four of the top brands originate in Asia. Three classic brands come from Japan and a fast-growing ambitious brand comes from South Korea: Sony, Honda, Toyota and Samsung.

A simple question then remains: What about the rest of Asia? Looking at the region as a whole, there are less than 10 powerful global brands originating from Asia.



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Brands like Singapore Airlines, Shangri-La Hotels, Banyan Tree, Acer, HSBC, Shiseido and a couple of others are powerful global brands with a strong Asian heritage.

But given the size and volume of Asian business today, it is evident that Asia could build many more prominent brands and capture more financial value from better price premiums and customer loyalty. Branding can become an important driver of shareholder value for Asian companies in the future.

Reasons for the lack of strong Asian brands

There are many reasons why Asian companies have not fostered many global brands until now. The appreciation of branding as a strategic concept can be influenced by:

Less focus on innovation

Broad diversification of businesses

The Asian business structure

Implications of intellectual property (IP) protection.

These five factors are now discussed.

The stage of economic development of societies

The Asian countries are at different stages of development. At one end of the spectrum are developed countries like Japan, South Korea, Singapore, Taiwan and Hong Kong. At the other end are developing countries like Vietnam, Cambodia and Indonesia. In between are countries like Malaysia, Thailand, China and India which are moving through rapid transitions. The development stage of these countries can influence business priorities, the degree of business sophistication and where to fit into the value chain on the overall level.

When countries and industries move from low to high tech, they are generally more inclined to supplement their low-cost advantage with a holistic value perspective. Very often they are forced to move up the value chain while losing their low-cost advantage in manufacturing to competitors with lower labour costs. Although the value perspective does not exclude seeking to drive costs down constantly, it aims primarily at creating additional perceived value for products and services. This is where brands often start to play their role as drivers of shareholder value through better price premiums and enhanced customer loyalty.

It would not be entirely correct to assume that the economic stage of development and degree of branding are correlated. In general, any company, regardless of country origin, can decide to build brands. However, the economic development stage of a country and the level of sophistication of an industry can serve as important indicators to estimate whether branding gains wide appreciation and momentum.

Regional technology clusters are already emerging in Asia. An example is India where low and high tech go hand-in-hand. Bangalore is a well-known cluster of strong technology firms like Wipro and Infosys. A service company, Jet Airways from Mumbai, is catching up quickly, based on excellent standards in all operations, and provides world-class service. Therefore, Asia is a region where branding as a strategic discipline is work in progress.

Less focus on innovation

Although innovation is difficult to measure, R&D spending as a ratio of Gross Domestic Product (GDP) can be an indication. On a national level, Asian economies lagged behind the rest of the world on R&D spending as a ratio of GDP from 1987 to 1997, with the exception of Japan and South Korea. Japan and South Korea each currently spend three per cent of GDP on R&D, compared to 2.7% in the US.

But indications show that the innovation deficit is likely to change. China is targeting to spend 1.5% of GDP on R&D in 2005, compared to 0.6% in 1996. Asian countries are also trying to take a lead in three areas likely to generate the next wave of innovation: biotechnology, nanotechnology and Information Technology (IT). As an example, Asia spends as much as the US and Europe combined on nanotechnology. In addition to this, China, India, South Korea and Taiwan are shifting from top-down, state-directed technology policies to more flexible, market-oriented approaches in order to foster innovation and entrepreneurship.

As low cost is ceasing to provide a competitive edge for Asian companies, differentiation driven by enhanced innovation capabilities will be paramount for future success. Innovation needs to become a top priority for Asian companies aspiring to build strong brands.

Although design is only a tiny part of an entire brand strategy, it can help to create visible differentiation for products and shape customer perceptions. The internationally recognized designer Philip Starck gave his view on how Asia lacks its own design: “Today the designer in Hong Kong or Taipei opens the magazine and looks at the best-seller and copies that. But to be successful you have to find your own designs and energy.”

Broad diversification of businesses

Another impediment to building brands in Asia in the past was the diversification of businesses spanning many industries with limited overlap and synergies. The prevalent mindset in Asia is based on trading, rather than branding, and the generation of revenues, rather than profits. But it is hard to create a relevant, clear and differentiated brand strategy, and build a corporate brand which encompasses all areas, when a business has its hands dipped in every pie.

Thailand's Charoen Pokphand (CP) Group is an example of an Asian company moving against the common diversification trend.

Traditionally, it had interests in telecommunications, satellite, cable television, motorcycle manufacturing, petrochemicals and brewing. Despite its diversified businesses, CP has continued to expand its integrated food business by controlling the entire supply chain. By transferring its agribusiness formula to other agricultural products and across countries, CP has also become one of the world's leading agribusiness groups. With higher demand for quality processed foods from US, Europe and Japan, CP has renewed its focus on increasing value-added in its agriculture business to become the 'kitchen of the world'.

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The Asian business structure

Another important reason for the lack of strong brands can be found in the prevalent business structure within Asia, which consists of many small and often family-owned businesses – with diversified business interests as illustrated before. It is much harder to overcome the barriers to brand building when resources are limited. In this case, the management perspective would favor short-term business wins against brand strategies which require more resources and long-term perspectives. Despite a younger generation taking over as leaders, it can still be a major barrier to convince the older generation about the need for investing in intangibles in the form of brands as it runs against the business heritage and prevalent internal wisdom.

But being family-owned and small does not necessarily leave branding out of the equation, as Singapore-based Banyan Tree Hotels and Resorts has proven very successfully in less than 10 years. It made the transition from a disused tin mine on a strip of land in Phuket, Thailand, in 1994 to an internationally recognized and highly awarded hospitality brand, with quality resorts throughout Thailand, Indonesia, China, India, and the Maldives and more destinations being planned.

As Ho Kwon Ping, chairman of Banyan Tree, reflected: "I felt that Asian business would never get anywhere if it didn't own brands. Partly this reflected the earlier experience in our family business of putting in the energy to build a brand as agent for an overseas principal, only to lose it when they eventually took the brand in-house. I also knew the problems of competing in commodity markets where the business disappears as soon as a cheaper supplier comes onto the scene."

Banyan Tree has achieved this position with limited spending on marketing and advertising and has instead relied on effective public relations and third-party endorsement programs to build the brand.

Implications of IP protection

The implications of IP protection in Asia have been a major barrier against building brands. In their own backyards, many Asian companies have faced rampant counterfeiting and infringement of IP rights. Until and unless legislation and law enforcement get better in the region, it may be a hurdle that prevents a deeper appreciation and respect for intangible asset management in the Asian boardroom.

The World Customs Organization estimates that five to seven per cent of global merchandise trade, amounting to US$ 450 billion, is due to counterfeits. China alone is estimated to be contributing to almost two-thirds of all the fake and pirated goods worldwide. In 2004, for example, French luxury house LVMH spent more than US$ 16 million on investigations, busts and legal fees against counterfeiting.

great.

The writer, Martin Roll, is a world-renowned thought leader on value creation through brand equity. He facilitates business leaders and organizations to think bold for future strategies. Roll who possesses more than 20 years of management experience holds an MBA from INSEAD. He is the author of the global bestseller 'Asian Brand Strategy,' a very compelling book of frameworks for Asian branding. Asian Brand Strategy was named "Best Global Business Book" by Strategy+Business magazine.

One of the famous spots in Bejing used to be Xiushui or Silk Street. Ranking in the top three of Beijing's attractions, the narrow and crowded street would attract thousands of foreigners every year to buy cheap counterfeit versions of global luxury brand names like Ralph Lauren, Louis Vuitton, Prada and many others. It was recently closed down by the Chinese authorities for renovation. Instead, stall holders would have an option to take up a stall at the nearby Xiushui shopping center, where a trading corner of less than five square meters will auction for as much as US$ 400,000.

A new paradigm for the Asian boardroom

Many of the ideas and recommendations are driven by the Asian brand leadership model, illustrated in Table 1.1. The model illustrates the paradigm shift that Asian brands need to undertake in order to unleash their potential.

First, mindsets and practices need to change in the Asian boardroom. This invites a complete shift in the way that Asian boardrooms think of branding: from a tactical view to a long-term, strategic perspective; from fragmented marketing activities to totally aligned branding activities; from a vision of branding as the sole responsibility of marketing managers to branding as the DNA and most essential function of the firm led by the boardroom.

Second, this new perspective must be steeped in a more acute perspective on consumer behavior patterns. Asia is not a homogeneous entity. Even more importantly, Asian countries are more and more traversed by cultural flows permeating the region: cinema, music and fashion trends that at present extend beyond national borders to capture the imagination of millions. Moreover, branding and brands do not operate in a vacuum, but are closely linked to developments in society, to people and cultures. Third, managers wanting to succeed in Asia need to abandon the idea of the oriental Asia of the past. Asian consumers are all vying for an Asian type of modernity that has nothing to do with colonial imagery.

Fourth, to create iconic brands, Asian managers will have to become trendsetters. The perspective developed is that, in order to be successful, Asian brands need to capture the spirit of the region, but they also need to lead the way by creating that spirit.

Finally, this shift can be achieved only if everybody in the company is convinced of the power of branding. And, in turn, this can only happen through accountability and systematic monitoring of branding investments and performance. It is only then that Asian brands will become truly