Holding firm as downturn looms
John Gapper

The past year was, like the years immediately preceding it, a good time to build a brand. Strong economic growth around the world and rising income in countries such as India and China provided fertile conditions for many companies to boost the value of their products.

The world's top 100 brands increased in value by 21 per cent to a total of $1,940bn. They were buoyed not only by strong growth in many countries and industries but by a willingness to invest heavily in the brands that distinguish their products.

The boom in luxury goods and services over the past 10 years has given this trend an impetus. Brands such as Gucci and Louis Vuitton have expanded globally, taking advantage of demand not only in Japan but now in China, India and Russia.

By the year-end, however, problems had appeared. Neither Bear Stearns or Northern Rock had been in the top 100 but both lost huge amounts of value amid the credit crunch. Weakening economic growth - and a possible recession - in the US also took a less dramatic toll on brands such as Starbucks and Wal-Mart.

So, in 2008, many brands will face a tougher climate. Those in the Brandz Top 100 Most Powerful Brands ranking must hope that Nigel Hollis, chief global analyst for Millward Brown, the consultancy that compiles the rankings, is right that they are in a comparatively strong position.

"Strong brands are far better positioned than others to ride out recessions. The ones that perform best are those that invest during downturns because, as the recessions ends, they come out stronger," he says.

The downturn will test that proposition, which is a tenet of advertising and marketing companies such as WPP Group, the parent of Millward Brown.

Brands have long been a mainstay of consumer companies. "A vodka salesman may have a good reputation but his successor generally does just as well if the label on the bottle is Smirnoff," says Thayne Forbes, joint managing director of Intangible Business, a UK consultancy.

But the early 21st century has been notable for the new brands industries that have sprung up. The clearest examples are in communications, with brands such as Research in Motion's BlackBerry - the fastest growing brand this year - coming to the fore.

Six of the top 10 most valuable global brands (seven if you include General Electric) are in the technology or telecoms industries. Both Nokia and Apple, which now produces the iPhone, rose enough places in the rankings this year to enter the top 10.

The number one place in the rankings was taken once again by Google, which retained its two-spot edge over its rival Microsoft. "Google has delivered something that speaks to people in the modern age, the ability to get information quickly and easily," says Mr Hollis.

Apple, the second fastest growing brand of the year, still thrives under the leadership of Steve Jobs, its co-founder. Mr Jobs has shown how a brand can be built with superior technology, smart design, strong advertising and strong customer service at its own-name stores.

Yet the growth of mobile telephony, which has been such a strong influence on brand value, already shows signs of waning. Some markets have reached full penetration and the economic uncertainty is having a direct impact on phone sales.

Brands in technology and telecoms could now face a period of competition with each other. That has already been the experience of consumer goods comp-anies - and restaurants such as Starbucks, which dropped 21 places this year as American consumers became jaded.

Howard Schultz, Starbucks' founder, has now taken over as chief executive to revive its fortunes. He could take note of the rise of McDonald's, which went through a similar downturn but has been reviving and entered the top 10 at number eight.

Retailers and makers of packaged goods continue to tussle for the consumer's loyalty. Retailers such as Tesco in the UK and Whole Foods Market in the US not only control their shelf space zealously but also sell white label versions of branded goods.

US retailers had a tough year, with Wal-Mart and Home Depot both falling in the rankings, but Tesco continued to rise. Coca-Cola retained its fourth position in the rankings, while the brands Tide and Ariel were counted in the rankings for the first time.

Financial services companies - and particularly banks and investment banks - were already facing tough conditions in 2007. Merrill Lynch, which was badly affected by the sub-prime credit crisis, dropped 24 places, losing 16 per cent of its brand value.

"It has been a very scary year from a brand perspective because we have seen a couple of names - Northern Rock and Bear Stearns - disappear. That is pretty rare and it shows how vulnerable banks are to their reputations being impaired," says Mr Forbes.

The outlook is less troubled for brands in Asia - and in particular what Millward Brown calls "modern" rather than "traditional" Asia - mainland China rather than Japan, South Korea and Hong Kong - from where brands have emerged in the past.

This year, there are four mainland Chinese companies in the top 100 - China Mobile and three Chinese banks. They have joined seven traditional Asian brands, including Standard Chartered Bank and Toyota, but have already overtaken them in value.

Wally Olins, chairman of Saffron brand consultants, argues that India and China are only tapping the surface of their ability to create global brands. He cites the development by the Indian company Tata of the Nano - the "one lakh" small car - as a sign of things to come.

"India and China are going to emerge very powerfully and are moving to become global. We will see examples of big brands that come from places we did not consider at all seriously before."

Mr Hollis, however, has doubts about how fast this will occur, and how many Asian brands will succeed on the global stage. "It is incredibly hard for a brand that has been a success in one country to make an impact outside. It happens only rarely," he says.

Recognising this, Asian companies are showing interest in acquiring western brands to which they can apply their manufacturing expertise, such as Lenovo's purchase of IBM's personal computer business.

The uncertain economic climate could make this easier for Asian companies, particularly if a sharp US downturn does not derail growth in China and India. But it could also inhibit them from expanding out of domestic markets and entering softer US and European economies.

Indeed, 2008 is likely to be a challenging year for many brands that have become used to expanding rapidly. It could be a particular test for the newer brands that have established themselves in consumers' minds in a relatively short period.

These rising stars have not yet been through a downturn and had to cope with hard choices about how much to continue to invest in marketing and branding. The advice of branding experts is to stick the course but we shall see whether they have the nerve.

Fonte: Financial Times, London, April 21 2008. Global Brands, p. 1.