Chapter One

Tulipmania and Inflated Brands

Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one!

—Charles Mackay

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In 1841, Charles Mackay wrote his famous book *Extraordinary Popular Delusions and the Madness of Crowds* to describe various marketing phenomena. Of special note was his passage on "Tulipmania," an occurrence that took place in Holland in the early decades of the 1600s. The madness began when tulip bulbs imported from Turkey were found to grow extremely well in Dutch soil. The Dutch aristocracy acquired an immense taste for their beauty, and seeing how much could be made from tulips, thousands of average citizens sold their assets and began buying the bulbs. People from all economic classes began trading in tulip bulbs at exorbitant prices. Speculators even took out futures contracts on unplanted bulbs, convinced that some varieties were slated to become the most expensive objects in the world. But at the height of the hysteria, which financial records trace to a few months between 1636 and 1637, the craze for tulips suddenly withered, leaving thousands of Holland's most successful businessmen holding worthless contracts while the less affluent who had invested in the flower lost entire life savings over a bunch of dried bulbs.

Tulipmania might have been no more than a footnote in Dutch history were it not such a clear example of something that has happened time and time again around the globe over the last several centuries. As recently as the past decade, modern business analysts using econometric models and computer algorithms acted as blind to irrational investing as their counterparts in seventeenth-century Holland. Financial busts stemming from the dot-coms, Internet equipment manufacturers, and subprime mortgages are but a few examples of recent market tumbles after which investors, like the Dutch and their shriveled bulbs, were left with inordinate losses. The bubbles of 1929, 2000, and most recently, Northern Rock, Countrywide, and the litany of credit-crunch-inducing banks, hedge funds, pension funds, and public trusts all over the world—continually prove that even the most intelligent analysts and savvy consumers can be every bit as susceptible to self-deception as giddy flower speculators in clogs.

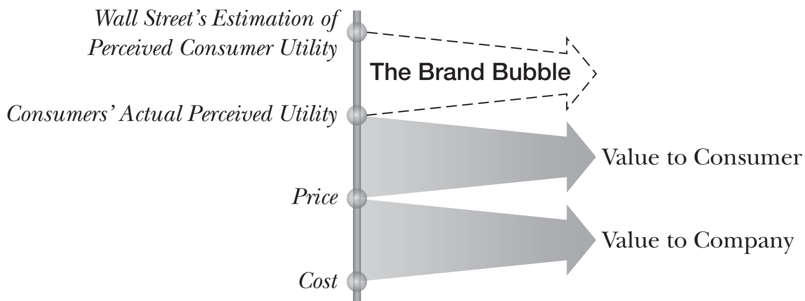
A bubble is a curious thing. In hindsight, it seems so obvious and predictable, while anyone caught up in the middle of one is blind to its potential for disaster. In all bubbles, one constant always predicates a collapse. That is the optimistic assumption that someone else will always be willing to buy what you are selling, regardless of how irrationally high the price is relative to the bare facts of the product's underlying value.

The Impending Brand Bubble

Now, another bubble is hiding in our economy. This bubble represents $4 trillion in S&P market capitalization alone. It's twice the size of the subprime mortgage market. And it accounts for over one-third of all shareholder value. Credible evidence suggests that *financial markets think brands are worth more than the consumers who buy them.* The constantly rising valuation of major brands is creating a brand bubble, one that could erase large portions of intangible value in firms and send a shockwave through the global economy.

Figure 1.1 illustrates the typical value exchange between brands and consumers. In essence, the multiples that markets place on brand value overstate actual consumer sentiment, so the

Figure 1.1. The Nature of the Brand Bubble.



value creation that brands bring is greatly exaggerated. That is, Wall Street is long on brands; consumers are short on brands.

Fissures are forming in the pillars of brand equity. This conclusion is based on our research of fifteen years of brand and financial data from Y&R's BrandAsset Valuator (BAV), the world's largest study of consumer attitudes and perceptions on brands. Working with professors from several leading business schools, we've identified a growing divergence between brand valuation and brand speculation. Our data indicates that investors are irrationally overvaluing brands, and that if leading companies don't take steps to change their approach, more than a few of them might soon experience dramatic declines in market value.

Of course, this is not to suggest that some stellar brands are not genuinely outperforming the market and setting new standards in customer loyalty and financial performance. But in most cases, these are precisely the brands that serve as examples of what other companies must do to inject value back into their own brands. These are the brands consumers swoon over, tell their friends about, and buy time and time again. These are the brands that drive a company's stock beyond the estimates of financial experts. These are the brands that create surprise earnings quarter after quarter.

The problem is these stellar brands are becoming fewer in number. In today's changing consumer climate, exceptional brands are just that—exceptions. Most of the brands lining our supermarket shelves, hanging from department store racks, or touting their superiority on television are experiencing a rapid

diminution of perceived value. Consumers are simply falling out of love with a majority of brands they buy.

This warning about the prices of assets such as brands being in decline is, without doubt, contrary to what most people believe. Just as with equities and property in past bubbles, the market values of brands have been consistently rising for decades. Even in today's recessionary climate, brand valuations reports continue to proclaim consistently rising brand values each year. How then is a brand value collapse possible? Thousands of brands have experienced large and long-term successes driving their corporate stock in a continuous upward pattern, enriching executives and investors alike. What exactly is the nature of this bubble? Are we talking about a simple market correction that will be forgotten in a few months or a year? And, if that is so, then why bother with it?

In reality, this is not a simple market correction. Our research foretells a significant loss of value for many brands that will jolt business and investors alike. Markets, being about expectations, have pushed brand values to unsustainable levels, where the earnings potential imputed to thousands of brands far outstrips their value to the consumer. These expected future cash flows that brands are expected to account for have grown to become a dominant force in driving total business value. But their future value is unsustainable when we uncover and analyze the true state of most brands today.

As CEOs search for future pathways to growth, their brands now account for a growing proportion of total enterprise value. This means their brands are making bigger promises of future earnings. Are those earnings going to be there in the future? Have most companies properly discounted the risk on their rising brand values?

When future earnings are in question, it's more than a brand problem; it's *a business problem.* Most of the discussion surrounding the tectonic shifts in the digital, consumer, and media landscape has been held at the marketing and brand level. By examining these phenomena through the lens of brand value, we can see how new consumer behaviors are causing widespread perceptual damage to the values of all but a handful of brands. Let's begin by examining the origins of the brand bubble. . . .

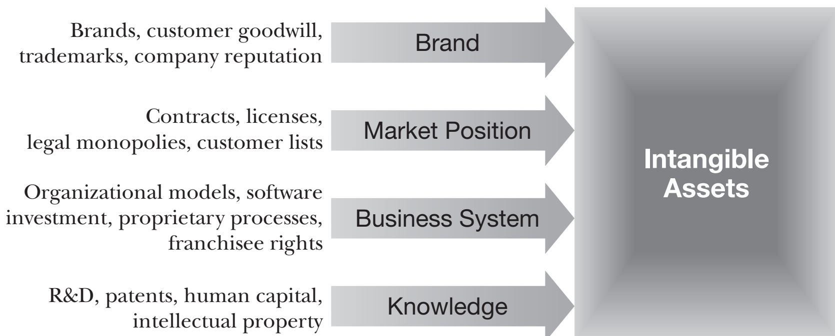
Measuring the Worth of an Enterprise in Intangible Value

Every bubble presents an appearance of value that is eventually contradicted by reality. In the case of the brand bubble, it begins with the value business places on intangibles. Today, they are a significant driver of overall enterprise and market value of a firm, contributing far more than the value of sales and profits. It's an inexact science to pinpoint how much, because traditional accounting practices still don't have a precise method to estimate the contribution intangibles make to enterprise value. However, most accounting models recognize that brand names, logos, and other intellectual property are part of a company's overall intangible worth. The investor community has long acknowledged the market value of a company includes not just invested capital and tangible hard assets but also intangible soft assets.

Intangibles include the estimated value of effects like brands, market position, operational advantages, proprietary processes, franchise agreements, customer lists, patents, copyrights, and company reputation. Intangibles have no physical presence, but they are nonetheless powerful elements on the balance sheet. In this sense, "brand value" is one of four major elements of intangible value (Figure 1.2).

In the last five decades, the intangible value of firms has formed a larger and larger proportion of overall enterprise value. (Intangible value is estimated as the difference between enterprise

Figure 1.2. What Are Intangible Assets?

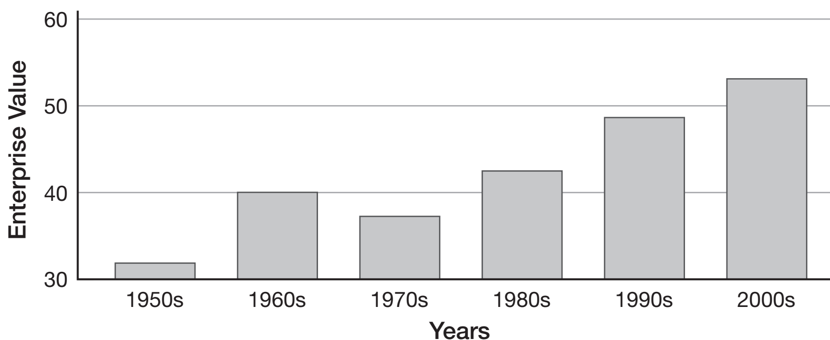


value and book value, the formula being "debt + market capitalization − book value = intangible value.") As we move further into an ideas-driven economy, the measure of a firm's worth revolves more and more around its inventiveness and intellectual capabilities, and less around its hard assets.

In 2006, *Fortune* magazine conducted a survey indicating that 72 percent of the Dow Jones Market Cap is now intangible. Accenture estimated that intangibles accounted for almost 70 percent of the value of the S&P 500 in 2007, up from 20 percent in 1980. SAP reported intangibles to be as high as 80 percent prior to the Internet bubble of 2000. Brand Finance plc stated that the market-to-book ratio (market capitalization divided by book value) of the S&P 500 grew from around 3 in the early 1990s to nearly 6.6 prior to the dot-com bust, dropping back to around 5+ today, a growth indicative of a rise in intangible value. Our own estimates show intangibles playing a greater role in overall firm value. (Figure 1.3.)

This rise in intangible value is also a worldwide phenomenon. A twenty-year trend reveals the entire global economy is increasingly powered by imagination and ideas. Brand Finance recently completed an extensive study of global intangible value, estimating that the value of every quoted company among the world's twenty-five leading stock markets reflected 99 percent of the world's

FIGURE 1.3. INTANGIBLE ASSETS ARE MAKING UP A LARGER PROPORTION OF ENTERPRISE VALUE.



Source: BAV databases and Y&R historical research.

FIGURE 1.4. TWO-THIRDS OF THE GLOBAL ECONOMY IS NOW INTANGIBLE.

	Intangible Value of Businesses Internationally	
	Value of intangibles (billions)	*% of enterprise value*
India	$251	76%
Switzerland	$643	74%
France	$1,213	73%
Australia	$461	72%
USA	$9,201	71%
Canada	$795	68%
UK	$2,010	66%
Spain	$506	60%
Italy	$507	59%
South Africa	$217	60%
Brazil	$158	47%
Singapore	$92	45%
Total Global	**$19,500**	**62%**

Source: Brand Finance, 2007.

global GDP. This analysis demonstrated that 62 percent of the value of the world's business is now intangible, representing $19.5 trillion of the $31.6 trillion of global market value (Figure 1.4). When we look at fast-growing markets that have incredible growth rates, they especially exhibit an increasing proportion of their enterprise value largely due to intangibles. In India, for instance, where GDP growth rates approach 9.4 percent annually, intangible value represents a whopping 76 percent of enterprise value.

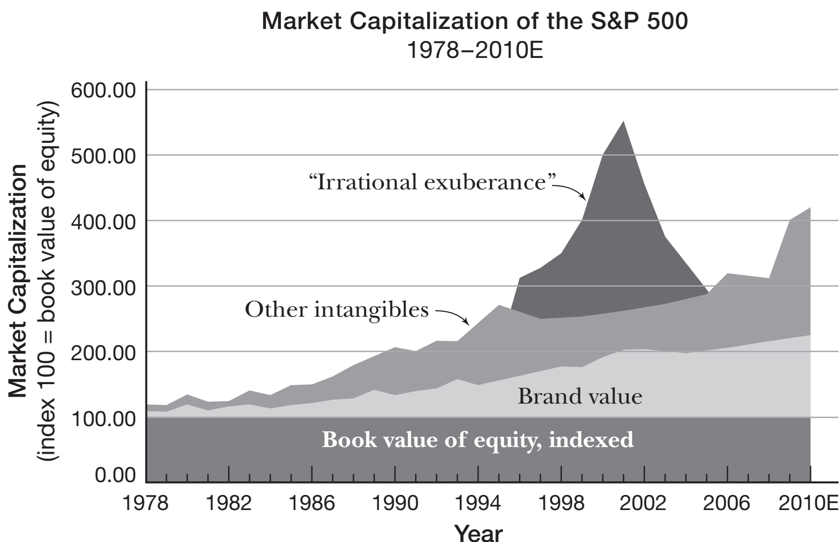
BRANDS AS DRIVERS OF INTANGIBLE VALUE

Brands have become an independent force in the modern economy. David Haigh, CEO of Brand Finance, told us in a phone interview, "The total worth of the 250 most valuable global brands is $2.197 trillion." To put this in perspective, these brands collectively exceed the GDP of France.[1] Even the value of the world's top ten most valuable brands exceeds the market capitalization of 70 percent of U.S. public companies, according to Booz & Company.

According to Joanna Seddon, EVP of Millward Brown Optimor, who oversees the *BrandZ* Top 100 Most Powerful Brands survey, "Brands account for approximately 30 percent of the market capitalization of the S&P 500. The S&P's market cap is about $12 trillion, meaning that brands represent about $4 trillion, on a pure stock market valuation basis." Joanna urges caution that this is not the total value of all brands in the world or even in the United States, only the brands owned by the five hundred companies included in the index. And while these companies are also U.S. based, they're often global as well. But regardless, the number is big—and growing: Brand values rose in their contribution to shareholder value from 5 to 30 percent over the past thirty years, as Figure 1.5 illustrates.

While estimates vary based on sector and company, David Haigh also found that in some cases, brand value constituted the bulk of enterprise value. Nike's brand value accounted for 84 percent of its total company value. Prada's brand represented 73 percent. In 2007 alone, the aggregate value of the brands in the

FIGURE 1.5. BRAND IS A CRITICAL AND GROWING DRIVER OF SHAREHOLDER VALUE.



Source: Bloomberg, *BrandZ,* MB Optimor analysis, © Millward Brown Optimor, 2007.

BrandZ Top 100 report increased by 21 percent to $1.94 trillion, more than double the increase of the preceding year. A robust assessment of brands is also evident in many of the recent "big bang" deals, like News Corporation's acquisition of MySpace at a multiple of minus 514.5 times earnings, indicating that the brand and its potential to throw off future cash flows was the driving force in the deal. Google was running at a P/E ratio of fifty-four times earnings when we wrote this, and our Y&R BAV's last estimate of Google's brand value was 50 percent of its market capitalization. PepsiCo shows a tangible book value of $9.8 billion against a market value of $108 billion. Even if we include in PepsiCo's book value the intangible assets like goodwill that are actually quantified on its balance sheet, the Wall Street value is still more than $95 billion over the company's worth, indicating that investors are banking on the brand.

Based on careful scrutiny and analysis, it would be difficult not to conclude that sound brands are the single most valuable assets a company can possess. John Stuart, former chairman of Quaker Oats, put it well when he said, "If the businesses were split up, I would take the brands, trademarks, and goodwill, and you could have all the bricks and mortar—and I would fare better than you."

Snap, Crackle, Pop Goes Brand Value

But as with Tulipmania, the belief that brands are worth so much is really only as sound as the credulity of the Wall Street investors, pundits, and executives who are driving up market prices. Beneath their belief is another story. While the last two decades have witnessed incredible intangible growth, the reality shows a precipitous decline in consumer respect and loyalty for brands. While brand value has been increasing, brand components that impact current performance have been decreasing. Lost in the discussion of new media, channel fragmentation, and the digitization of the world is the fact that the changing consumer landscape has hollowed out brand value.

To illustrate the basis for our prediction, we need to present the differences in brand metrics that drive intangible value and stock price versus those that drive current performance and sales. While these are both measures of the success of brands, they are

based on different methods of assessment, which in turn leads to different results in evaluating a brand's future potential and sustainability. When the two measures correspondingly rise, a brand is achieving the results its management is working toward—growth in asset value and sales. But when the two measures don't jibe, there's something rotten in Brandville. . . .

The traditional goal of marketing is to create and capture consumer value. Marketers use brands to build consumer interest, esteem, and respect. Marketers know that when consumers stop respecting and trusting brands, their loyalty diminishes and they either stop buying or expect incentives such as price discounts to recapture their loyalty. Lost consumer interest can turn a brand into a commodity or destroy it completely. The time lag between a drop in consumer perceptions and lost market value will vary with the brand, but the correlation is undeniable.

Since 1993 we've conducted extensive statistical and attitudinal research through our proprietary research tool, BrandAsset® Valuator (BAV). Working with leading academics and undertaking enormous waves of consumer studies, we've produced one of the most stable financial models for valuing brands and branded businesses in the world. Y&R has invested more than $113 million to track forty thousand brands across forty-four countries on more than seventy-five brand metrics. With our headquarters in New York and key research centers in London, Sâo Paulo, Tokyo, Madrid, Shanghai, Mumbai, Singapore, Moscow, Milan, Paris, and Sydney, each year we interview almost 500,000 customers around the world with surveys in more than forty languages. From Arabic to Zulu, we ask consumers how they feel about local, regional, and multinational brands, media, and celebrities. We also measure the political status of countries as brands. In the United States, we assess brands and companies by talking to thirteen thousand customers quarterly. Collectively, the information we obtain forms the world's most comprehensive and longest-running global database on brands. To contextualize our data we conduct ethnographies, focus groups, consumer juries, and online panels in more than ninety countries each year. Because of its scale, longevity, and validation, BAV is recognized as a powerful diagnostic tool for understanding how successful brands are built and managed. BAV is constantly enriched with each new wave of research, and, as a

result, has shifted over time to reflect the changing nature of consumers and their relationship to brands.

In 2004, we were examining the correlations between changes in various brand measures in BAV and changes in the future financial performance of companies. At the time, we were trying to measure how brands impact the current and future financial performance of their enterprises. We were studying a universe of nine hundred multinational "mono-brands," that is, companies that stake their market value on a single powerful brand and derive more than 80 percent of their annual revenue from that brand. This included firms like Intel, McDonald's, and Microsoft.

Much as meteorologists analyze the various forces of nature to assess which combination causes hurricanes, we began analyzing many consumer variables based on our years of BAV data to see if we could tell which group of brand attributes came closest to explaining unanticipated changes in stock price, especially upward valuations. Our emphasis was on unanticipated stock price changes, because market values already anticipate a wide range of corporate financial and performance factors. We mapped forty-eight different brand attribute scores in BAV against the brands' stock prices, trying to pinpoint which combination of attributes created the greatest market movement. We didn't doubt that brand values were rising, nor were we trying to prove they shouldn't. We were believers in brand value as a driver of intangible value—and we still are. But while doing that research, however, we discovered an enormous anomaly, a huge gap in valuations.

While Wall Street has been bidding brand values ever higher, consumer perceptions toward brands are substantially eroding. To our astonishment, as we were not even looking for it, we found that the consumer ratings on four key classic attitudes toward brands—awareness, trust, regard, and esteem—were tumbling!

These four measures are nothing more complicated than what is found in Marketing 101 textbooks. Generations of marketing professionals have long accepted them as the defining measures of brand health. These are the classic metrics that drive current brand performance and sales and account for brand equity. If the metrics of awareness, trust, regard, and esteem are high, it indicates a positive sign that consumers are likely to continue purchasing and remain loyal to their brands.

But according to the data, consumer attitudes toward brands were in double-digit decline. And this erosion did not pertain to just a few brands, but to thousands. We saw large numbers of well-respected brands that had, on average, lower scores on these metrics—results low enough that marketers would consider them indicative of "commoditized attitudinal patterns." These are numbers that basically say consumers know the brands well, but they are hardly inspired to buy them.

This discrepancy was enormously puzzling. We couldn't understand how brand values could be rising during this entire period when the data showed sharply falling consumer perceptions. If brand values were rising, why weren't the traditional metrics of brand equity as seen by consumers rising with them? The sane marketing professional would expect a positive correlation between brand value and the classic metrics of performance and sales. Instead, we found a significant negative correlation, as illustrated in Figure 1.6.

FIGURE 1.6. THE "VALUATION GAP" ACCORDING TO CONSUMERS.

Perception	*Reality*
If brand value is increasing, so should brand trust.	**Brands are less trusted than ever.** Trustworthy ratings dropped almost 50% over the last 9 years.
If brand value is increasing, brands should be more liked and admired.	**Brands are less liked and respected.** Esteem and regard for brands fell by 12% in 12 years, and very few brands are widely regarded across the general population.
If brand value is increasing, brands should be better known.	**But brands are less salient than ever.** Awareness of brands fell by 20% in 13 years.
If brand value is increasing, quality perceptions of brands should be increasing as well.	**Consumers feel brands are less quality.** Brand quality perceptions fell by 24% over the past 13 years.
If brand value is increasing, more brands should be clearly differentiated.	**Brand differentiation declined in 40 of 46 categories studied by Copernicus/Market Facts.** And only 7% of prime time commercials were found to have a differentiating message.

Source: BAV 1993–2007 brand data. Copernicus, Jack Trout, and Kevin Clancy.

This inconsistency became a burning incentive for our analysts to look around to confirm if our measurements and conclusions were sound. Sure enough, we found other market researchers around the world noting some early signs of the same brand meltdown. The Henley Centre highlighted an erosion of big brands beginning in 1999 in the United Kingdom. In their annual study of the seventeen largest, most iconic British brands, sixteen showed a decline in consumer trust. Their research attributed this to the brands' inability to evolve their offerings to keep pace with public expectations. In successive studies between 2000 and 2007, the Carlson Marketing Group found a decline in consumer loyalty to brands. In 2000, four in ten consumers showed a genuine preference for or commitment to only one brand, but that dropped to one in three consumers in 2001, and crashed further in 2007 to less than one in ten consumers feeling committed to a single brand.

Since that original 2004 analysis, we have continued to witness erosion in traditional brand perceptions. Even as we write, the numbers persist in a downward spiral of declining awareness, trust, regard, and esteem among consumers. In July 2008, just as we were finishing this book, we found further evidence of the bubble when we examined the highest-performing brands in BAV on the basis of their contribution to intangible value creation. In that analysis, *we found an increasingly smaller number of brands accounting for a disproportionate share of the value being created.*[2] While the aggregate contribution of brands to intangible value creation was once distributed fairly evenly across our database, now it's becoming more like the 80/20 rule: Consumers are reserving their devotion and dollars for a basket of truly "irresistible" brands, leaving the rest to fight for existence on a hostile terrain of promotion and discounting. Fewer and fewer brands are actually creating the business value, leaving more brands on the bubble.

Meanwhile, markets trade on thousands of branded companies with inflated values relative to the future performance we predict them to have. While Wall Street is happily running away with the idea that all or most brands are increasingly valuable, the underlying facts show that most brands are simply riding along, relying on a dwindling number of exemplary brands to prop up their respective values. Yet cadres of business, finance, marketing, media, and advertising consultants seem to believe in a brand folly: that their brands are forever bankable and will continue

rising. Their rosy forecasts sound like the makings of another Tulipmania.

These overstated assumptions of future brand earnings also lead us to wonder, Why has no one bothered to ask the consumer? Surely an asset as vital as a brand is best measured against the value attributed to it by the buyer, rather than by a speculator? It also begins to reveal how little the financial markets (and many businesses for that matter) really understand brands and brand building. This is something we explore in great detail in this book, in an effort to help you understand how consumers actually build desire in brands and how this passion creates future value.

MARKETING'S PERFECT STORM

We aren't Chicken Little saying, "The sky is falling," but there are macroeconomic implications when aggregate brand values, according to consumers, are overstated. Our extensively collected data is reliable cause for us to caution that the underlying infrastructure of most brands is weakening, portending potential damage to the enterprise values of many companies across various economies and regions of the world.

Thinking of brands collectively as an industry, such as real estate, is useful for underscoring our concerns. Residential real estate represents only 16 percent of the U.S. economy, but the ripple effect of the U.S. credit crunch has created widespread volatility in the global markets. Analysts at UBS now estimate the financial fallout from mortgage-backed securities to be nearly $600 billion. In the United States, the drop in home prices in the first quarter of 2008 was the largest in three decades. New home sales hit a record low, while mortgage foreclosures hit an all-time high in the fourth quarter of 2007. For the first time since 1945, the amount of debt tied up in American homes is now greater than the equity homeowners have built up. No wonder consumer confidence according to the Reuters and University of Michigan survey is at a sixteen-year low.[3]

We collected and analyzed this data for the years 1993–2007, a period of overall robust economic growth. But now we find ourselves in a value-driven economy. We expect further downward consumer sentiment in an environment where (as of this writing)

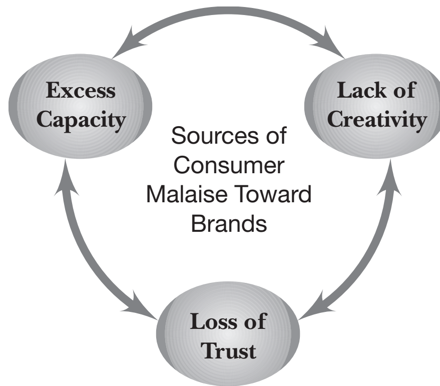
commodity inflation is rampant: Wheat prices have doubled in the last year alone, global food prices have risen 77 percent since 2005, and oil edges to an all-time high of $140 a barrel, while the number of Americans who declared bankruptcy last year increased by 40 percent.[4] In previous recessions we had low energy and food prices. This time around we have the twin impacts of significantly higher costs and limited supply of both commodities affecting consumers' purchasing decisions, the implications of which few have inclination to grasp in their entirety. Brands will come under greater practical consumer scrutiny and the bubble is likely to envelop more and more brands.

The big question, of course, is what's behind this brand bubble? What explains why brands have lost consumers' trust and respect? What are brand marketers supposed to do about the falling metrics of performance and sales, the most meaningful signs that predict the future of their brands?

Needless to say, we have pondered these questions long and hard, seeking to identify causes. We have formulated many answers, most based on our BAV data (which we will be detailing throughout this book), but some are theoretical—though they reflect our substantive real-world marketing experience with thousands of brands. Clearly the issues are complex, with many diverse factors dragging down brand perceptions among consumers. These include a world of graying august products, whose marketability is running up against growing consumer boredom; the loss of consumer loyalty and emotional attachment to any one brand in increasingly competitive categories; dramatically changing consumer attitudes and purchasing patterns—which we are going to cover extensively in Chapters Three, Four, and Five.

For now, we distill our analysis to just three fundamental causes that we see as collectively diminishing consumer desire for brands. These causes are singular but interlocking, with each one intensifying the others, creating a bad cocktail that consumers are no longer interested in drinking. The question you may ask is, Why now? While none of these factors are entirely new, they've never before happened simultaneously, and against the dramatic backdrop of profound changes of a new digital, media, and consumer landscape. Collectively, as Figure 1.7 shows, they're taking a far greater toll on brands than anyone had previously thought.

FIGURE 1.7. THE TRIPLE THREAT.



EXCESS CAPACITY

Every marketer is up against this new reality: the world is teeming with brands, and consumers are having a hard time assessing the differences among them. The average supermarket today holds 30,000 distinct items, almost three times as many as in 1991. In 2006, the U.S. Patent and Trademark Office issued 196,400 trademarks, almost 100,000 more than in 1990. And according to a Datamonitor report, 58,375 new products were introduced worldwide in 2006, more than double the number in 2002. This report points out that "despite the fact that advertising spending was up from $271 billion in 2005 to $285 billion in 2006, 81% of consumers could not name one of the top 50 new products launched in 2006, an all-time high for lack of recognition and a huge leap up from 57% in the previous year."[5]

Any way you view it, there's a glut of brands. *Paradox of Choice* author Barry Schwartz vividly demonstrated a shopping trip to the average supermarket where he found 285 varieties of cookies, 275 types of cereals, and 175 different salad dressings. (Fortunately he also found 80 different pain relievers.) In the "Decline of Brands" article for *Wired* back in 2004, *Wisdom of the Crowds* author James Surowiecki first reported a veritable dumping of brands on the market: "The average American sees 60% more ad messages per day than when the first President Bush left office. A handful of years ago, David Foster Wallace fantasized in *Infinite Jest* about an

America in which corporations sponsor entire years—the Year of the Whopper, the Year of the Depend Adult Undergarment. The fantasy seems more reasonable by the day."[6]

There are so many brands today that many companies have begun to rid themselves of poor performers and unnecessary line extensions. Unilever has cut almost four hundred brand SKUs from its holdings. Some companies are even divesting leading market position brands, succumbing to the pressure to drive growth, even if it has to be found in their lower-end brands. This is a growing problem for established brands in developed markets, where top-line growth can't keep pace with shareholders' expectations.

Consumers are not moving away from brands for want of choice; they have more choice than they could ever know what to do with. There's more of everything. More channels. More technology. More messages. More devices. More networks. The effect of excess capacity in media fragmentation, multi-channel distribution and ways to personalize content has resulted in more types of consumer behaviors, creating less differentiation among the waves of products on the market. Brands have blurred into a sea of sameness. A study by Copernicus and Market Facts reported that in more than fifty product and service categories, none became more differentiated over time and 90 percent declined in differentiation.[7] An Ernst & Young study of new brands showed over 80 percent failing due to lack of differentiation. Jack Trout and Kevin Clancy, writing for *Harvard Business Review,* said that only two categories of brands were becoming more distinct (soft drinks and soap), but forty other categories are homogenizing, as the brands within them become indistinguishable. They also found that "only 7 percent of ads out of a study of 340 prime-time commercials included a 'differentiating' message."[8]

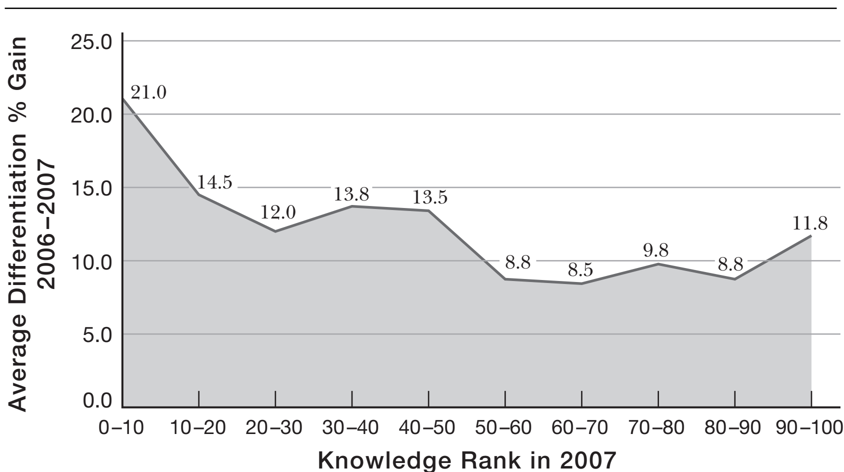
This lack of brand difference ultimately leads to commoditization. Barring meaningful distinction, brands enter into a transactional relationship with consumers, letting price dictate the purchase decision. Whenever marketing turns on the price promotion faucet, consumers begin to commoditize products. And why wouldn't they? If price becomes all the marketer has to say about a brand, why wouldn't consumers come to expect more of it? After all, if brands descend into comparative advertising and everyday low prices, it only encourages consumers to play along

and shop for deals. If no bargain arises, they are quite willing to switch to retailer brands with increasingly comparable quality.

Another study undertaken by Clancy found that brand name trumps price in importance only in the categories of automobiles, liquor, and beer. In twenty-eight of thirty-seven other categories, consumers buy on low price, not brand name.[9] In a 2006 *Harvard Business Review* article, Leonard Lodish and Carl Mella noted, "Price premiums have eroded, and margins are following suit. Consumers are 50% more price sensitive than they were 25 years ago. In recent surveys of consumer-goods managers, seven out of ten cited pricing pressure and shoppers' declining loyalty as their primary concerns."[10]

In the end, price promotions erode margins and profitable growth, inviting even faster commoditization. It's a bad cycle, especially for established brands. When a brand in this type of competitive position begins to say the same thing repeatedly (low price), consumers begin to think they already know everything there is to know about the brand, and it becomes even more challenging to build differentiation. As our BAV data demonstrates (Figure 1.8), consumers are largely sleepwalking through

Figure 1.8. The More Consumers Know a Brand—the Less They Feel It's Different.



Source: BAV, 2006–2007; All Adults.

their relationships with familiar brands from too many rational appeals and too much repetitive marketing that shows up in all the same old familiar channels and doesn't say anything new or exciting.

Historically, preference for brands in BAV was always greater than usage. In 2000, on average, this preference was 25 percent greater than actual usage for any given brand. This reflected consumers' passion, interest, and even lust for brands, regardless of whether or not they currently used or purchased them. This desire to engage with a brand epitomized its potential beyond the product it offered.

Recently, something interesting has occurred. Brands are now used more than they are preferred. Functional benefits and relevance now outweigh the intangible and emotional allure of a brand. Today average usage of a brand is 8 percent greater than its preference. In a world where choices and distribution options are increasing dramatically, at a time where consumers are much more informed, the result is a more commoditized market. Ultimately, commoditization is the beginning of the end for a brand. As soon as a brand competes on price, consumer loyalty takes a walk. Citing retail industry tracking firm NPD Group, Surowiecki also noted, "Nearly half of those [consumers] who described themselves as highly loyal to a brand were no longer loyal a year later. Even seemingly strong names rarely translate into much power at the cash register." And, worse, he referenced another study that said, "just 4% of consumers would be willing to stick with a brand if its competitors offered better value for the same price." Did you hear that: just 4 percent. With numbers like that, there's not much of a brand left.

Lack of Creativity

Why do so many brands exist? One good reason is it doesn't take much today to launch a me-too brand. Technology has democratized industry, making it easy for anyone to imitate just about any product or service within weeks and market to millions. The Internet enables distribution costs to move toward zero. And many of the products being created today are more intellectual-capital-intensive than physical-capital-intensive. In some industries,

so many copycat products have appeared that it takes an Excel spreadsheet to keep track of them all.

But it's not just a matter of more products—more of them are better made. Personal computing power is ten times faster in only five years. You can buy a $59 cocktail dress designed by Madonna at H&M. Muji can fill your apartment with incomparable style, at low prices. Mobile phones in Japan, Korea, and Scandinavia have so much functionality they practically make love to you. Even a $2 toy from China has a high-quality sound chip inside. Meanwhile, the shift in power over two decades to the retailer has eroded manufacturer margins and cut investments in innovation. Venerable brands are then forced to compete with these same retailer brands that are now anything but generic. As competition for available business intensifies and investors push companies to drive market performance beyond the organic levels of demand, quality levels continue to rise beyond the mean level of customer tolerance. Now even the lowest-priced goods exceed the average acceptable quality levels for most people. With high quality meeting surplus demand, consumers become more demanding while less willing to pay more, so highly innovative products tip faster into the mass market, whether it's a $.99 razor blade or a $29.99 Razr. When brands can't differentiate by simply being better and more affordable, the pressure to be more creative is even greater. Real creativity is the only way to break through the clutter.

Consumers are looking for highly creative brands to simplify choice. But much of what passes for creativity is imitative and incremental, and unduly rational. (Sometimes a brand can be downright unpleasant, like the flashing image of the 2012 London Olympics brand identity that turned out to induce epileptic seizures.) Back in the day when products were scarcer, a category might comprise just three brands, and marketing was a simpler, more linear process, it was easy to construct rational arguments and be top of mind. Production, distribution, and sales were more local, or regional at most. There was less media, channels, messaging, and competition for consumer eyeballs.

But today, escalating volumes of messaging compete for shorter and more distracted attention spans among consumers. As the 2006 *International Television and Video Almanac* points out,

"Americans are currently bombarded with an estimated 5,000 marketing messages each day, up from 3,000 in 1990 and only 1,500 in 1960."[11] As more and more information, brands, media, technology, and selling are squeezed into less space for consumers to make a decision, it gets increasingly unlikely an ordinary brand can consistently sit top of mind with a majority of people for very long.

Even brands that once enjoyed near-universal awareness now live in a world where consumers move quickly through consumption, chewing up brands and spitting them out when they no longer satisfy. Today's consumers are expedient, cycling through technology, information, products, media, and brands quickly. If a brand isn't heading somewhere with velocity and purpose, demonstrating creativity at every turn, it loses its distinction and place in the memory.

In the end, the lack of creativity shows up in a decline in brand awareness, differentiation, and saliency, the ironic consequence of giving consumers overwhelming choice. Sometimes people really can have too much of a good thing.

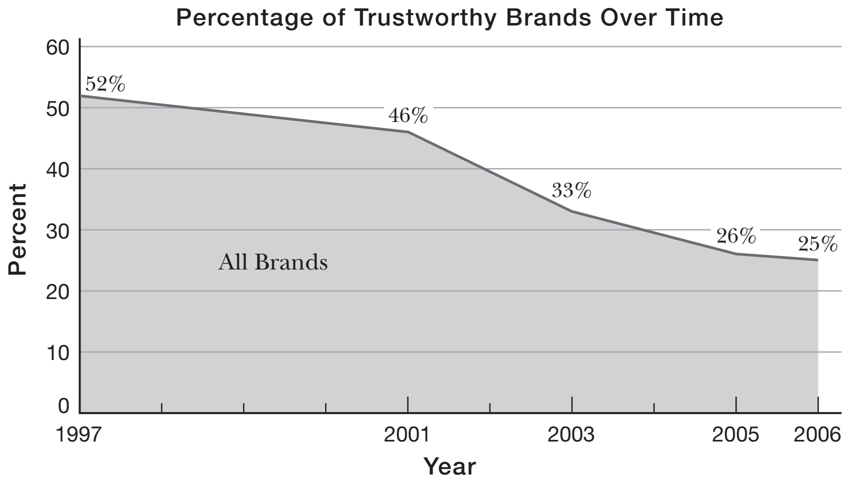
Loss of Trust

Brands originated as trust marks during a time when quality, safety, and reliability were big issues. In this pre-regulatory world, brand name products offered assurance that they were better made and more durable. People needed to know things as fundamental as "eating this brand won't kill you."

Now it seems that while quality permeates many categories and price points, buyers are quickly losing expectations of having good product experiences. Indeed, we found through BAV that product quality ratings among many leading brands have declined 24 percent since 1993.

The facts show that the amount of trust resting on a brand today is a ghost of what it was ten years ago. In 1997, the majority of brands (52 percent) enjoyed exceedingly high levels of consumer trust. But society's faith in institutions, corporations, and leaders has been severely rocked with scandals and mistrust, from Mad Cow disease in our livestock to human growth hormones in our baseball players. One by one, scandal after scandal has

FIGURE 1.9. CONSUMER TRUST IN BRANDS HAS DECLINED BY 50 PERCENT IN TEN YEARS.



* Defined as brands with >20 percent endorsement on Trustworthy attribute.
Base: BAV 1997, 2001, 2003, 2005, 2006; All Adults.

knocked corporate credibility, leaving few brands immune. By 2006, consumers voted only 25 percent of brands as trustworthy, halving the number of trusted brands in less than one decade (Figure 1.9).

In recent years, a variety of politically motivated movements have also begun to challenge the integrity of brands and consumerism. Naomi Klein's popular book *No Logo* explored the collateral damage of globalization in brands. One British man, Neil Boorman, attempted to live a year without brands and launched his campaign with a publicity stunt where he torched his Nike trainers and Gucci loafers. A year later, he wrote a book about his experiences, *Bonfire of the Brands: How I Learned to Live Without Labels,* which sought to denigrate brands and their value to commerce and society. His insurrection against brands continued with *Brand-aid* (brand-aid.info), which provides tips and guidance on de-branding your life, including how to "diagnose brand addiction and how best to beat it." There's also antiadvertisingagency.com, a blog devoted

to attacking "out of home" advertising in order to "democratize the outdoors and return it to people, not corporations."

These anti-brand attitudes might be written off as fringe, but they are increasingly moving into the mainstream. Consider Facebook's beacon debacle, where fifty thousand members signed a petition on MoveOn.org within days to protest the company's controversial plan to track their movements. Even a cherished brand like Facebook is no longer immune from consumer backlash.

And when it comes to trust, most brands face a growing generation gap: In our discussions, Millennials soundly criticized marketers for being controlling and resisting change. We realized that like a wiki page, the concept of "what is the truth" is open to critique and always changing. Because Millennials live in an open source culture, they expect to co-create truths and accept they will evolve. They feel a brand's integrity is earned through openness and embracing flux, but since very few brands act this way, they have an even smaller repertoire of brands they truly respect.

Consumers also think brands are more disposable due to technology, mergers, and acquisitions. MindSpring was a beloved ISP of the late nineties; then EarthLink gobbled it up and retired the brand name. Cingular developed into a powerful brand, only to be reduced to the orange backdrop behind the blue AT&T logo. So many brand disappearances have occurred that consumers now actively contemplate the concept of "permanence" in a brand. Because without it, what's their reward? Why should they feel a brand is going to be there for them in the future, when corporations eradicate brands or change how they operate in the name of corporate synergies? Who wants to be loyal to a 128K modem or left waiting at the door for an undelivered movie from Kozmo.com?

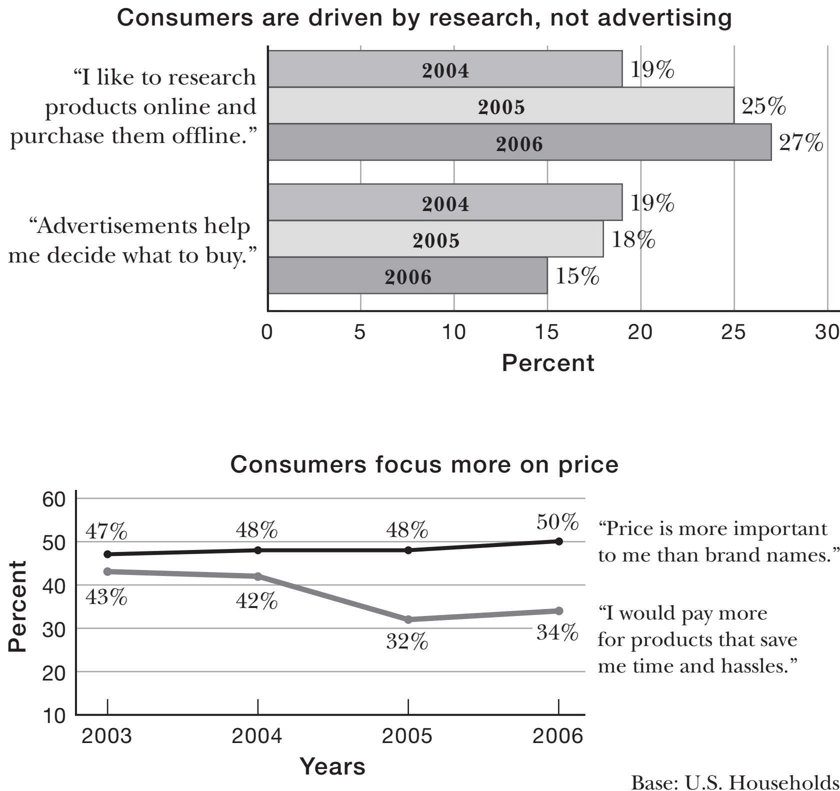
The brand marketer's most cherished tool, advertising, has also taken a big hit in consumer trust. According to the Newspaper Advertising Bureau, 34 percent of American consumers in 1965 could name the brand of a commercial aired during a show. Thirty years later only 8 percent can do so.[12] A recent Forrester study also shows consumers find advertising less useful and influential, with significant drops in their assessment of advertising's ability to inform or persuade them, or to build respect for companies. Statements like "I buy products because of their ads" declined from 29 percent to 13 percent between 2002 and 2006. And "Companies

generally tell the truth in ads" fell from 13 percent to a paltry 6 percent over the same period.[13]

This is because consumers are interrogating brands on their own, thank you very much. This behavioral shift from passive receiver to active investigator is growing. And it's remaking consumers as self-reliant, practical, and tribal. (See Figure 1.10.)

Instead of traditional advertising, consumers are increasingly turning to nontraditional sources of information such as search engines and peer-to-peer interactions. This information,

FIGURE 1.10. CONSUMERS ARE BECOMING HARDER TO SATISFY.



Source: "Topic Overview: Customer Experience," Forrester Research, September 2007.

collected from their social networks and ratings and reviews sites, is often more influential than the millions pumped into traditional marketing. Even though this is well known, a 2007 McKinsey survey found that over one-third of McKinsey clients still devoted less than 10 percent of their marketing budgets to nontraditional media.[14] Perhaps this explains why the ANA Marketing Accountability Study found that 42 percent of firms are dissatisfied with their ROI measurements: The world is dramatically changing and most companies aren't yet certain how to market to consumers and what criteria to use to measure marketing success.

Not the Way to Escape the Bubble

Now you know why we believe there's a bubble. On one hand, Wall Street, investors, and brand executives all believe that brands have limitless potential that will continue to drive already burgeoning enterprise and market values. On the other, consumers are sending out clear signals that they are no longer enamored of many of our brands and are not committed to future loyalty. Consumers are overwhelmed with undifferentiated brands and excessive choice; they are left uninspired by the lack of creativity in many brands, and they have lost their trust in brands to be unique and special enough to attract their emotional and financial commitment. The advent of social media and new communications technologies is dramatically empowering consumers, while upending the natural order of brand valuations at a terrifying rate of speed.

Where does this leave those of us who are responsible for marketing and managing brands? How can brands build sustainable long-term value to bring them back into alignment with Wall Street's expectations and valuations?

The answer is not found in simply redoubling efforts to win back consumer awareness, esteem, and respect. Too much has changed in the world to just return to the old methods of marketing and expect better results. As Einstein said, you can't get out of a problem using the same kind of thinking that created the problem.

A chess player who is suddenly confronted with a three-dimensional board will find the game disorienting. Even though

the same basic rules still apply, the new dimension of play requires a quantum leap in conceptualization and strategy. Marketers and brand managers today are facing a similar challenge. New market realities require a fundamentally new approach to manage a brand as a moving target.

Yet much of conventional marketing continues to operate in a time warp. Most marketers keep striving to build consumer perceptions that only drive current sales today. They happily skip along, stressing reason over emotion and persuasion over inspiration, still believing that customers can be programmed to lifetime relationships, and that brands can forever maintain their intangible elixir of attraction and lasting cachet.

This manner of marketing pays too much deference to the brand's existing equities. Past as Prelude thinking in marketing and brand management has been the norm in many companies for decades. But the consumer is now clearly telling us a brand's reputation is only what it did yesterday. Brand equity is simply a reflection of *past accomplishments*. The images, emotions, and feelings form an accumulated impression of the brand right up to this moment in time. They can create a false sense of security, as though past recognition can continue to generate an endless stream of future profits. This creates a "brand as statue" mentality—and we know what pigeons do to statues!

The collapsing aggregate brand measures of awareness, trust, regard, and esteem reflect the complacent manner with which too many marketers are thinking about brand equity. With accountability for brand performance under increased scrutiny, working to improve metrics like trust, saliency, and regard is simply no longer enough to create lasting brand value. That old marketing paradigm has made us passive and unresponsive to the new world brands live in. Consumers no longer buy brands for the reasons marketers think are important. Marketers who continue to look at traditional metrics are missing what consumers are really after. Continuing the same marketing strategy will only further commoditize your brand.

Today, brands are in peril if they stand still. Currencies and market caps fluctuate constantly, and brand reputation is subject to the same market forces. Brand strategies have to evolve and adapt to meet the needs of consumers who care little for what the

brand used to be. However much they knew it, liked it, or trusted it—that's all water under the bridge. Many famous brands are now in financial straits, and quite a few are even in Chapter 11. Look around at the airline and automotive industries—where brands regularly go belly up, despite 90 percent awareness.

Brand equity isn't the protective insulation it once was. Today, brands are decaying in compressed cycles of time. Every successful brand must be permanently leading, adapting, surprising, innovating, involving, and responding—behaving differently at different times with different customers, and collaborating, not just persuading. With limitless choice and expanding consumer power, nothing can stay the same, as consumer focus is now on what's moving and what comes next.

If marketing's role is to create value for the consumer, many marketers have forgotten the definition of marketing. They have replaced the word *value* with *sales.* Consumers then value brands less because business has forgotten what a brand really is. A brand is, after all, a promise. A brand offers a contract that's immensely emotional and personal. A brand reinforces our identity and self-worth. It offers a more opportunistic way to see our world. A brand makes us feel special and different. A brand makes our future more hopeful.

So we have in brands promises of future earnings to shareholders that now comprise a third of a company's value—but the promises brands make to consumers are now in doubt. Any bubble inevitably bursts. And all bubbles leave winners as well as losers. The next chapter holds the key to understanding how to be like those winning brands, those who are building true business value and making themselves irresistible to consumers.