Protecting An Asset

By DAVID LEYONHJELM

Although brands and brand marketing are usually associated with consumers, most of the principles are relevant to the rural market. Roundup, Waratah and Coopers, for example, are obviously strong brands.

The value that customers and potential customers perceive in a brand is known as brand equity. It reflects how much customers are willing to pay, above and beyond the price of competitors with lower value perceptions.

Although intangible, brand equity is a very valuable asset, often worth far more than tangibles such as stock and fixed assets. In 1988, Phillip Morris bought Kraft for six times its paper value because the company wanted the Kraft brand rather than the company and its products.

Brands are also good for profits. Research by McKinseys in 2000 showed that strong, well-leveraged brands produce higher returns to shareholders than weaker, narrower brands.

The emergence of strong retailers has been a challenge for brand marketers. Not only have retailers sought to establish their own 'home brands', but they have also been ambivalent in their support for manufacturer brands.

A key reason is that their margins on strong brands are generally lower than on weak or home brands.

When retailers have no choice but to stock a brand due to customer demand, their leverage with suppliers is reduced. That means rebates and other below-the-line subsidies decline.

Strong brands are also commonly discounted, either to attract more customers or to position a store as price competitive. Clearly, that also reduces margins.

The supermarket chain Aldi deals with this by only selling home brands apart from the market leaders that consumers insist upon. However, Aldi is a niche player and overall experience suggests consumers expect to see a minimum of 50-60% of brands other than those of the retailer.

The result is a certain amount of tension between suppliers who want to build and reinforce the equity in their brands, and major retailers who prefer they are not so successful that they reduce their margins.

Cooperating with suppliers to develop their brands into market leaders does not necessarily fit with their view of the world. As they see it, there is often more profit to be made from three or four medium brands jostling for share than when a single brand is dominant.

Elders and Landmark are typical strong retailers. They complain that margins on market leading products are lower than on lesser brands and put pressure on suppliers to increase rebates to compensate.

Weak brands and generics without brand equity are often given equivalent or even higher stocking priority, with customers encouraged to switch from the market leader to an alternative on which a higher profit can be made.

Their pricing policies undermine brand equity by disrupting perceptions of value. When not being discounted to match the price of a minor competitor 100 kilometres away, major brands are priced above the market on the grounds that this is necessary to generate the same margin as weaker brands.

In some ways major retailers view brands like a tenant thinks about a rented house. While the tenant might like the house, there are others available. If its value falls, the rent might fall as well. If its value rises, it will be in spite of, not because of, the tenant.

But suppliers are not helpless victims forced to watch the degradation of their valuable assets.

Fairly obviously, they can pay higher rebates to overcome the complaints of retailers, consoling themselves with volume even if their margins suffer. Most suppliers with strong brands also have weak brands that need distribution support, so it is sometimes a practical necessity anyway.

That tends to be a short-term solution though, as another round of rebate leapfrog inevitably follows as rebates on generics and weak brands increase.

Brand promotion to convince customers to refuse to accept substitutes is a logical solution too. There is no such thing as a strong brand that is not well promoted. But, while there are certainly times when Elders and Landmark lose customers because they fail to support well-promoted brands, it is not always enough.

Encouraging sales through smaller, independent retailers is also possible. These rely less on rebates and more on the customers that strong brands attract, so they tend to like selling them. But there is not enough of them and they are not always of that mind anyway.

And then there is the long-term solution. What if there were no retailers to come between a supplier and its customers? How much more valuable would brand equity be if it was not being eroded by the ambivalence of retailers?

What is it worth to protect an asset?

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