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SIMON ANHOLT

BRAND NEW JUSTICE

HOW BRANDING PLACES AND PRODUCTS CAN HELP THE DEVELOPING WORLD

REVISED EDITION

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Revised edition

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Preface to the revised edition

For poor and developing countries trying to compete in the global marketplace, there is no shortage of well-intentioned help and advice on offer – cash and food aid, loans, technology and skills transfer, twinning, training and resource sharing ... the list is a long one, and it is a credit to the countries and organizations which offer the support that so much valuable help is on offer.

Yet one crucial item is missing from the list, a tool which none of the richer countries would be able to operate without, and a primary component of their remarkable economic success during the last century. This is their ability to *brand*.

Without brand value, capitalism could hardly exist – certainly not in its current form, providing enviable standards of living to hundreds of millions throughout the developed world. For branding is far more than a trick to sell more consumer goods at higher prices: it is part of the very foundations of competitiveness in a free marketplace, and with slight variations is to be found in education, in politics, in industry, in the labour market and throughout the public sector. Wherever an organization of any kind needs to compete and thrive in a busy environment, then brand value – lent by quality, by personality, by product or service superiority, by strategy – is what makes the difference.

The remarkable ability of branding to create, spread and sustain wealth throughout society means that any country which needs to improve its competitive edge should take a closer look at how it works, and the purpose of this book is to provide an introduction to branding as a tool for commercial, cultural and economic development.

Simon Anholt

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CHAPTER 1

Why brands count

What I'm about to tell you is something you have probably heard before, but bear with me. It's an important introduction to what follows.

Here's how brands work:

On my left, a plastic bottle of sweet, fizzy brown fluid bearing the label 'Cola'. It cost me around 50 cents. On my right, a nearly identical bottle of sweet fluid bearing the label 'Coca-Cola'. It cost me just over a euro – or just over a dollar, if you prefer.

On my left, a good quality plain white tee-shirt. Cost: around ten euros. On my right, an identical white tee-shirt with a small Versace logo printed in black on the front. Cost: around 30 euros.

It seems almost criminal, doesn't it?

Well, that rather depends on who is doing it. This book explores the possibility that this phenomenon of branding, and certain other related techniques of wealth creation, could be better distributed around the world than they have been in the past. It shows how branding is, in fact, a powerful tool for economic development, and could make a very worthwhile contribution to the growth of the places which need it most.

Value you can't see

The brand value which marketing adds to products and services is not tangible value: unlike sales, products, factories, land, raw materials or workforces, you can't measure it very easily, but it represents capital because it enables producers and sellers to charge more money for their products and services and maintain a strong, long-term relationship with their customers. It is a multiplier of value, and as such, represents a substantial advantage for its owner: it's as good as money in the bank. You can borrow against it, buy it, sell it, invest in it, and increase or decrease it by good or bad management.

The concept of intangible value is a well established one in our capitalist system, and doesn't make brands any more suspect or less valid than any other form of commercial worth.

This additional value is not a trivial phenomenon; it forms a substantial part of the assets of the developed world. According to some estimates, brand value could be as much as one-third of the entire value of global wealth.

Being able to measure the value of these assets is clearly important, and Interbrand, a branding consultancy, have devised a widely-accepted method for doing this. According to their latest survey of the *Most Valuable Global Brands*, the intangible assets of the top 100 global brands are together worth $988 287 000 000: just a shade under a trillion dollars.

To put this almost unimaginably large number in context, it is roughly equal to the combined gross national income of *all* the 63 countries defined by the World Bank as 'low income' (and where almost half of the world's population lives).

Like me, you may find that a slightly disturbing thought, even though you've probably heard these kinds of statistics before. What can't be denied is that this elusive component of commerce is of great importance in understanding the distribution of wealth in the world today, and it is likely to have a role to play when we are trying to work out ways of balancing things better in the future.

There is little that is likeable about these mega-brands, the way they work, the companies which own them, or the fantastic quantities of wealth which they generate. But like it or not, rich and poor, we all live in a money-based global economy, and the lack of money is a primary cause of suffering: so it makes sense to take a closer look at how these brands multiply money, and see whether their genius for doing so might be transferable to some of the people and the places which *really* need it.

How brands create wealth

Selling products with well-known names, rather than bulk commodities or generic goods, has long been a smart business to be in.

Everybody knows that branded goods cost more than unbranded ones. You pay extra for the well-known name on your food, your clothing, your hi-fi, your running shoes, your car, and if you are one of those rather rare but very sensible people who always choose the supermarket-brand products, or products without well-known names at all, you will end up saving quite a lot of money.

But unless you're one of the brand rejecters, what do you actually get for the extra money you pay?

Well, although brand value is intangible, several aspects of the brand are of real value to the consumer; and much as some companies would like it to be so, a brand is not just a trick for overcharging consumers. Consumers aren't that stupid.

A product with a famous name is one you can usually depend on to do what it's meant to do, one that's made with quality ingredients or components, and backed by a substantial company which probably cares enough about its reputation to work hard to remedy any problems you may have with the product later on. A branded service business, one hopes, invests constantly in the best training for the best people. You can feel reasonably sure that a branded company will stay in business, in case you do have a problem with its products or service. Spare parts for branded products will be easy to find (although they will also be more expensive than the unbranded ones), and if you're really unhappy with the product, you can expect the company to take it back and refund your money. A brand is as much an open invitation to complain as it is a promise to deliver, and companies which deal lightly with complaints will soon erode their reputation.

So a brand also represents a considerable responsibility for its owner.

Brand names save shoppers time, effort and worry. Even though, in the rich countries of the northern hemisphere, it seems as if consumers spend rather too much of their lives either buying things or deciding which things to buy, few of us actually have the time, patience or expertise to research all of the minute differences between dozens or hundreds of competing products. To understand exactly why a BMW engine performs better or worse than a Mercedes engine, a Nike running shoe cushions better or worse than a Reebok, a Compaq is faster or slower than a Dell, you would need a degree in engineering.

A reputable brand enables us to shortcut this process: we feel we can take the quality, sophistication and reliability of the product on trust. The brand name is a promise that vast resources have been poured into making the product perform as well as the name implies. Most people feel that buying branded products is a safer bet, and don't mind paying well over the odds for this peace of mind: the higher price includes a contribution towards ensuring a better product from a better company.

In rich societies like North America, Western Europe and Japan, which largely revolve around acquisition, this ability of brands to reflect such attributes is so valuable that if the manufacturers didn't help consumers out by creating their own brands, the consumers would quickly find a way of investing their products with reputations themselves. If, by universal decree, Mercedes and BMW were compelled tomorrow to de-badge their cars, name them 'A' and 'B', and sell them at identical prices, it probably wouldn't be long before some consumers were boasting to their friends that they drove an A, and that this clearly made them rather classy – to the annoyance of B drivers, who would be equally convinced that their refined taste and discernment clearly marked them out as superior individuals.

Something like this once happened in the Soviet Union, where brands didn't exist. Soviet citizens quickly realised that the products in the state shops were produced in a variety of different factories, and each factory produced to its own quality standard. Within a very short time, shoppers had worked out how to read the barcodes on the products and tell where each product was made, and were thus able to exercise a kind of primitive brand selection.

It is often quite rightly pointed out in branding literature that companies don't invent or own their brands, consumers do. Reputation, after all, exists in the mind of the perceiver: it is not a quality of the product itself.

And of course there's the emotional side to branding, too. Like it or not, buying a branded product says something about you. At one very basic level, it is a way of showing people that you have enough money to pay more than strictly necessary for the things you own. Depending on the brand's image, it may also communicate something about the kind of person you are or would like people to think you are – your taste, your social standing and your attitudes. People have always used their possessions in this way, to express their wealth, taste and power: the addition of brand values to possessions simply makes them more expressive.

We are social animals with a keen sense of hierarchy, and most of us, rich and poor alike, are well prepared to pay extra for possessions which, in addition to or even instead of performing a useful function, advertise our status or act as badges for our various allegiances. Some brands – especially clothing brands – express our membership of cliques, schools of thought, ways of living; they express our attitudes towards authority, our mental age, our tastes and our political leanings. Rather usefully, the global brands even do this in a language which is international.

On the whole, our weakness in the West for the way brands work as badges is not something which we like to admit to: it's rather shaming to acknowledge that we are prepared to buy social status, or that we are foolish enough to spend more than necessary on a product which simply makes us feel or look a little better. Most of us would rather not confess how well our favourite brands pander to our weaker side, how intimately they know our secret vanities: we acknowledge them by buying them, but if asked directly, we may deny all knowledge of our real motivations. For the same reason, the whole system of branded products is easy to criticize, and there is always a ready audience for authors who criticize the way that brands work on us (often missing the point that they're only there because we want them to be).

And for the same reason, there has been a healthy market since the 1950's in America and Europe for fanciful books which reveal the dastardly tricks used by advertisers to coerce unwitting consumers into buying products they don't really want or need. We have always preferred to believe that we are being cynically manipulated by unknown forces than simply admit that we enjoy spending our money, and not always wisely.

Yet consumers for the most part subscribe voluntarily to their pact with brands, and their value in stimulating commerce, funding the media and generally creating wealth means that modern industrialized countries would sorely miss them if they went away. (One clear example of this is the calculation that if the London *Times* carried no advertising, it would cost nearly £21 per issue instead of its current cover price of around 60 pence.[1])

The same cannot be confidently said about consumers in less developed countries, where the pact is less equal, and where people are not so effectively 'immunized' against commercial messages from an early age. But more on this later.

All this is basic stuff, and we live in an age where most people – at least in the industrialized nations – are familiar with the mechanisms of brand image. In fact, it's interesting that, even though we all understand very well how brands work, and how at least part of what we're paying extra money for is really non-existent, we are still perfectly happy to carry on doing it. Some say this is foolishness; some call it decadence; some find it morally objectionable that so many people in the rich world will happily pay hundreds of euros for a pair of elegantly ripped and stained Diesel jeans whilst others go unclothed in Africa for want of a few cents' worth of cloth.

The real success story of branding in recent decades has been the way in which companies have used their brands to turn the satisfaction of complex and even spiritual needs into commercial transactions. Once people have reached a level of wealth where all their simple needs are fully met, where they lack nothing which is essential for the satisfactory continuation of their daily lives, one might imagine that their surplus time and energy would then be expended on fulfilling higher, spiritual and intellectual needs. One might also imagine that commerce has no part to play in this pursuit.

But as people in richer countries have moved beyond basic wants, so companies have kept pace with their increasingly complex and intangible desires, attaching the promise of status, peer approval, tranquillity, happiness, wisdom, intelligence, sex appeal, long life, fitness, youthfulness, to their branded products. Now that every desire in our waking lives is fulfilled, brands manage to sell us our dreams. Brands continue to exist and generate huge profits because that is the only way in which consumers who own everything they want can be stimulated to carry on consuming as if they still needed things.

There is rather more to achieving these spiritual ends than owning the accessories which go with them, or the brands which reflect the lifestyle which matches them: so, like drinking salt water when you're thirsty, the brands do little more than sharpen the desire without ever satisfying it. This may all sound a little pious, but I think most readers in rich or developing countries will know the ache of wanting and wanting a particular possession, at last buying it, and then feeling the same emptiness gradually return a few days or weeks later.

This may partly explain the rapid growth of FairTrade products and well-marketed charity appeals: they enable us to spend money without feeling cheapened or impoverished afterwards. I mention this sensation because it has some relevance to the arguments which follow in this book.

How brands distribute wealth

So the branding mechanism keeps running, and continues to create wealth. The fact that the system is so pervasive and so durable doesn't necessarily mean that it's healthy or even morally sound, but it does suggest that it responds to something pretty real in human nature.

Brands remain economically attractive because enough people believe that they are worth paying extra for: the companies which are lucky and clever enough to own powerful brands make more money than the companies which don't, and some of the extra money which consumers pay for extra brand appeal is pure profit for the brand-owner. This is why company bosses are sometimes quoted as saying that their brand names are worth more than the rest of their business assets put together: you have to keep investing in your brand, and your product and customer service have to live up to the promise of the name, but when it's in good health, a brand is a licence to charge more money for your products.

Although increased profitability is one of the main attractions of being a brand-owner, it isn't all about margin. The large consumer brands may enjoy 15–20 per cent greater margins than producers which aren't household names, but the real benefit for the brand-owner occurs over time. Brands represent *sustainable wealth*: it's the loyalty of the consumer base, the ready acceptance of new products launched under the same name, and the relative cheapness of retaining loyal customers compared to the cost of continually finding new ones which really makes the difference, and enables branded businesses to grow exponentially over time.

One survey has even revealed the startling fact that brand leaders, far from getting locked into an ever-increasing spiral of marketing costs to sustain their brand images, actually spend *less* on advertising than their competitors.[2] (The corollary of this, of course, is that the competitors need to spend more, so the advertising industry is in little danger of doing itself out of a job).

In the longer term, brands create wealth around themselves. The additional profit margin means that the company can invest more money in research and development to maintain the flow of innovative, high quality new products to market; in marketing to maintain and enhance the profile and power of its brands and keep up with the market leaders; in people and systems to improve its customer service.

This enriches the substantial service sector which surrounds the makers and marketers of products. As they grow, the companies employ more and more people, buy more raw materials, use yet more services, build more factories and offices, and pay more taxes. Their distributors and retailers benefit from bigger sales, and share in the bigger profits, which means more companies hiring more people and engaging more service businesses, retailers expanding their businesses to meet the growing demand from consumers, and all *these* companies paying more taxes too.

Research from the USA showing figures for direct and indirect employment by large companies[3] suggests that the employment effect within clusters centred around a major international brand can be dramatic: Dell Computer's Texas operations, for example, employ 12 500 people directly, but are responsible for creating some 30 000 jobs in total; 3M directly employs 20 000 workers in Minnesota, creating 54 280 total jobs; Monsanto directly employs 3 800 people in Missouri, and creates 9 650 jobs. In other words, each of these companies is creating between two and a half and three times as many jobs for the local economy as actually appear on its payroll.

Gradually, wealth spreads out from successful companies, merges with the wealth spreading out from successful supporting and competing companies in the same region, and it stimulates the economy of the city, the region, and ultimately the country in which the company is based.

Life on the lower tier

The brand effect is one of the ways in which the countries which had already generated great wealth through trade and empire-building in the previous three or four centuries have managed to become richer still during the last hundred years.

Today, many big corporations acknowledge that their real expertise is in product design and marketing, and this is where they invest most heavily. The less profitable parts of their enterprise, such as sourcing the basic raw materials, manufacturing and finishing the products, are farmed out to wherever they can get the required quality for the lowest price – and it's almost invariably in the second or third world.

These companies no longer need to produce or manufacture: all they need to do is brand and deliver, and the money comes rolling in.

Companies in emerging and third-world countries, on the whole, haven't been able to do this trick, and still make most of the foreign income which is so crucial to their economies through supplying companies in rich countries with the raw materials or basic manufactured goods and labour they need.

But these supplies, since they are unbranded, are generally identical to those of their many competitors, are extremely price-sensitive, and generate very slender profits indeed.

In addition to their Top 100 global brands survey which I mentioned at the beginning of this chapter, Interbrand also publish rankings and valuations of Brazil's top 12 brands (none of which have significant sales outside Brazil or are worth anywhere near a billion dollars, so of course don't make it into the Global Top 100).

The combined value of these local heroes is just over $4 billion (the top 12 US brands are worth somewhat more than 100 times as much). Their value compares very differently to the country's income, as well: Brazil's top 12 equate to less than half a percent of GNI, whereas America's top 12 are nearer 5 per cent. Massive reserves of intangible wealth would appear to be a characteristic of the healthy, modern economy. Whether this is something we should be concerned about, I leave to others to decide.

As it stands, most poorer countries are enmeshed in various patterns of behaviour which keep them poor, and one of these is selling unbranded goods to richer nations at low margins. Companies in the richer nations then add large amounts of margin to the goods by finishing, packaging, branding, and retailing them to the end user. The poor country's part in this process often helps to deplete its resources while keeping its foreign revenues at a break-even level or below.

The margins on this kind of transaction have been compressed even further in recent decades as globalization has advanced, making life as a 'supplier nation' an increasingly unattractive proposition. As time passes, the profits at the branding end of business grow, and there is a tendency for the profits at the supplier end to shrink.

Before globalization reached today's levels, being a supplier nation did provide opportunities for reasonably stable foreign income, even if it was seldom a recipe for great wealth. But in a globally networked world, where brand-owning companies are free to shop around the world for their raw materials, their manufacturing and labour, and instantaneously locate the best combination of sufficient quality and low price, supplying them has become an extremely risky business.

Instead of suppliers in poor countries competing on a local level for contracts to supply rich companies in the North, they are now in direct and constant competition with other suppliers all over the world. Farmers in one country may have a less favourable climate with a shorter growing season; and a single poor crop may make it almost impossible to win back contracts in subsequent years. An American or European company can switch its suppliers of raw materials from Latin America to South-East Asia overnight if the price is right. Suppliers in Thailand can bid on the internet for contracts against suppliers in Kenya and Peru, and this creates a very volatile situation: in some countries, factories and producers may enjoy massive government subsidies, international aid or development grants and thus drop their prices way below anything the rest can afford, or they may have a cheaper labour force and thus undercut the rest. World Bank concessional loans for supporting Vietnamese coffee production, for example, have all but wiped out the robusta coffee business of several African countries: in a globalized world, it's almost impossible to help one country without harming another.

The consequence of this effect of globalization is more and more intense competition between supplier nations, which means greater risks and ever tighter margins for the suppliers, and better and better opportunities for the purchasing companies in the West. It's no business for the faint-hearted.

Isn't it the poor world's turn?

A visitor from another planet might well ask, if poorer countries want to do something to catch up, why don't they simply play the same game, and encourage their industries to start selling finished, branded goods direct to consumers rather than unbranded goods and materials to brand-owners? If one third of the entire world's wealth is composed of this thing called brand value, why aren't poorer countries getting into the branding business too?

After all, for an emerging market, branded exports would represent *protected margin*: unlike commodities and labour, which depend entirely on price, quality and timely delivery in order to maintain preference, successfully branded goods can – at least for a while – keep their customer base even after all other factors have been erased. Buyers return endlessly, willingly, sometimes almost automatically to the companies which produce their favourite brands, and will always take an interest in and give preference to new, unknown products from the same companies. Of course, companies can also show preference towards longstanding suppliers with a history of efficient service, and this is like a weak form of brand loyalty, but since the offering itself generally has nothing to distinguish it from any other on the market apart from price, that loyalty may be short-lived if a cheaper alternative appears.

If it is true that branding is simply adding a range of intangible attributes to a quality product, and since so many of the quality products are already manufactured in emerging markets, there is little question that graduating from commodities or unbranded manufactures to brands would be a highly effective way for companies in such countries to improve their income and profits – and, perhaps, if enough companies did it, to improve the wealth of the entire country as well.

There is much simple justice in this idea, and a simple formula is irresistible. I raised the following point at the end of my last book, and it forms the opening thought of this one:

- If a company in a rich country sells brands to rich consumers in the same or other rich countries, nothing really happens: money simply circulates within a more or less closed system, and there's little to criticize on moral grounds.
- If a company in a rich country sells brands to poor consumers in the same or other rich countries, there is a risk of exploitation and a further widening of the wealth gap.
- If a company in a rich country sells brands to consumers in a poor country, the risk of exploitation is far higher.
- But if a company in a poor country sells brands to consumers in a rich country, the overall balance begins to be redressed, and justice begins to be done.

So why doesn't it happen?

Conventional wisdom says that companies in poor countries can't get rich by exporting branded goods and services for several reasons. These are the five most common ones:

1. they can't produce high enough quality products or services;
2. they can't afford to promote or distribute them internationally;
3. they don't have the expertise to build international brands;
4. even if they did, nobody in rich countries would want to buy them;
5. even if they did, and even if people did buy them, the resulting profits would never benefit the economy as a whole, and would simply disappear into the pockets of a few corrupt individuals.

In this book are some responses to these five objections, as well as an exploration of the consequences of rejecting them, and some thoughts on how governments and producers in developing countries might take advantage of the potential of branding for their own progress and development.

Branding the exports, branding the nation

The starting-point of *Brand New Justice* is that companies in many poorer countries *can and do* develop and sell their own branded goods