LIPPINCOTT

The Link Between Identity and Growth

By Ken Roberts

Corporate growth is among today's most discussed business topics. Who has it? Who does it right? How do the best companies grow—and continue growing? But as you will see from the following examples, growth is hardly new to business—nor to the readers of Sense. The business tenets set forth in these vignettes from earlier issues of Sense prove that some ideas are as relevant today as they were 30 years ago.

Having built its reputation in office computing, Hewlett-Packard launched a line of home PCs in 1994. Some considered it a daring move, but market tests confirmed that consumers thought highly of the Hewlett-Packard brand. "Without having the computers themselves on the shelves, we were already viewed as a leader in computer products sold at retail," HP executive Webb McKinney told Fortune magazine. Within months, Hewlett-Packard's Pavilion PCs had soared to fifth place in the crowded home PC market.

Exhibit 1:

There are many lessons to be drawn here; perhaps the most important is the powerful impact of brand and corporate identity on a company's growth. "I think [the Pavilion computer] is a great product," Mr. McKinney said. "I don't want to denigrate it. But it was the brand."

To be sure, the link between identity and marketplace success is hardly news. It has long been known that a strong, positive identity can drive higher profits, healthier market shares and greater competitiveness. But until recently, its specific impact on growth has been less evident—possibly because the value of growth has not been fully appreciated.

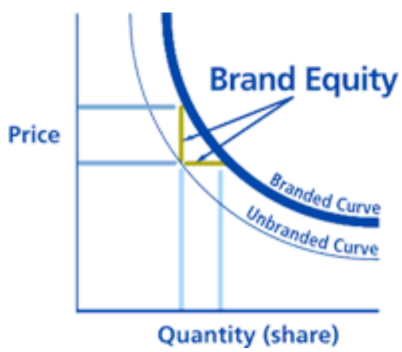
But in 1994, Oliver Wyman reported a dramatic shift in the mindset of business leaders. Following a decade of economizing, downsizing and restructuring, they were turning their attention back to growth. There was increasing awareness that cost-cutting is not a strategy for growth—that "you cannot shrink to greatness," as Dwight L. Gertz and João P. A. Baptista write in Grow to Be Great: Breaking the Down-sizing Cycle (The Free Press, October 1995).

Growth: not for small companies only

Moreover, senior managers in large, mature industries were acknowledging that growth is not the exclusive province of small and mid-size companies, or of "growing" industries such as health care and technology. In an Oliver Wyman survey of 280 chief executives, 94 percent rated growth a top priority. "A growing number of executives feel they have followed the strategies of shrinkage as far as they can go,"write Gertz and Baptista. "The reign of the cost-cutters is over."

While there are many avenues to sustained growth, brand and corporate identity management constitutes an especially powerful stimulus for it. For starters, deft and innovative brand identity management can shift customer behavior and increase customer commitment to a company's products and services. What makes brand management so important today? Simply that brands are potent catalysts for growth, especially when it is no longer possible to rely on macroeconomics. As recently as a decade ago, worldwide economic growth rates approached 20 percent, so that even indifferently managed companies could bumble into success. But with today's slowing growth rates, companies must increasingly look to new markets, new products and brand extensions to achieve the growth that once would have come so much easier.

Exhibit 2:



Brands signal information to key stakeholders, including customers, shareholders and the investment community. Their overall objective is to create brand equity—the power to shift demand and change customer behavior. In a marketplace grown crowded with store brands, off-brands, generics and new brands, the ability of a powerful brand to convey its message instantaneously and clearly becomes increasingly valuable.

Brand equity originates in brand image—the collective associations consumers make to a brand, such as the brand's name, logo, and their personal experience with the brand and their perceptions about it. But, not all are relevant to brand equity—only those with the power to change behavior. The key to successful brand strategy is the ability to capitalize on the drivers of brand equity and their ability to achieve profitable growth. Brand strategy development is driven by practical business decisions—can I extend my brand to new categories? How do I manage the merger or acquisition of brands?—and focuses on improving overall business performance.

The divergent fortunes of two automobiles made by the same manufacturer offer an unintended study of the power of brand strategy to alter behavior. Since 1989, both the Toyota Corolla and the Geo Prizm have been made by New United Motor Manufacturing Inc. (NUMMI), a joint venture of General Motors and Toyota. While the two cars are virtual twins, the Corolla has had consistently stronger sales despite a higher price. How come? "The strength of Toyota's brand allowed it to charge more," says The Economist. "Buyers thought a Toyota would be superior to a GM car in the same class, and so happily paid more."

The effect of brand strategy on profit and growth is striking. While both cars cost the same to make—about $10,300—Toyota sold 200,000 Corollas to dealers at $11,000 each, while GM managed to move only 80,000 Geo Prizms at $10,700 between 1990 and 1994, The Economist notes. The result: "Toyota made $128 million more than GM in operating profits from NUMMI, while its dealers made $107 million more than those of GM from the plant's products."

Exhibit 3:

Growth through customer franchise management

Among the lessons to be gleaned from the Corolla-Prizm phenomenon is that changing customer behavior has never been more important. Where product quality was once the ultimate end, the paradigm has shifted. "Today, the customer is the ultimate unit of value," says Mercer's Eric Almquist. "Customers—not products or real estate or databases—are the true asset of any company and the source of its revenues and profits."

But not all customer relationships are created equal. One of the most promising pathways to growth today is "customer franchise management"—the care and feeding of only those customers who are most valuable and responsive to a company's products and marketing initiatives. Customer franchise management, says Mr. Almquist, "can be the basis for sustainable business growth." A case in point: McDonalds.

When you look at McDonalds' advertising, the mini-playgrounds, the airy, clean restrooms and the dearth of pay phones and video games, you realize they are selectively targeting families with children, says Mr. Almquist. "There are no incentives for teenagers to hang out."

The view from Wall Street

Adroit management of brand and corporate identities can also stimulate investor interest—a decided advantage when a company is launching an initial public offering, issuing debt or looking to be acquired. A 1994 survey conducted by Fortune magazine and Yankelovich Partners found that companies with glowing reputations were more likely to attract investors and enjoyed a price/earnings ratio that averaged four points higher than their less-esteemed competitors.

In 1994, Eli Lilly and Company spun off several units in its Medical Devices Division to form a new public company. Although these businesses were leaders in their respective markets, Wall Street identified them closely with the Lilly name. What the new entity needed was a compelling, unified identity of its own.

Lippincott was retained to develop a global identity program for the new company, built around the name Guidant and encompassing a logo, corporate colors, a visual system and graphic identity guidelines. All were designed to project an image of innovation, strength, quality and stability. For Guidant's initial public offering, we developed an identity introduction plan and assisted in coordinating the various communications resources required to launch the program.

The Guidant IPO was highly successful. Today, this $931 million public company enjoys a strong presence independent of Lilly, projecting strengths that have registered well among investors, as well as employees and customers.