



# Brand Purpose – the new strategic imperative

## *Brand purpose as the new backbone in the digital age*

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Top executives recognize intuitively how important brand is for the business. Global brand leaders – such as Nike, Apple, L’Oréal or Danone – have developed strategies which are actively led by their brand: on-brand projects are supported, off-brand activities are dropped. Brand acts as a holistic guide for the entire company, a promise to customers, employees, shareholders, suppliers and others. This has been the case for years or even decades.

However, digitalization is a game-changer. The continuing progress of digitalization has led to radically new relationships between a company’s stakeholders, especially its customers, and its brand. Companies face new threats and opportunities that destroy or create brand value through accelerated product lifecycles, new styles of customer engagement, ongoing commoditization of products and changing employee/employer relationships. A good example is the intense competition in European telecoms markets, with customers now able to compare offers and networks from a technical perspective, and with high-tech companies having become more attractive than traditional players such as telecom operators<sup>1</sup>. How should companies respond to these new threats and opportunities? Is it enough to create superior products and customer experience which communicate and reinforce the brand? Based on recent work with a number of global major brands, in this article we make the case that in today’s environment companies need to go much further and instead focus on Brand Purpose – having a clear, strong and compelling “Reason-to-Exist.” Without this enduring backbone, we believe that companies are increasingly vulnerable to sudden, sometimes even terminal, brand damage.

Digitalization is a game changer when it comes to brand, introducing new threats and opportunities that destroy or create brand value through accelerated product lifecycles, new styles of customer engagement, ongoing commoditization of products and changing employee/ employer relationships. The Brand Purpose, the “reason-to-exist” of the company, gives a unique backbone that drives strategy, product offering, and customer experience and creates customer engagement and loyalty. Should companies rethink their Brand Purpose in the digital age?

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<sup>1</sup>See Glassdoor’s Best Places to Work – of the 50 companies that make up Best Places to Work in 2016 list, technology companies captured more than 20 of the spots.

## Digital changes everything, especially the customer-brand relationship

Connectivity is ubiquitous. Overall, approximately 65% of the world’s population is expected to be connected through mobile to the internet by 2019<sup>2</sup>. This radically changes day-to-day ways of shopping, interacting with others, learning, and choosing suppliers, both online and offline. Evidence shows that no business is shielded from this – most products or services such as airline tickets, clothing, books, electronic equipment or even cosmetics are digital – combining both online research and customers, purchasing intentions. Most companies selling products through online and offline channels have been facing this “unstable omnichannel” challenge. In fact, how to deal with the transparency and dilution implied by those digital channels is just the tip of the digital iceberg. Here are some other challenges.

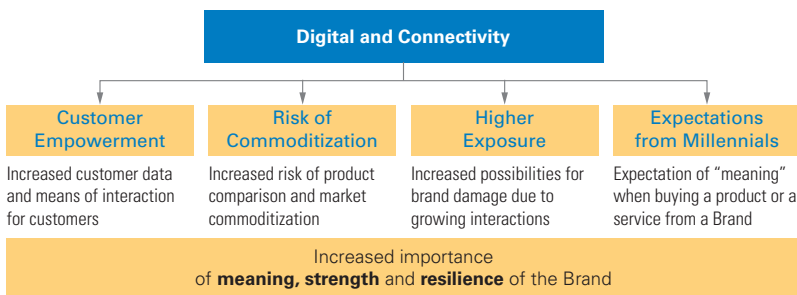


Table 1 **The new strategic paradigm for brands** Source: Arthur D. Little analysis

### Increasing customer empowerment

User-generated content and customer comments are everywhere. Reviews – and more particularly, certified reviews – influence customer shopping behaviors in a long-tail world. This makes the relationship between the brand and the customer much less asymmetrical, with much greater customer power. Social networks such as Facebook, Twitter, Instagram, Pinterest and Periscope are central to the customer relationship, as well as collaborative review apps such as TripAdvisor for hospitality and Vivino for wine consumers. Itamar Simonson from Stanford University points out that brands

<sup>2</sup>eMarketer estimate

are losing their ability to influence because their ability to signal the value of the consumer benefits they offer is being replaced by all the information available on the internet. All this places new importance on the underlying meaning and resilience of the brand – and the need to continually reinforce it.

### **Threat of faster commoditization**

With this new balance of power between customers and companies, commoditization is being accelerated. What does it take to make a customer buy a product from within Amazon's 500 million-product ocean? Typically, comparing prices and calling up information on products is a no-brainer for most customers. A study performed recently by Arthur D. Little across diverse sectors such as Real Estate, Telecoms and Cosmetics showed how customers' "comparison attitude" is tending to generate a transparent market in which players are perceived identically. (See Box 1.)

#### **Box 1: Impact of digital on buying behavior – from Real Estate to Cosmetics**

Arthur D. Little's team recently conducted research on consumer perception of brands and related services across three sectors: Real Estate, Telecoms and Cosmetics. Surprisingly, customer buying behaviors are quite similar, whether buying an apartment or a pot of face cream. For example:

- **Customers always start with digital**, even in an industry in which physical interactions and visits are the cornerstone of the customer journey.
- **Brands remain primary guidance.** Despite the internet, implicit promises from brands are still key in the customer's journey.
- **Customers are experts, with a "cross-sector" approach.** Companies cannot rely on being the best among their competitors anymore. Customers are now "comparison professionals".
- **Social networks are critical to brand reputation.** Customers distrust brand-marketing efforts and delight in creating "circles" to share their experiences.

Most companies are now facing the “commoditization challenge.” The good news for companies is that brand still provides a key pointer in the customer journey. Responding to this challenge requires increasing brand strength in a way that goes beyond just better marketing.

### **Greater exposure to brand damage**

Digital advertising has doubled according to Arthur D. Little estimates. (See our study, *Flow of Funds in the Media Industry*, 2014 and 2016 editions.) Brands are now facing increased exposure to customers, which can be a powerful opportunity or, alternatively, a major threat. For example, in 2016 British retailer Tesco launched several new food brands – including “Boswell Farms” for beef and “Redmere Farms” for vegetables. However, these brands were referring to fictional farms, and this generated thousands of negative customer comments on social networks in a short time frame. Digital means not only that speed of response is paramount, but also that brands need to be robust enough to withstand these rapid shocks.

### **Impact of millennials**

Millennials<sup>3</sup> are overtaking Baby Boomers as the largest purchasing generation. Millennials are, by definition, digital natives. They spend 4.5 hours on their mobiles per day (versus 3.5 for Baby Boomers) and more than three hours on their computers or tablets (against one hour for their predecessors)<sup>4</sup>. Their consumption habits are not the same either: being connected may mean they still buy the same brands as their parents, but through online channels instead. Central to their buying behavior is their interest in what they perceive that the brand stands for. It has been shown that more than 80% of Millennials relate their purchasing or recommendation decisions to a brand’s purpose, or Reason-to-Exist<sup>5</sup>. They expect “meaning” when buying from a brand.

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<sup>3</sup>According to Howe and Strauss’s definition that refers to the Millennial cohort as consisting of individuals born between 1982 and 2004 in *Generations: The History of America’s Future, 1584 to 2069*

<sup>4</sup>According to Global Web Index WVI, 2015

<sup>5</sup>According to Millennial Momentum study

## How companies can respond – rebuilding Brand Purpose

Together these challenges are placing a huge premium on the ability of companies to strengthen, adapt and/or renew their brands. However, in our research we found that many companies, although they recognize the challenges, have not yet grasped the importance of taking a fundamental look at their Brand Purpose. Instead, companies often respond by launching new products, and new advertising campaigns, or providing new R&D guidelines. If we take management science as a proxy for what companies are focusing on, we see that the topic of Brand Purpose scores fairly low – branding as a topic has been addressed five times less than strategy in Harvard Business Review publications in the last 20 years, with Brand Purpose being addressed some 5,000 times less!

If we look at the most successful global brands today, we can identify a number of key success factors which companies should consider:

### Focus on meaning

Firstly, when defining their brands, most companies define their roles through their products – the concrete proof of the business the company is conducting. However, brand is meaning. The supremacy of strong brands lies in their Reasons-to-Exist, the fundamental philosophies they embrace rather than the products they sell<sup>6</sup>. Often this refers to a superior cause the brand legitimately embraces. For example, Red Bull's Reason-to-Exist is not about becoming the leader in energy drinks; it is about "the power to take risks". This is much more powerful and gives sense to Red Bull's businesses, ranging from drinks to media. Providing meaning is the essence of the brand's role – and power – towards customers. A Reason-to-Exist has the greatest power to lodge in the customer's mind. (See Table 2 below.)

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<sup>6</sup>See our Viewpoint: "the Y Strategy," December 2016

	Product	Experience	Reason-to-Exist
<b>What do customers recall about ...</b>	Product utility and features  Example for a telecom company: <b>speed</b>	Subjective (felt) experience  Example for a car manufacturer: <b>prestigious</b>	Reason-to-exist of the company  Example for a food company: <b>ethical</b>

Table 2 What customers recall about companies they buy from

Source: Arthur D. Little analysis

Strong brands embrace strong causes. When Danone, one of the leading food-products corporations, explains its business, it does not say that it sells dairy products – instead it states that it wants to improve health through food for as many people as possible. A company’s Reason-to-Exist transcends its products. This is where the brand magic lies, for example, the reason why customers will choose a Coke instead of a Pepsi – or the opposite. A clearly articulated Reason-to-Exist allows for further consistency to be achieved in strategy and product portfolio.

While there is no formula for defining a Reason-to-Exist, many leading companies have focused on categories of benefit that are seen to be intrinsically beneficial to individuals, society and the global environment, for example:

- Apple builds on personal creativity and progress (socio-societal benefit)
- Danone builds on healthy food for all (physical benefits)
- Red Bull builds on freedom (socio-societal benefit)
- Dove builds on reassurance and confidence (social benefit – see Box 2)

### Box 2: Dove Cosmetics

Cosmetics is one of the most commoditized markets as product formulations become more and more similar across companies. However, one brand managed to build a robust and differentiating purpose: Dove (part of Unilever). Fifteen years ago, Dove carried out a deep study to understand women's vision of beauty. To its surprise, Dove found that only 2% of women considered themselves beautiful. Rather than the promise of beauty itself, Dove made explicit its vision of "reassuring real beauty," considering beauty a "source of confidence, and not anxiety". This purpose of enhancing women's self-esteem has since become the backbone of the company driving its R&D, marketing, partnerships and corporate positioning.

Whichever type of benefit is chosen, it needs to enable a differentiated position which transcends the level of individual products or services and provides a unique backbone that everyone understands.

### Engage customers in your purpose to create ambassadors

Increasingly, customers are looking for experience and engagement, not just products. Companies need to manage this process carefully. Engagement can be seen as an ultimate step that starts with conventional customer relations and builds up through the provision of superior customer experience and development of emotion and sentiment – see Table 3 below.

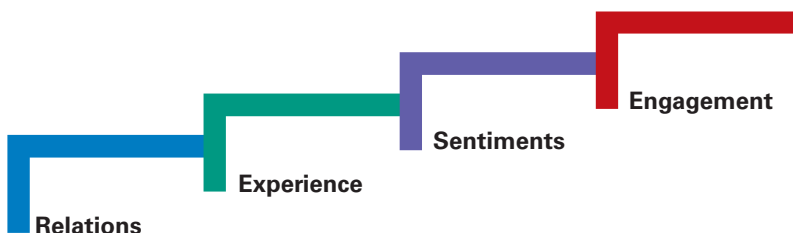


Table 3 Engagement as the ultimate step

Source: Arthur D. Little analysis



Engagement implies multiple interactions with the customer as a collaborator, ecosystem partner, and advocate as well as just a purchaser. This may require a new mindset for many companies.

As product commoditization increases, customer engagement becomes even more critical. For example, if we analyze Apple vs. Samsung handsets, there is limited differentiation in terms of product features (such as dimensions, weight, screen size, OS capabilities, price range). However, Apple has created superior differentiation through a customer engagement approach which is tightly derived from its “Purpose”: Apple promises an implicit social status through sharing in a community that values Passion, Simplicity, Design, Quality and Intuitiveness. Its customer experience – in particular, in-store concepts or online chats – is not innovative per se, but its relational strategy, for example, displaying sales people’s first names, calling customers by their first name, etc., all reinforce the sense of being part of the community. In fact, customer surveys show that the top reason customers buy an iPhone is because of the Apple brand (i.e. the “social benefit”) rather than any of the functional benefits such as speed or screen size.<sup>7</sup>

If buying a product leads customers to engage and identify with the company, then they become ambassadors. Having ambassadors enables marketing to become “co-creation.” Customers involved in the company’s project will also be more likely to forgive mistakes.

In a recent Arthur D. Little study on the digital footprint of 30 telecom operators, we found that performance is actually no longer related to digital skills – which are now quite common. The digital leaders are those companies whose purpose is stronger, which can engender a community of fans and turn them into ambassadors.

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<sup>7</sup> UBS survey, 2014

## The business case for focusing on Brand Purpose: evaluating brand premium

Arthur D. Little’s recent research has confirmed that even in commoditized markets, in which customer comparison is the norm, value premiums are still possible through having a superior Brand Purpose. The telecoms market is a typical example. Former public monopolies have been opened up to competition, creating several players in each country, as well as enabling the emergence of European businesses such as Orange, Telefonica or Deutsche Telekom. Competition has become a reality, with prices directly correlated with this – our recent analysis suggests an indisputable correlation between price evolution and competitive intensity<sup>8</sup>. Is there any brand premium possible in such highly competitive markets? In our analysis we isolated the impact of the brand – so in this case, “brand price premium” refers to the intrinsic ability of the brand to generate a price increase, for a comparable product. Table 4 below shows the results:

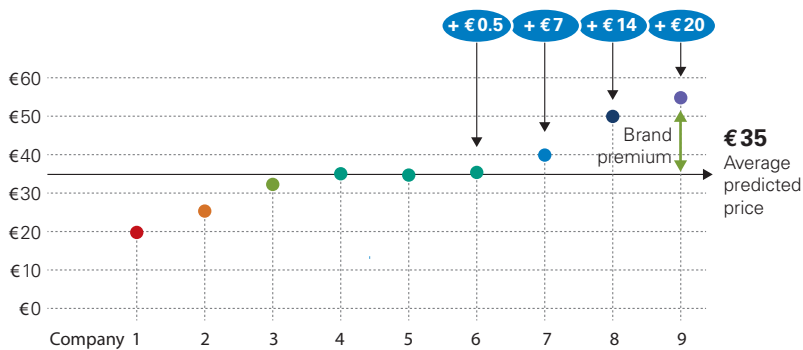


Table 4 Brand Price premium – example in telecoms market (sanitized)

Source: Arthur D. Little data and analysis

Contrary to shared beliefs within telecoms companies, there is a significant “premium gap,” with the price premium reaching + €20 (up to +50%) for the top brand in a western European country. A comparable analysis shows a similar effect for the automotive industry – with the top brand receiving a premium of + 4,000€ (up to +25%).

<sup>8</sup>The Herfindahl-Hirschman Index is a quantitative indicator of market concentration and indirectly of theoretical competition intensity

Business benefits from enhanced brand extend beyond price premiums. Our experience shows further significant benefits in increased customer stickiness. Brands with strong Reasons-to-Exist are able to onboard customers into the brand, creating potentially powerful ambassadors. Over the world, telecom players with strong Reasons-to-Exist – such as T-Mobile in the United States or LGU+ in South Korea – have created large digital communities, with customers supporting the brand on social networks – typically posting on Facebook, Twitter or Pinterest.

Finally, enhanced Brand Purpose also has positive benefits for companies' employees. A positive and credible Brand Purpose can create a virtuous circle: in which the brand works as a "filter" to provide guidance to employees in their everyday work, thereby "making the brand promise happen" for customers.

### **How to go about rethinking your Brand Purpose**

Rethinking the company's Brand Purpose builds on "who" the company is, and its strategic challenges, and aims to generate empathy and engagement in the minds of customers and employees. So what's the best way to go about it?

At a high level the process is straightforward, but to be effective it needs to be a profound exercise, identifying and articulating uniqueness and differentiation in a way that is consistent across the business – see Table 5 below.

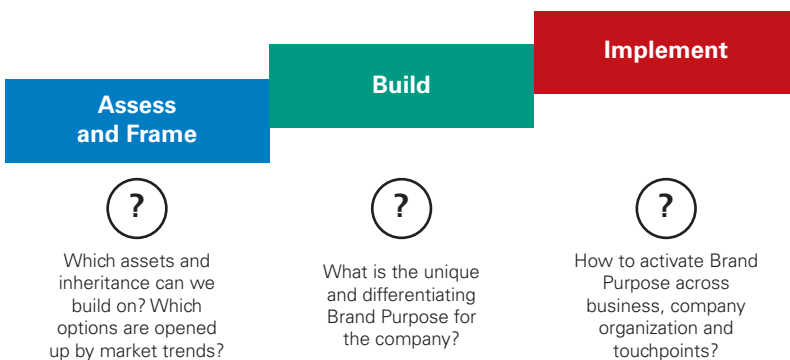


Table 5 **Key steps to rethink Brand Purpose**

Source: Arthur D. Little

**Assess and frame**

- Conduct both internal (staff) and external (customer) assessments
- Leverage company strengths, weaknesses and inheritance
- Build on existing strategy and end-market potential
- Use customer intelligence, complemented by new digital tools, to assess customer perception of, and expectations from, existing brands
- Include long-term trends in your analysis – the Brand Purpose should be authentic and consistent with at least one enduring key trend

**Build**

- Use scenarios to build different Purpose options, and assess which ones best address the needs identified in the assessment
- Select one scenario to form the basis of a unique and differentiating Purpose
- Evaluate your brand premium potential and – if needed – test it with customers
- Make sure barriers to adoption can be overcome, considering both customer and internal perspectives

**Implement**

- “Make it happen” by aligning your businesses: grow in on-brand products and services, revisit the off-brand portfolio
- Rethink communications and the relationship with the customer, including customer experience and touchpoints
- Adapt daily work life, adjust hiring criteria and processes, and align the organizational structure



Illustration by Sylvia Neuner

## Insight for the Executive

Digitalization has radically changed the way companies interact with their customers, providing new threats and opportunities. Brand is more important than ever – for companies, for customers, for employees and for shareholders. Intangible assets (including brands) represent more than 80% of S&P market value, three times more than 30 years ago<sup>9</sup>. The Brand Purpose, the “why” rather than the “what,” gives a unique backbone that everyone understands. It drives strategy, product offering and customer experience and creates customer engagement and loyalty. It enables price premiums, increased customer stickiness, heightened employee motivation, and renewed customer centricity. It creates value by making the company’s purpose a reality.

Companies need to take time to rethink their Brand Purpose. To be successful a new Brand Purpose should:

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<sup>9</sup>According to an Ocean Tomo annual study (2015)

- Be an initiative led by top management – not marketing only
- Focus on a truly differentiating Reason-to-Exist
- Engage employees and customers
- Possess a true sense of authenticity
- Respond to robustly-evidenced trends
- Be strongly consistent with the company's culture
- Translate into emblems and symbols to bring it to life

We believe that Brand Purpose is the next major challenge for ambition-driven strategy – a cause Arthur D. Little is historically committed to. In the digital age, focusing on the “meaning” can be even more powerful than the “what”.

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