A Conversation with JOHN GERZEMA,
Chief Insights Officer at Young & Rubicam
and author of THE BRAND BUBBLE:

Q: What is the crisis in brand value that we're facing today?

A: The state of health of today's brands is of urgent concern because of their collective significance to shareholders. We're talking about a massive sector in of our global economy that's in distress -- and yet unlike other industries, it is entirely intangible and dependent largely on the whims of consumer sentiment. To put this in perspective, the 250 most valuable global brands are worth $2.197 trillion dollars, which collectively exceeds the GDP of France. Even the value of the world's top 10 most valuable brands exceeds the market capitalization of 70% of the U.S. Public companies according to Booz & Co.

And beyond the write down in value and the downgrading in overall company performance that could result from a weakening brand, we now believe that brand speculation could have a major negative impact on the future earnings of many companies across many industries. Brands are the single most important intangible asset fueling the growth of companies and our economy. And because of massive contributions that brands bring to business valuations, the brand bubble could erase large portions of intangible value across industries and send another shockwave through the global economy.

Q: What exactly is "the brand bubble"?

A: The brand bubble represents the growing disparity in how brands are valued by business and consumers. By studying the world's largest database of brand data, we found the brand values determined by markets far overstate actual consumer sentiment. So the value creation that brands bring to a company's total business value is exaggerated. The result is that Wall Street thinks brands are worth more than the consumers who buy them.

Q: What research did you conduct to uncover the bubble?

A: Working with professors from leading business schools, we spent two years examining over ten years of data from BrandAsset Valuator®, the world's largest study of consumer perceptions on brands. And we found that while brand value had increased by over 80% in three decades, the number of high-performance value-creating brands was diminishing across the board. Across 2,500 brands in our survey, brand awareness declined 20%, brand esteem was down 12%, perceptions of brand quality eroded by 24%, while trust in brands declined by a staggering 50%.

Within 2,500 brands we analyzed, almost 70% were stagnant or eroding in brand differentiation. And of the 30% that changed, twice as likely that change was negative. We

also cross-examined Interbrand's top 100 most valuable brands (2004-07) with those in our study and found that 45% were actually *declining* in consumer perceptions. How could brand values be increasing? Were brands somehow remarkably recession proof? Speculation was unfolding before our eyes.

Q: Who is this book for?

A: Given that one third of all shareholder value is brand value, this crisis in brand value should be of urgent concern to CEOs, marketers, analysts and investors. 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 aim to draw in managers of all levels to understand and internalize their role as marketers, brand managers and creators of brand (e.g. business) value.

Q: How do your valuation findings differ from how financial markets rank brands and why?

A: Financial markets rank brands on static measures like brand loyalty, awareness, liking and regard. These are lagging indicators of brand performance. What matters to us is energized differentiation – the ability of a brand to be seen as continuously different. This is the difference that matters in today's marketplace. We continuously track brands on this measure and have direct correlations as a leading indicator of marketplace performance.

Q: What are the elements of "energized differentiation"?

Energized brands aren't just different -- they stay different by utilizing motion, momentum and creativity. Energy has three components:

•Vision – The brand's purpose and aspirations, often originating from its leadership, convictions and reputation of the company behind the brand.

•Invention – The most tangible dimension, demonstrating the brand's vision through product/service innovation, design, content and other tactile brand experiences.

•Dynamism – How the brand expresses its vision in a dynamic way in the marketplace to create persona, emotion, advocacy and evangelism through its marketing and other forms of conversations with consumers.

Q: How will building Energized Differentiation boost the value proposition of a company?

A: In terms of correlations, the more energy a brand has, the greater consideration, loyalty, elasticity, pricing power, and brand value (as a percentage of firm value). We modeled a portfolio of the 50 top energy-gaining brands each quarter over a five-year period and found they cumulatively beat the S & P 500 by almost 30%.

At the same time, the percentage of brands in our study that beat the S&P 500 index actually *declined* by 36% from 2002 to 2007. This means a smaller number of brands now account for a significantly greater share of market capitalization. And conversely, more brands may be overvalued.

Q: How should organizations be redesigned to be more "energy-driven"?

A: Every department and division, including outside vendors, suppliers, partners – everyone in the brand's value chain – plays a role in fueling the energy of the brand, by contributing creativity and ideas that lead the brand forward. The company has to become what we call an Energy-driven Enterprise, and this means that the entire company has to become marketing-led, not just a company with a marketing department. The best CEO's are CMO's and the best-managed brands have people who think like brand managers across all functions and lines of business.

Q: Name a few of the companies that your research shows have the most inherent value and explain why.

A: Target, Whole Foods, Virgin Atlantic, Mini, Apple, Google and Facebook--these brands are managed holistically from the standpoint of the consumer. They create immersive and engaging consumer experiences that extend far beyond advertising and traditional marketing. And they form brand communities. They're able to charge a premium. And they don't force devotion, they compel it.

Q: What's necessary to keep renewing your brand's value?

A: Constant attention and devotion to the consumer/brand relationship.

Starbuck's is a high-energy brand in our study, yet it has fallen on hard times. Still, it has the temerity to recognize its challenges and act on them in a very public way, instead of wishing them away or ignoring them all together. Starbuck's is doing this in part because of a very strong energy core, which establishes a higher bar for excellence. The protection of brand value begins with this degree of internal fortitude and the constant humility to understand the marketplace is always changing.

Q: What will the future of brands look like?

A: Many brands will become commoditized, replaced by new brands or ‘Lazarus’ brands like Adidas, Puma, LaCoste or Marks & Spencer. Most critically, the economic value of brands will be front and center. Instead of a ‘nice to have’, creativity will be a ‘must have’ competitive advantage for business. With commoditization a reality of every day life, only the brands that are continuously creative will attract and hold our attention, and our affection.

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