TRUE SALES AND MARKETING SPECIALISTS

Service brands - moving beyond the fast moving consumer goods model

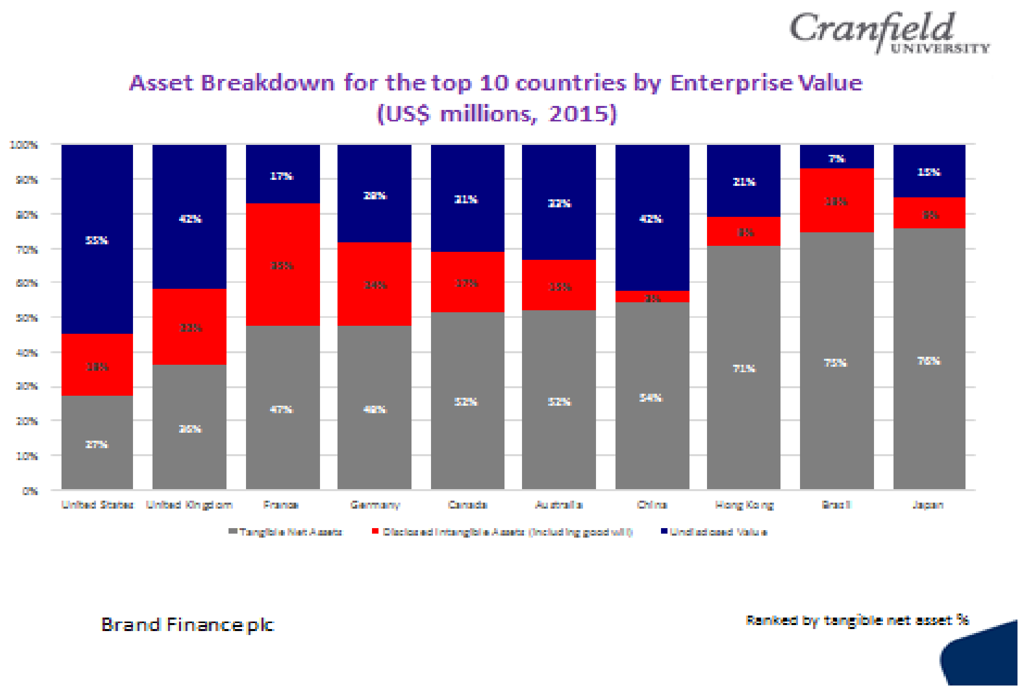
By Malcolm McDonald, Emeritus Professor at Cranfield School of Management, Professor at Warwick, Henley, Aston, Bradford Business Schools and the Sino-British College USST Shanghai, and Chairman of Malcolm McDonald Consulting

I worked closely with Edmund and Malcolm for several years. Together, we took the idea of world-class marketing in a complex global organization from theory to reality. Their ability to think strategically and act practically is outstanding.

Former VP Strategic Marketing, global engineering company

Some financial service companies are at last taking branding seriously – not before time! In the financial and insurance sectors, particularly in the United Kingdom, very few brands have managed to create a complete set of perceptions in people's minds. A question such as "What does Barclays offer which is different from Lloyds ?" would probably lead to a puzzled silence. The large majority of consumers cannot differentiate significantly between the brands of major banks and insurance companies, in spite of the billions of pounds spent each year on advertising.

In the USA, 73 per cent of corporate value resides in intangible assets. In the United Kingdom it is 64 per cent. Having assessed most of the world's stock markets ($31.5 trillion), Brand Finance statistics show how the move from tangible to intangible is progressing across the world. This is no longer only a USA/Western Europe phenomenon, as the figure below shows.



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Continued on next page >

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Service brands - moving beyond the fast moving consumer goods model (continued)

It is also recognised by all the world's leading brand valuation companies that brands per se account for at least 25% of all intangible assets, but the author believes that in reality it is much more than this, because everything an organisation does across all its disciplines manifests itself in the offers made in the market place and, of course, all of these have the organisation's brand name on them.

In major companies, success is measured in terms of shareholder value added, having taken account of the risks associated with future strategies, the time value of money and the cost of capital. This is a totally different measure from outmoded measures such as ROI. Also, most large companies have formally constituted audit committees doing financial due diligence on acquisitions, capital projects and the like, using real option analysis, probability theory and NPV. Yet there is nothing at all for shepherding the principal assets of the company – intangibles.

Britain's best rated marketing book in 2006 was "Marketing Due Diligence – reconnecting strategy to share price" by the writer of this article and a Professor of finance. The point of this introduction is to point out the blindingly obvious fact that brands have come to dominate the commercial landscape, yet in the service sector, brand management is still a somewhat confused, black art.

Many service sector brands around the world are little more than suppliers' labels, are me too, have poor positioning, poor quality and poor support. Such service organisations do not understand the consumer and are frequently forced to trade on price.

A successful brand conforms to the following criteria.

- ✓ A successful brand has a name, symbol or design (or source combination) which identifies the "product" of an organisation as having sustainable competitive advantage, such as Coca Cola, Microsoft, Marks and Spencer.
- ✓ A successful brand results in superior profit and market performance (PIMS).
- ✓ A successful brand is only an asset if it leads to sustainable competitive advantage.
- ✓ A successful brand, like other assets will depreciate without further investment.

The term "brand" in this article encompasses not only consumer products, but a whole host of offerings which include people (such as pop stars and politicians), places (such as Paris), ships (such as the Queen Mary), industrial service and retail products, although the focus of this paper is on service brands.

The importance of services

The services sector has become a dominant force in the economy of many countries and has created a wealth of new jobs: in the UK two-thirds of the workforce are now employed in service companies. The services sector has not only spurred economic growth, it has also challenged the traditional approach of doing business, by creating revolutionary service solutions. Innovative entrepreneurs have set new standards of service quality in markets where their competitors failed to please today's demanding customers.

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In the airline industry, for example, EasyJet has identified a segment of price sensitive travelers torn between the punctuality of business airlines, and the low prices of charter flights. It has then offered these travelers a welcome compromise of punctual, no-frills flights at lower prices.

In the banking sector, companies like First Direct have responded to the reluctance of many British banking customers to visit their local retail branch and queue in front of the cashier. After discovering that most customers would rather complete all bank transactions on the web or by telephone, First Direct has created a Bank without branches that still offers all standard retail banking services, 24 hours a day, 365 days a year. First Direct's standing and reputation is way ahead of any of its rivals.

It will be difficult to proceed without attempting to define a service in some way. Therefore, while recognising that any definition might prove to be unduly restrictive, and that somewhere a service may exist which does not conform to what we say, our definition is:

> A *service is an activity which has some element of intangibility associated with it. It involves some interaction with customers or property in their possession, and does not result in a transfer of ownership. A change of condition may occur and provision of the service may not be closely associated with a physical product.*

The challenge of services branding

The increased competition in services industries has made many companies realise that a strong service brand is an essential part of their competitive advantage. Unfortunately, the understanding of service branding has not kept pace with the growth of the services sector. Service-based brands, as opposed to product-based brands, such as washing powder or breakfast cereals, involve a multiple interface with the consumer, where the consumer experiences the brand at various levels. The initial response of service marketers to the new challenges was based on the assumption that the principles of product branding would equally apply to service branding. They soon discovered, however, that the specific nature of services requires tailored concepts and approaches, and that product branding is unlikely to be effective if its principles are transferred to services without any adaptation. Rather, the existing product branding theories should be fine-tuned and adapted to the service environment.

In the financial and insurance sectors for example, very few brands have managed to create a complete set of perceptions in people's minds. A question such as 'What does Barclays Bank offer which is different from Lloyds Bank ?' would probably lead to a puzzled silence. The large majority of consumers cannot differentiate significantly between the brands of major banks, building societies and insurance companies. The fact that the financial services industry in the UK spends about £1bn each year on image advertising with little results, apart from few exceptions such as Prudential, First Direct and Direct Line, highlights the difficulties of building a service brand. However, the airline industry has demonstrated that it is possible to achieve a clear differentiation of service brands. Virgin, Lufthansa and Singapore Airlines have clear branding and positioning. Nevertheless, the infamous British Airways advert "We take more care of you" failed precisely because they forgot to tell their staff!

The challenges marketers have to face when establishing service brands can be illustrated by the history of the British insurance sector during the last thirty years. The insurance industry used to be characterised by complex products, pushy salespeople, and little understanding of the role of marketing. The feeble marketing efforts failed to overcome the traditional lack of interest of consumers in insurance products, which translated into a low degree of brand differentiation. Most insurance companies appointed advertising agencies with traditional FMCG backgrounds, which followed the FMCG approach of building name awareness, rather than communicating the benefits of the different insurance brands. Little was done to develop brand distinction.

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Furthermore, advertising was mainly targeted at insurance brokers, not at the end customers, who regarded the products as a commodity. The intermediaries were in a very strong position and could easily eliminate a brand from their portfolio, because the final customers could not distinguish between the different insurance brands and their benefits.

It is only recently that insurance companies have woken up to the fact that they need to go beyond the intermediary and segment the consumer market in order to develop products that meet these different needs and achieve some kind of distinctive positioning. Only then will branding be effective.

Factors like deregulation and increased competition, affect the financial services sector. Banks now face the same challenges as the grocery market did twenty years ago. It has become a commodity market that needs to satisfy their customers' ever-increasing demand for better quality, enhanced service and greater convenience. Banks and building societies need to learn from the likes of Waitrose how to transform a commodity into a strong brand.

Consistent service brands through staff

First of all, a financial service brand is based entirely on 'the way the company does things' and on the company's values and culture. This means that a brand personality cannot just be designed by a marketing department, but depends on the whole company, from the Chief Executive to anyone who has contact with the customers. This is because customers' perceptions of the brand depend highly on individual interactions with the staff of the company, so particular emphasis has to be placed on the consistent delivery of the service. Brand building needs to be undertaken from the bottom up and involves a profound analysis of every aspect of the interaction between the customer and the company.

Branding to make tangible the intangible

One of the most problematic aspects associated with service brands is that consumers have to deal with intangible offerings. In an attempt to overcome this problem, marketers put a lot of emphasis on the company as a brand, especially in sectors such as financial services, since this is one way of making the service more tangible. Research has shown that in the financial services sector consumers know little about specific products. Because of their intangible nature, service brands run the risk of being perceived as commodities.

An effective way to make brands tangible is to use as many physical elements as possible that can be associated with the brand, such as staff uniforms, office decor, and the type of music played to customers waiting on the telephone. A service brand can project its values through physical symbols and representations, as Virgin airlines has so successfully done with its vibrant red colour reflecting the dynamic, challenging position being adopted.

Package design plays an important role for branded goods, and in service brands this likewise represents an opportunity for more effective differentiation, as in this case of McDonald's boxes for children's' meals. The yellow and blue stripes in IKEA stores, for example, not only allude to the Scandinavian tradition of the company, but also guide consumers through the different sections. Finally, the design of the physical facilities may be used to differentiate the service brand from its competition. The polished steel interiors of Pret-a Manger restaurants allow consumers to distinguish them clearly from other sandwich bars and bistros.

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Service brands with the optimum consumer participation

One way in which consumers evaluate a service brand depends largely on the extent to which they participate in the delivery of the service.

If the service performance requires a high degree of consumer involvement, it is vitally important that consumers understand their roles, and are willing and able to perform their roles, otherwise their inevitable frustration will weaken the brand. Large, easy to read signs and displays at the entrance of IKEA stores inform consumers how they are supposed to take measurements, select pieces of furniture and collect them. The IKEA brand is built on the principle that consumers are willing to be involved in 'creating' the service, not just in consuming it.

The level of consumer participation varies across services. In service sectors, such as airlines and fast-food restaurants, the level of consumer participation is low, as all that is required is the consumer's physical presence and the employees of the organisation perform the whole service. In sectors such as banking and insurance, consumers participate moderately and provide an input to the service creation through providing information about their physical possessions. When consumers are highly involved in the service, for example participating in WeightWatchers, they need to be fully committed and actively participate.

Effective consumer participation may require that consumers go through a process similar to a new company employee – a process of recruitment, education and reward. In telephone banking, consumers are first recruited, and then they receive formal training and information about the service. Only then will they be rewarded with easier access to financial services. Brands such as First Direct have been successful because they have effectively communicated the benefits consumers can gain from their participation. Service brands can be strengthened through an effective management of the mix of consumers who simultaneously experience the service.

Corporate or individual branding?

When examining brand names, it is possible to categorise them broadly along a spectrum, with a company name at one end (e.g. British Telecom, Halifax), right the way through to individual brand names which do not have a link with the manufacturer (e.g. Ariel, Dreft, Daz, Bold and Tide emanating from Procter & Gamble). This is shown in the figure below.

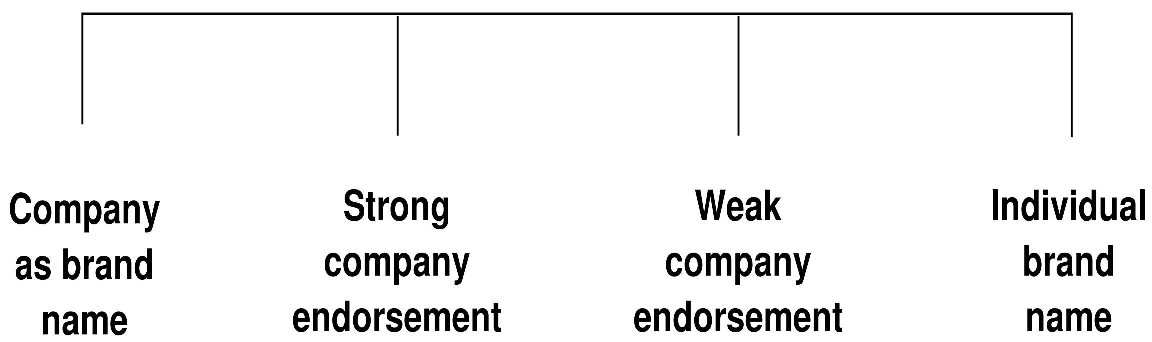

Figure: Brand name spectrum

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There are obvious advantages in all aspects of communication to be gained from economies of scale when an organisation ties a brand name in with its corporate name. This advantage is sometimes given an undue importance weighting by firms thinking of extending their brands into new markets.

There are also very good reasons why, in certain circumstances, it is advisable to follow the individual brand name route. As in the case of Procter & Gamble, this allows the marketer to develop formulations and positioning(s) to appeal to different segments in different markets. However, the economics of this need to be carefully considered, since firms may, on closer analysis, find that by trying to appeal to different small segments through different brand offerings, they are encountering higher marketing costs resulting in reduced brand profitability.

Another advantage of using individual brand names is that if the new line should fail the firm would experience less damage to its image than if the new brand had been tied to the corporation. The following example shows how a failed brand extension damaged the whole company's image.

Continental Airlines, inspired by the success of Southwest, decided to enter the low-budget, no-frill cheap flights marketing using the brand, Continental Lite. However, at the same time it continued to offer a full service under the original Continental brand. The company believed that it was possible to serve both markets and ignored the inevitable trade-offs on cost, service and efficiency. When continental Lite was ultimately forced to withdraw from the market, consumers became aware of the failure of this venture and, due to the common use of 'Continental', there were some adverse perceptions about the parent corporation.

Conclusions

The current lack of powerful brands in the financial services sector clearly illustrates the overall challenges associated with service branding, and the need for a new mindset when developing service brands. A service brand has to be based on a clear competitive position, which in turn has to be derived from the corporate strategy. This requires a holistic approach and the involvement of the entire company. The brand positioning and benefits should then be communicated to the target market segments, and real evidence has to be delivered of the brand's ability to satisfy customer needs.

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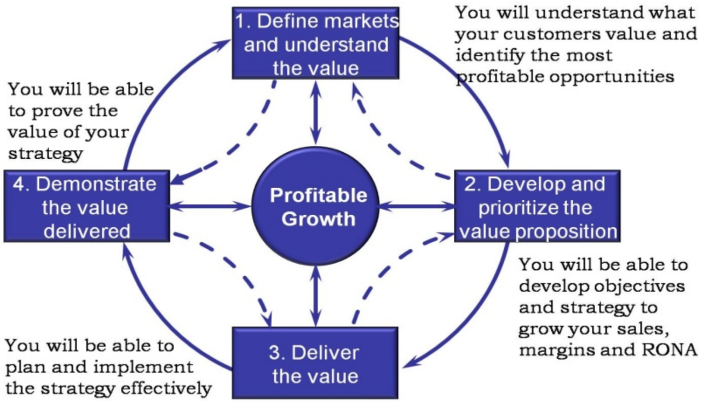
About Malcolm McDonald Consulting

Malcolm McDonald Consulting Ltd. is a strategic sales and marketing consulting business.

With our end-to-end interactions, from Board level to internal project team, we help companies create value through getting the fundamentals right in strategic sales and marketing, all within budget and the agreed deadline.

Professor McDonald and his team of consultants work with the Boards and internal teams of executives from a number of the world's leading multi-nationals on all continents.



Malcolm McDonald is Emeritus Professor of Marketing at Cranfield University, and Visiting Professor at Henley, Warwick, Aston and Bradford Business Schools. He authored over 40 books on marketing and key account management.

Coming from a background in business which included a number of years as Marketing Director of Canada Dry, Malcolm has successfully maintained a close link between academic rigour and commercial application. He has consulted to major companies from the UK, Europe, USA, Far East, South-East Asia, and Africa, in the areas of strategic marketing and marketing planning, market segmentation, key account management, international marketing and marketing accountability.

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