It's time for brands in every boardroom

By Dr Lindsay Moore of KLM and Lesley S. Craig, Esq. of Townsend and Townsend and Crew LLP

This article first appeared in:
'**Brands in the Boardroom** Key branding issues for senior executives'
A supplement to **Intellectual Asset Management** magazine
www.iam-magazine.com

It's time for brands in every boardroom

*The brand, in whatever form it takes, is now a mainstream concern for every senior corporate executive. **Dr Lindsay Moore**, of **KLM, Inc** in Boulder, Colorado, and **Lesley S. Craig, Esq.**, of **Townsend and Townsend and Crew LLP** in Denver, Colorado, explain why*

The brand has risen to occupy a place of paramount importance on the pages of such stalwart business publications as *Financial World*, *Business Week* and *Fortune*. In the 1990s, when these reputable magazines first started reporting financial valuations for brands, much to everyone's surprise, these valuations were often greatly in excess of annual revenues. As the reality and significance of these valuations sank into the corporate world, the concept of the brand quickly rose to a new level of strategic significance.

But, despite this, many start-ups, technology-driven companies and others in business-to-business and non-consumer markets fail to recognise that this brand phenomenon applies to all organisations. Individuals working in such sectors have been accustomed to thinking of brands as a marketing concern that is only of interest to those who provide consumer goods or services. However, the brand, in virtue of its significant financial value and enormous potential to drive economic markets, has become a major factor in the corporate world, providing competitive advantage, delivering shareholder value and creating wealth and social prosperity.

How and why has the brand become so important? And how does one steeped in traditional concepts of corporate management and trademark law come to grips with this new phenomenon? The answer to the first question is easy: over the last decade or so, business and financial forces have been driven to recognise and account for the enormous value of a company's off balance sheet intangible assets, as collected in the brand. The answer to the second question is more difficult, and requires that executives and attorneys become more knowledgeable about what intangible intellectual assets are and how they must be deployed strategically to fulfil corporate objectives.

The emergence of the brand

Fifteen years ago the brand was not even on the radar screen for senior corporate executives or their trademark counsel, and certainly rarely reached their respective boardrooms. At best, the brand as a working concept was limited to the marketing department of consumer goods enterprises.

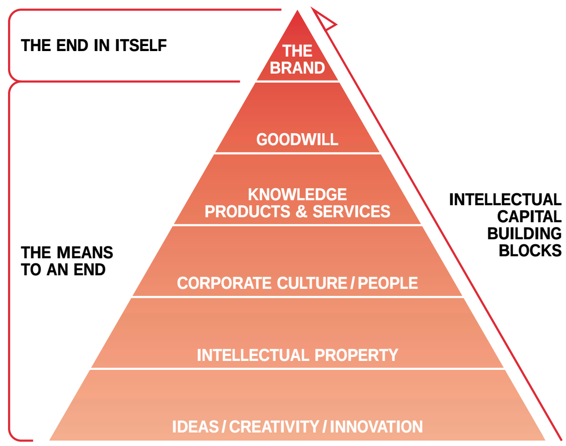
But during the early 1990s a new corporate strategy – growth through acquisitions – emerged in the trademark-conscious world of consumer goods. This initiated a wave of merger and acquisition activity. However, as visionary corporate executives began to move across their market landscapes in search of acquisitions, they encountered an unforeseen obstacle in setting the value of the companies they wished to buy. In days past, book value and some multiple of revenues had been adequate to strike a deal. But suddenly, attractive companies, with their enhanced market capitalisations, were not to be had at book value driven prices because of their intangible assets. As accommodations were reached and increasingly pricey deals were struck, a whole new concept emerged that has since found its way into the top ranks of corporate management. It was the concept of intellectual capital. This came to refer to a range of intangible intellectual assets but primarily, because so many of these early and astounding deals revolved around famous brands, to the brand.

As we look back today, we can see that the

Brands in every boardroom

The Brand and Intellectual Capital

The brand is an end in itself. It is the ultimate intellectual capital asset and the reason for being for all other forms of intellectual capital



early 1990s saw the beginning of a tremendous increase in economic activity worldwide. Mergers, acquisitions, new financial vehicles and complex business arrangements emerged to change radically the economic landscape, effecting companies of every shape and size for the better. During this time, mergers and acquisitions increasingly revealed that what made a company attractive to an acquirer, be it a famous brand or patented technology or the promise of a totally revolutionary business concept, was frequently not captured on its balance sheet. Book value, for so long the measure of traditional assets within the industrial economy, and market capitalisation, the value of an enterprise in the capital markets, had become widely divergent numbers. Thus, the traditional approaches to valuing enterprises were proving to be inadequate to capture the importance of these new intellectual capital assets and their compounded market capitalisation values.

As growth through acquisitions gained momentum, the paradigm shift that led from valuing and managing traditional physical assets to valuing and managing intangible and intellectual capital assets came to pass. And with it emerged the shift toward the strategic management of intellectual capital assets that has changed the priorities of corporate planning forever.

The theory of the brand

The strategic thinking surrounding brands advanced by leaps and bounds during the 1990s to become the province of the most successful executives and strategic thinkers. Spurred by the emerging theory of intellectual capital assets, the brand was soon recognised as the ultimate intellectual capital asset – the *raison d'etre* for all other forms of intellectual capital and as an end in itself for any and every successful enterprise, undertaking or corporate entity.

The diagram on this page articulates the supremacy of the brand and its relationship to the other elements of intellectual capital, demonstrating how means-to-ends roll up and distill their value into the brand as the ultimate intellectual capital asset. This model portrays the general categories of intellectual capital assets, such as ideas, innovation, intellectual property, corporate culture and human resources such as talent and expertise. These intangible assets culminate in knowledge-based products and services that create goodwill and form the structure of what the brand means to its constituency and its surrounding world. In and of themselves, these prior intangible assets lack the orchestration and integration that they receive when they are organised with meaning and significance under the identity of a brand in the marketplace. The brand has the potential to distill, assemble and incarnate all of the other intangible intellectual capital assets in an enterprise. In other words, the brand comes to symbolise all aspects of a company in the minds of customers, consumers and society at large. When this meaning is respected, it becomes the positive brand equity that enhances the overall value of an enterprise.

The rise of strategic brand management

As brands emerged as a bundle of profoundly important intellectual assets in a number of forward, thinking companies, brand management grew out of marketing as a new strategic discipline, led by a chief brand officer and under the watchful eye of the CEO, CFO and other key executives. With this shift in strategic significance, day-to-day marketing and the traditional role of trademark protection often came to be viewed as separate and more distant functions that were less integral to strategic thinking and the leveraging of intellectual capital assets per se.

For such companies, the brand and brand strategy grew rapidly throughout the 1990s, increasing in importance and often becoming the corporate strategy itself. Branding became the uber-discipline for CEOs and corporate strategists. On a weekly basis, the corporate world would see a new article or book emerge on the subject of branding, its management, its strategic significance, its financial valuation and ultimately how to use it to increase that holy grail of public markets and boardrooms – market capitalisation. Simultaneously, numerous branding houses emerged, specialising in the new discipline of branding and creating every aspect of a dominant, winning identity in the marketplace.

Soon, the marketplace became flooded with new brands, trademarks and slogans as the understanding of the value of brands and branding began to spread beyond consumer goods into industries that didn't even sell to consumers. One of these pioneering companies, Intel Corporation, with its "Intel Inside" brand strategy, began to teach technology players how to increase gross margins and minimise price degradation with a product line brand. Pharmaceutical giants adopted product branding architectures from food and beverage companies to turn drugs like fluoxetine hydrochloride into Prozac and then to go on to drive sales to record-breaking levels with demand created by direct-to-consumer advertising.

But what about the corporate brand? Despite the spread of brands into non-consumer industries, many enterprises still viewed corporate brands as mere trade names. But soon some leaders began to recognise that well-branded enterprises in any industry found it easier to command respect and set policy with governments, influence and establish industry-wide standards, find partners for strategic alliances and obtain new sources of capital, and that it was less expensive for them to expand globally, when the corporation itself was well-recognised and regarded. Companies that sold business-to-business, or that sold high-priced products and services in face-to-face negotiations, began to understand that their lack of concern for trademarks could extend to a failure to brand.

Even companies with many brands began to understand that the company itself still needed a brand. Archer Daniels Midland and BASF both existed for years before they began to spend millions of dollars in advertising to tell the world that ADM was: "The Bread Basket for the World"; or that: "BASF doesn't make the products you buy, … it makes them better".

Soon brands began to penetrate beyond the corporate world. Suddenly governments, nonprofit organisations and civic entities began to realise that they needed a brand to allow them to compete more effectively in their strategic arenas, whether to deter terrorism, obtain grant money or attract tourism. In this way, every industry and every undertaking was learning the brand business model.

The importance of brands

Because all enterprises operate under a name, *de facto* all enterprises have a brand that connects their intangible assets with their customers and constituencies. In this sense, every name is a brand, whether it represents a company, an enterprise or a civic or public entity. Thus, the brand revolution is an opportunity for every entity in any sector of the economy, society or culture to establish, manage and leverage its meaning for its gain.

As a result, executive leadership within every organisation needs to recognise that brands are more than just the name of the company, a trademark for a product or a service mark for a service. Instead, the brand is a complex concept that creates organisational value and performs a number of important functions for every enterprise. Here are a few of those functions:

- Brands identify the enterprise or company and the source of all its goods and services.
- The brand stands for something specific: it is the corporate persona and it conveys value, creates trust, delivers assurances of a consistent quality and service, leading to repeat purchase and loyalty from consumers, users and the world at large.
- Brands are assets, constitutive of intellectual capital value and significant drivers and creators of market capitalisation, reputation and public integrity.

As distillers of the intellectual capital value of intangible assets, brands and their combined brand equity constitute the major economic force within the entire global economy, delivering marketplace value, shareholder wealth, livelihood, prosperity and culture.

There are hundreds of thousands of brands within this world but only thousands of these are brands that move markets and are highly valued. Successful brands are recognised as rare and valuable assets, which must be exploited carefully with wise and knowledgeable management that retains their financial value, their economic power and their social significance

Brands have become the most valuable asset within many enterprises, capturing the knowledge, the art, the science and the work of each person in each work day, making them the ultimate symbol of the companies for which they speak. This is the business reality of the 21st century.

Biographies

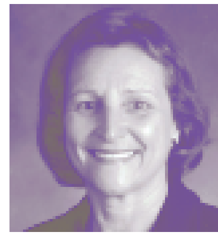
KLM, Inc.
PO Box 948, Boulder,
Colorado 80306-0948, USA
Tel: +1 303 444 7212
Fax: +1 303 444 7235

www.klminc.com

Dr Lindsay Moore
CEO and President
lmoore@klminc.com

Dr Moore is the founder and CEO of KLM, Inc, a management consultation firm located in Boulder, Colorado, that specialises in strategy, planning, branding, marketing, knowledge management and the management of intellectual capital assets such as brands, intellectual property and organisational capital. Dr Moore has worked in the fields of strategy, branding and intellectual assets for over 30 years. She was one of the original founders, and later the General Manager of Strategy and Innovation, at Celestial Seasonings, Inc, an international specialty tea company, where she managed a vast portfolio of intellectual property and developed a brand worth variously from US$400 million to US$800 million dollars.

Dr Moore is presently preparing two books for publication, the first on the nature of thinking and the limits of knowledge, and the second, with co-author Lesley Craig, Esq., an attorney with Townsend and Townsend and Crew in Denver, Colorado (see bio), on the problems in contemporary intellectual asset management.



Townsend and Townsend and Crew LLP
1200 Seventeenth Street, Suite 2700,
Denver, Colorado 80202-5827, USA
Tel: +1 303 571 4000
Fax: +1 303 571 4321

Other offices:
San Diego, San Francisco, Palo Alto, Seattle, Walnut Creek

www.townsend.com

Lesley S. Craig, Esq.
Attorney-at-law
lscraig@townsend.com

Lesley Craig established the Denver office of Townsend and Townsend and Crew in 1995, bringing a reputation for her strategic approach to protecting her client's intellectual property. Ms Craig began her career as a patent attorney during the 1970s, focusing first on energy related technologies and then on early biotech and monoclonal anti-body work. Over the next 20 years her practice included litigation, IP-based transactions, trademarks and copyrights, all with a broad international focus. Ms Craig is known for working directly with principals, marketing personnel and in-house counsel to formulate strategy and maintain protection. Over the last 10 years, she has settled into a global practice of IP counselling and strategic portfolio management, and now writes and teaches in that field in the US and abroad.

Ms Craig received a BS in chemical engineering from the University of Pennsylvania and earned her law degree from George Washington University. She is a member of the bars of the states of Colorado and California, and is registered to practise in the United States Patent and Trademark Office. Ms Craig is also an active member of the International Trademark Association, the American Intellectual Property Law Association, the Licensing Executive Society, and the European-based Pharmaceutical Trade Mark Group and the Institute of Trade Mark Attorneys.