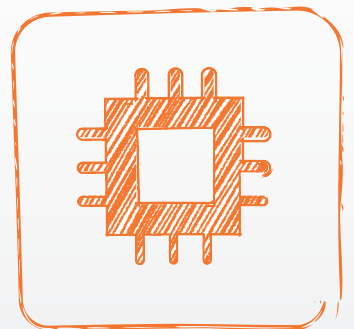
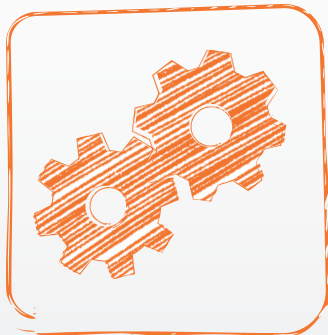


McKinsey Marketing and Sales Practice

Business branding

Bringing strategy to life



Branded business beyond B2C

More than 4,000 years ago, the artists and architects of ancient Akkad started applying seals to their artwork as proof of provenance or authenticity. The empire of Akkad, rumored to have been located on the banks of the river Tigris, has long since perished. But to this day, similar seals remain in use throughout the world – to validate documents, authorize transactions, and identify individuals or institutions. Such seals commanded trust and acted as trademarks long before anyone had thought of corporations or even capitalism.

Present-day companies, however, tend to underestimate the power of brands and trademarks in business-to-business decision making. If anything, they think of branding as of consumer-facing communication. But in fact, some of today's most iconic brands are not, or at least not exclusively, consumer brands. Prominent examples of strong brands that appeal to businesses at least as much as to consumers include Microsoft, Siemens, General Electric, Allianz, and MasterCard. Even companies without any consumer business whatsoever have gone to great lengths to build powerful brands, such as IBM, SAP, Goldman Sachs, Thomson Reuters, or John Deere – collectively valued at well over USD 100 billion according to expert estimates.

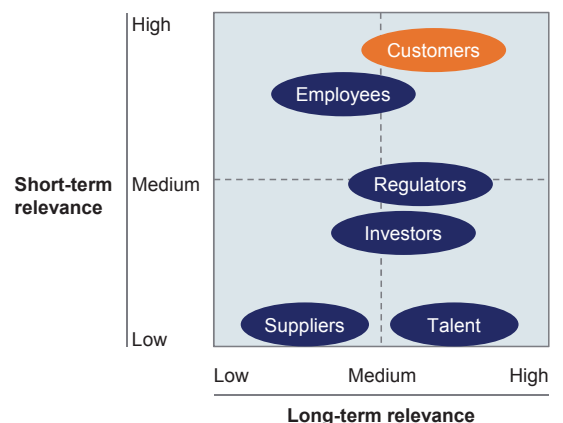
Yet brands in the narrow sense of logos and taglines form only the tip of the iceberg that is corporate reputation management. To reflect this complexity, we propose a holistic view of business branding that involves managing a corporation's reputation and the perception of its products and services across multiple stakeholders and all touch points. Relevant touch points, for example, may include anything from sales force interactions and sponsorships to social media and product usage. But even more importantly, we propose to expand a company's view of the stakeholder landscape. Truly successful brands appeal to many different types of stakeholders. Business branding, as we see it, aspires to

reflect the essence of value propositions made to a large and heterogeneous group of stakeholders.

In this brochure, we will focus on how brands affect business customers, a group of stakeholders that has direct influence both on a company's short-term success and its long-term health and sustainability. While purchasing officers may behave like end customers, or consumers, in some ways, the needs and attitudes that drive their decisions are unique in others. Consumers primarily appreciate brands as carriers of image and emotion, whereas business customers attribute higher importance to other brand functions, such as risk reduction and information efficiency.

Our investigation of business branding also reveals that customers themselves are far from homogeneous. For example, we have found that brands are perceived as particularly relevant in tangible goods sectors, such as machines and components. In Asia, brands tend to have a slightly higher overall impact on purchasing decisions than in Europe and North America. And the effectiveness of a specific touch point, such as press coverage, varies greatly with the decision stage a given customer has reached.

Business branding stakeholder matrix



SOURCE: B2B Branding Initiative

Why branding matters

Brands drive customer decisions

Many product managers purport that business marketing is all about superior products and services, offered at competitive prices. Sales executives insist that availability and service will make or break a deal. In their minds, branding is just the icing on the cake. Not so. While our research confirms the general importance of products, prices, and distribution, we have also found that branding matters. In fact, decision makers consider the brand a central rather than a marginal element of a supplier's proposition. Our survey indicates that a company's brand is on par with sales as an influencing factor. In India, brand-related factors are perceived as especially important. In Germany, the brand is perceived as less important, consistent with previous observations of this market as a more value-driven environment.

Brands drive the bottom line

Putting these statements to the test, we have examined the correlation of brand strength and financial performance – and found it to be statistically significant. Companies with brands that are perceived as strong generate a higher EBIT margin than others. In 2012, strong brands outperformed weak brands by 20 percent, up from 13 percent in 2011. This means that business branding can be a worthwhile investment for those who get it right. Strong brands typically drive the bottom line, and above-average financial performance strengthens the brand in turn – a virtuous cycle. Decision makers are willing to pay a premium for strong brands because they make their lives easier, primarily by aggregating information and reducing risk. Strong supplier brands may even aid companies in building their own reputation by association. For example, working with a prestigious logistics provider can help companies project a more upscale image.

Brands drive differentiation

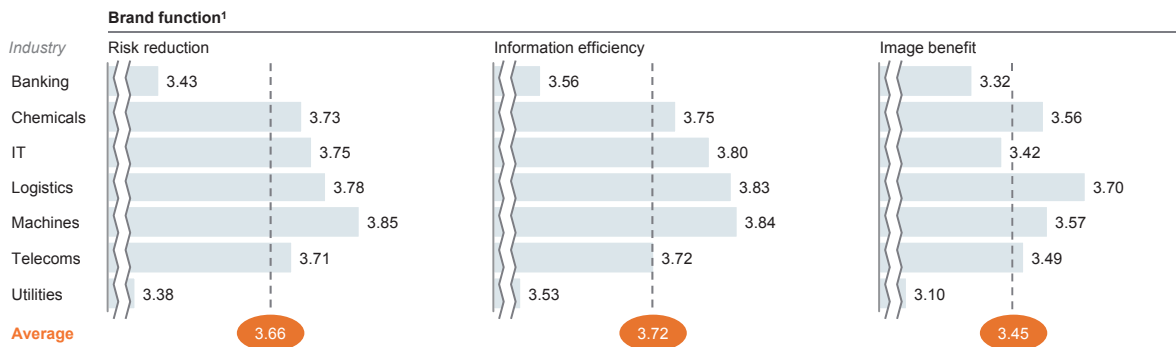
Purchasing officers say that brands matter, and the financial performance of strong brands confirms their importance as influencing factors. But to what extent do companies leverage business branding for competitive differentiation? To put it gently, there is room for improvement. It's not that corporate reputation managers don't try. They are sending plenty of brand-related messages, emphasizing topics such as corporate social responsibility, sustainability, or global reach. But these are not necessarily the issues decision makers are most concerned about. Our research shows that they often pick suppliers based on perceived honesty and specialized expertise. Fact-based business branding provides a unique opportunity to close this gap between suppliers' messages and decision makers' needs. Early movers can expect to reap disproportionate rewards by differentiating their propositions accordingly.

Brands act as purchasing factors



¹ Percentage of influence on purchase decision
SOURCE: B2B Branding Survey

Brands add tangible value



¹ Scale: From 1 (lowest) to 5 (highest)
SOURCE: B2B Branding Survey

Business branding topics do not fully match customer concerns

What B2B companies talk about

Rank	Topic ¹
1	Corporate social responsibility
2	Sustainability
3	Global reach
4	Shapes the market
5	Innovation

What customers care about

Rank	Topic ²
1	Honest and open dialog
2	Responsibility across supply chain
3	High level of specialized expertise
4	Fits my values and beliefs
5	Is a leader in its field



¹ Most common claims on companies' Web sites ² Correlation with brand strength
SOURCE: B2B Branding Survey

What it takes

Strategy: Put a stake in the ground

We believe that reputation managers should observe and understand the trends and topics that drive their industry. In much of our work for business-to-business clients, we see how leading companies make extensive use of frontline interaction and market research to stay in tune with customer needs. Some of the smartest players, such as Hilti, a maker of professional tools, have their sales force doing double duty as distributors and hands-on market researchers at their customers' construction sites. However, we also find that strong brands never submit to passing fads. While trends come and go, brand identity is about projecting an image that will remain recognizable, credible, and sustainable over extended periods of time. Best-practice companies build their brands around attributes that set them apart from their competitors. IBM, for example, is claiming a "Smarter Planet" as a unique, defensible concept in their brand communication.

Consistency: Hold on to your core

More than anything, business brands are focal points of communication and interaction with multiple stakeholders. Yet a brand cannot and should not be all things to all people. Corporate credibility is at stake if a given brand tries to be one thing to customers and an entirely different thing to investors. We find that successful companies articulate their central value proposition clearly and consistently – across touch points, to all stakeholders, and over extended periods of time. Also, consistent brand management makes it easier for senior executives to act as role models at all times, and it enables employees to become brand ambassadors. This is particularly important in large organizations with extensive customer interaction. DHL, a global logistics provider employing more than 200,000 people, has complemented the strategic repositioning of its brand by a large-scale brand activation program to drive internal integration and external appeal in unison.

Delivery: Get up close and personal

One-way communication may be a great way to get customers' attention. Selecting a new supplier, however, is still a deeply personal matter for decision makers in many industries. Our survey shows that sales rep interactions remain the most important touch point, especially for customers considering switching suppliers. Additionally, we see a range of other personal touch points gaining importance, especially as customers get closer to their purchase decision; examples include recommendations from peers and past experience with products and services. This is why leading players engage in dedicated narrow-cast communication, often leveraging social media to generate momentum among target groups with limited exposure to traditional media. Examples include the Small Business Saturday initiative from American Express, a nationwide event accompanied by a large-scale customer engagement program on Facebook and Twitter. To help them stay relevant in this arena, we encourage our clients to start developing and disseminating digital content.

Practitioner's perspective

Brand strategy at IBM

Ever since its incorporation more than a century ago, IBM has had to contend with rapidly evolving customer needs. The company's continued success as a provider of information technology and services rests on its ability to adapt its value proposition without putting its brand on the line. At the heart of the brand today is Smarter Planet, a strategy that reflects IBM's stance in the post-PC era. Originally conceived as the working title for the company's emerging public sector business, Smarter Planet now epitomizes the way IBM operates in a data-driven world. Smarter Planet guides product development, employee engagement, and all forms of external communication – from specific stakeholder engagement programs to global marketing campaigns. Under this roof, IBM has developed dozens of platforms, including Smarter Education, Smarter Energy, and Smarter Cities. Touch points range from a series of short films on the future of the city, showcased at the British Film Institute, to an interactive exhibit at Disney's Epcot theme park. In a nutshell, Smarter Planet demonstrates the company's unique ability to balance innovation with sustainability. Today, IBM is widely regarded as one of the world's most valuable brands, on par with the likes of Coca-Cola and Apple.

Brand consistency at DHL

In its current form, DHL is the result of a series of strategic acquisitions made by Deutsche Post to expand its footprint from national mail to global logistics. In a historic effort to fortify the new brand and ensure global consistency, DHL touched all bases of rebranding – from tangible assets to the minds and hearts of employees. They started, quite literally, by painting the company yellow. More than a hundred planes, tens of thousands of trucks, and countless uniforms were repainted or replaced to boost the brand's visibility. In a second step, DHL initiated an internal activation program, using various training formats and a brand book to help employees become brand ambassadors. The program opened the eyes of the workforce to the fact that every customer interaction plays a part in the perception of the brand as a whole. Additionally, a system of common standards for external communication was put in place. Today, all campaigns and materials are governed by a set of binding rules regarding corporate identity and corporate design. As a result, the company has been able to grow its brand value substantially. A multi-billion dollar asset, DHL is now one of the world's top business brands – as befits a leading global logistics provider.

Brand delivery at American Express

Established in 1850, American Express has been the most valuable credit card brand for a number of years now. In an effort to grow its business with small and medium-sized enterprises (SMEs), the company recently set out to create a win-win partnership with these customers. By helping independent retailers attract more shoppers, Amex would benefit from the increase in transaction volume. To make it happen, the company initiated the Open Forum, a virtual platform for small business owners to connect with Amex and one another. Open Forum works as a catalyst that helps small businesses become more successful. The platform features various educational resources and tools. As a result, a growing community of SMEs has come to appreciate Amex not just as a credit card company, but as an advisor. The culmination of this effort is Small Business Saturday, an annual event held the weekend after Thanksgiving to help small businesses claim their share of the US holiday rush. The Small Business Saturday Facebook page attracted more than one million followers in less than three weeks, now totalling at well over three million. Even President Obama tweeted about the event repeatedly, encouraging fellow Americans to "shop small."

The chain of checkpoints

In the past five years alone, McKinsey has conducted some 70 business branding engagements globally, the equivalent of about one fifth of our work on brand management. And while no two business brands are entirely alike, we have found that most companies benefit from a structured approach that is rooted in fact and integrates brand management with business strategy. In our experience, there are five crucial checkpoints en route to strong and sustainable business brands:

1

Take stock of corporate strategy

- ▣ What does our brand stand for?
- ▣ How do we aspire to set our company apart from its competitors?
- ▣ How can the brand help deliver our business strategy?

2

Map primary stakeholders

- ▣ Who are the primary target groups and stakeholders of our brand?
- ▣ What drives their perceptions and decisions?
- ▣ How do they perceive our brand (or brands)?

3

Determine value proposition and brand architecture

- ▣ Which strengths can we build on to differentiate our brand?
- ▣ How can we integrate the needs of different stakeholders, including talent?
- ▣ Which roles should we assign to corporate, divisional, and product brands?

4

Clarify the degrees of freedom

- ▣ How does the central brand positioning play out in divisions and business units?
- ▣ Which degrees of freedom apply at different levels of the organization?
- ▣ Which mechanisms do we need to ensure a consistent brand experience?

5

Lay down the ground rules for activation

- ▣ Which touch points are suited to activate our (new) brand positioning?
- ▣ How can we use specific touch points to reach different stakeholders?
- ▣ Can we leverage digital media to create scale effects, especially for SMEs?

Obviously, different companies will come to very different conclusions along this chain of checkpoints. However, we believe that any given brand (or portfolio of brands) can and should encapsulate everything a company wants to represent for its stakeholders. Our survey has substantiated that a strong brand is among the most important reasons customers choose one company over another. It would be a shame to let this unique opportunity for differentiation go to waste.

Survey and industry snapshots

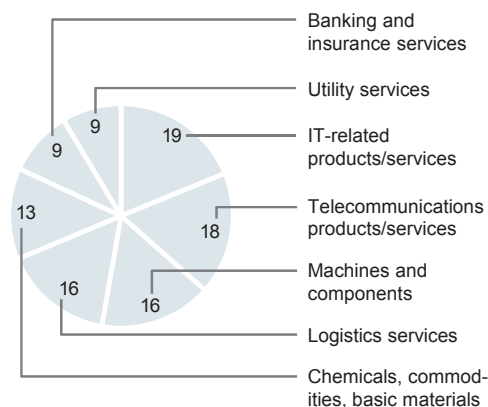
Our global survey

Our global survey among more than 700 executives with substantial influence on supplier selection was conducted online in mid-2012 in the United States, Germany, and India. It revolves around the relevance of branding in purchasing and aims to identify the drivers of successful business branding in seven different sectors. Topics of the survey included:

- The influence of brand relative to other factors
- The dimensions determining brand relevance
- The drivers of brand strength at various touch points.

B2B survey sample – by industry

Percent (rounded); 100% = 704 participants



SOURCE: B2B Branding Initiative

Industry snapshots

The snapshots below provide a glimpse of the most important brand functions, the top brand drivers, and the key touch points for different sectors according to our survey. Please note that these statements are relative to observations in other industries in our sample, rather than absolute assessments of the dynamics in a given sector. Also note that contacts with sales reps are by far the most important touch point across all industries and all steps of the decision making process.



Banking/insurance services

(61 respondents, US and Germany only). In financial services, decision makers consider brands as convenient shortcuts that, according to our survey, primarily provide information efficiency. Above all, customers in our

sample want prospective providers of financial services to act responsibly and communicate honestly. When forming their opinion of a bank or an insurance company, respondents say they often rely on press coverage and other external recommendations.

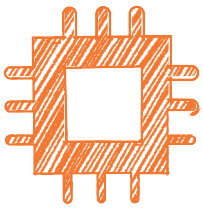


Chemicals, commodities, basic materials

(94 respondents). In this industry, brands help respondents reduce the risk involved in their decisions, and they also are perceived as catalysts of information

efficiency. When choosing a supplier of chemicals, commodities, or basic materials, the key question for decision makers in our sample is whether the company is a leader in its field. To make this call, they peruse product catalogs, review their own past experience, and visit trade fairs.

Industry snapshots



IT-related products/services

(132 respondents). According to our survey, customers scouting for IT providers rely on brands to make their information gathering more efficient, especially in Ger-

many and the United States. IT brands are perceived as particularly strong if their companies possess specialist expertise and engage in an open dialog with their stakeholders. As they make up their minds, respondents often rely on an IT provider's Web site – more so than in many other industries.



Telecoms products/services

(124 respondents). In the telecommunications sector, brands provide decision makers with risk reduction and information efficiency according to our survey.

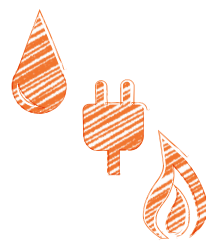
Respondents mention honesty, corporate social responsibility, and values that are in tune with customer needs as sure signs of a strong telecoms brand. When selecting a telecoms provider, decision makers in our sample often rely on internal recommendations from colleagues and experience with past usage.



Logistics services

(111 respondents). In the logistics sector, information efficiency is slightly more relevant than other brand functions.

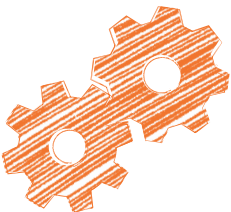
Notably, respondents from this industry also attribute the highest absolute relevance to image benefit. According to our survey, acting responsibly across the entire supply chain is of paramount importance for a logistics provider's reputation. Respondents say they often use Web and press research to gather information in this field.



Utility services

(65 respondents, US and Germany only). In this industry, brands help customers in our sample make information gathering more efficient and reduce their risk.

Above all, respondents say they look for innovation and a commitment to sustainable services in a utility brand – more so than in any other industry. According to our survey, customers often rely on internal and external recommendations, as well as on press coverage, as they go through the process of selecting a provider of utility services.



Machines and components

(117 respondents). In this industry, risk reduction is perceived as the most important brand function, reflecting the high capital expenditure involved. The brand attribute

that particularly concerns decision makers in our sample is a supplier's specialist expertise. During the early phases of the decision making process, respondents in this industry often turn to Web sites and product catalogs to gather information about a provider's offering.

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