CHAPTER 5

Muscle brands

In marketing, as in life, size matters.

The bigger brands become, the more marketing 'muscle' they wield and the more consumers gravitate towards them. Obviously, most of the brands in this book operate on a large scale. The brands singled out for this section are those that have become intrinsically associated with their size, as with IBM ('Big Blue'), or have consistently used their size to muscle their way into the marketplace.

As most of the cases illustrate, size can sometimes work against you. People will always warm to the underdog over the big bully. Indeed, it is no coincidence that some of the most widely unpopular brands – McDonald's, Microsoft, Nike, Starbucks and Wal-Mart – are included in this section.

Whether such mistrust is deserved is debatable. The giant brands themselves consistently deny that their bad reputation is deserved. But as the marketing law 'image is everything' is one that their brand strategies have always adhered to, they must understand how quickly perception can overtake reality.

Big brands have a problem. Size is their strength, but it can also slow them down or cast them as obvious villains.

In a world where globalization – which many choose to translate as 'Americanization' – is viewed in an increasingly negative, colonial light, many of the brand giants are suffering a serious image problem. Ultimately, no matter what the truth is about the associations of McDonald's with obesity or Nike with sweat-shops or Starbucks

with ‘clustering’ or Microsoft with monopolistic practices, the perception is always enough to damage the brand.

However, size alone does not have to give you a bad name. As the example of IBM illustrates (the first case in this section), big brands can still generate equally huge respect.

27 IBM: the solution brand

Big brands are founded on big ambition, and IBM is no exception.

The ambition belonged to Thomas Watson, who became the General Manager of the Computing-Tabulating-Recording Company in 1914. The company made tabulating machines that processed information mechanically on punched cards. These machines had been invented in New York in 1890 to help the US Census Bureau accurately measure the population during the waves of immigration experienced during the Industrial Revolution. The company, in one form or another, had been around since 1896, but it took Watson only three years to double its revenue.

His ambition was also evident in his decision to rename the company International Business Machines, even though it still catered only for the US market. But Watson didn’t want his business just to sound the part; he wanted it to look the part too, and he insisted that his salesmen were well groomed and wore smart black suits. He established the strong corporate culture that still sets IBM apart today.

Employee loyalty was created not only through generous sales incentives, but through a culture that involved employee sports teams, family outings and a company band. Watson stands alongside Henry Heinz and William Wrigley as one of the men who revolutionized the treatment of employees. IBM was one of the

first companies to provide group life insurance, survivor benefits and paid vacations, all of which arrived in the mid-1930s.

As well as with its employees, IBM built strong, trusted relationships with its customers, the largest of which was the US government. During the Great Depression of the 1930s, IBM was able to expand in a tough economic climate due to a government contract to maintain employment records for 26 million people as part of the 1935 Social Security Act. Two years later, the Wages-Hour Act (requiring US companies to record wages and working hours) led to a large IBM contract. It also led to research into more advanced machines, with products such as the Selective Sequence Electronic Calculator (1947) providing the historical link between IBM the 'tabulating machine' company and IBM the computing giant.

By the time of Watson's death in 1956, IBM was already known for its size and smart-suited corporate culture (which included a company song). His son, Tom Watson Jr, who replaced his father as CEO, would stretch his father's ambition further, as very early on he realized computers were going to transform business.

In 1964, IBM introduced the System/360, the first mainframe computer. The System/360 was referred to as 'IBM's $5 billion gamble' by *Fortune* magazine. Famously, it cost more to develop than the atomic bomb. Unlike the computers that had gone before, the System/360 family of machines used interchangeable software and peripheral equipment.

The gamble paid off, and led to the 1969 decision to offer hardware, services and software individually, not just in all-in-one packages. This was another revolutionary decision, spawning as it did the software and services industries.

However, Watson Jr's emphasis was on corporate values, rather than what it made. The now massive IBM – 'Big Blue' as it was widely referred to (due to its scale and corporate colour) – remained tightly unified around a culture that valued each individual customer and each individual employee. Watson Jr understood that, for a technological company, where the products and services

continually evolve, the values behind the brand name must remain consistent. These values led to IBM's trustworthy reputation – a reputation evident in the US maxim 'Nobody was ever fired for buying from IBM.'

The company fell out of Watson family hands in 1971, when Watson Jr stepped down as CEO. However, the organization kept on expanding as more and more businesses were adopting computer technology.

In 1981 IBM and the computer industry entered a new phase with the introduction of the IBM Personal Computer. This PC was the Ford Model T of computers, not advancing technology, but making that technology far more widely available than ever before. Apple's Apple 1 may have pre-dated the IBM PC by four years, but it was IBM that had the size and manufacturing power to take personal computing further into the mainstream.

However, the rise of the PC was a double-edged sword for IBM. Not only did more people now have computers, but these small computers ('clients') were linked to larger computers ('servers', which served data and applications to PCs). This completely democratized computing and also changed the way computers were bought and sold. Before, IBM was a big business dealing with other big businesses. Now, purchasing decisions were being made by individuals and departments that IBM had never dealt with before. Suddenly, IBM's main assets – its size, its long-standing customer relationships and its steadfast corporate culture – were working against the company. Younger, faster rivals were better positioned to adapt to this changing market structure.

It lost market share. But more significantly, it lost its credentials as the industry pacesetter. It also lost focus. Was it a computer company, a software company or a services company? What did IBM stand for? Many blamed the company's size for its lack of focus. Some shareholders called for the break-up of the company.

This didn't happen. Instead, in 1993, the notoriously inward-looking company made Louis Gerstner, a former chairman of RJR Nabisco, their new CEO. This was the first time a leader

had arrived from outside IBM. It was Gerstner who managed to give the incredibly vast and broad organization a singular brand identity. In fact, he turned size back into an advantage, branding IBM as a 'solutions' provider. He realized that IBM, unlike many of its smaller rivals, had always been able to provide integrated computing solutions, rather than just individual components.

During the 1990s IBM started to move from a product-driven to a brand-driven culture. The determination to create a singular identity was evident in 1994, when IBM consolidated all of its advertising at one single agency, Ogilvy & Mather.

The next year, at a trade show in Las Vegas, Gerstner outlined IBM's new vision. The rise of the internet and the web had led him to believe that network computing would soon drive the industry and should therefore be central to IBM's strategy.

IBM hadn't made such a bold, industry-leading decision in years. Boldness paid off and by 1996, when companies were just starting to see the real value of intranets, extranets and network computing as a whole, the company's market value had risen to $50 billion.

IBM's sober image might have been at odds with the colourful brands of the internet 'gold rush' era, but following the dot-com crash in 2000 it was this sobriety that helped IBM regain its status as a voice of reason for the computer industry.

In recent years, expensive global advertising campaigns pushing the concept of 'e-business on demand' and boosting IBM's status as a 'solution' brand have paid off.

According to Interbrand, IBM is now the third-most-valuable brand in the world, behind only Coca-Cola and Microsoft.

Secrets of success

- *Message*. IBM has managed to unite one of the world's largest corporations behind a singular brand message formed around integrated business solutions.
- *Trust*. In a volatile industry where technology continually changes the market, the trust and confidence gained through

IBM's decades of experience are a major attribute. IBM's safe and sober connotations make 'blue' its perfect brand colour.

- *Brand focus*. IBM's switch from a focus on products to a focus on branding was the key turning-point in the 1990s. As a *Business Week* article ('The Best Global Brands', August 2001) put it, 'for technology marketers, IBM has become the model'.

Fact file

Website: www.ibm.com

Founded: 1896

Country of origin: USA

Brand fact 1: IBM is the world's largest information technology company.

Brand fact 2: In 2002, IBM Global Services signed US $53 billion in new contracts of which 42 contracts were each worth in excess of US $100 million, and five exceeded US $1 billion.

Brand fact 3: IBM has the greatest number of patents and inventions in the industry.

Brand fact 4: IBM retail solutions are installed in more than 60 of the world's top 100 retailers.

28 Wal-Mart: the scale brand

Wal-Mart, the US chain of discount stores, is a massively successful company enjoying a regular position at the top of *Fortune* magazine's top 500 corporations and annual revenues of around $250 billion.

In his book, *Made in America: My Story* (1992), Wal-Mart founder Sam Walton explained how he built the brand from its humble beginnings in 1945 in Arkansas (when Walton was only 27) and turned it into a brand giant. At the centre of his business philosophy was a determination to relate to customers. Number eight in his 'Rules for Building a Business' was: 'Let them [your customers] know you appreciate them.'

Wal-Mart has made sure it obeys this rule in a variety of ways. It has created a homely, all-American, neighbourly, personal image despite the giant size of the organization. It has deployed a variety of relationship marketing techniques, including a 'store greeter' whose job it is to welcome customers personally into the store and help them with a shopping cart.

This human element is also backed up by some serious technology. It was one of the first companies to use cash register scanners to monitor customer behaviour. Wal-Mart now deploys advanced data-mining software in all its stores in order to gauge patterns in customer spending. This information is then fed to Wal-Mart's suppliers and used by the company to make crucial decisions about what it should and should not be stocking.

However, the ultimate key to Wal-Mart's success is scale. It tries to personalize the experience with store greeters because the stores are intimidatingly vast. They are double and sometimes triple the size of its competitors' stores. This enables Wal-Mart to buy products in very great bulk, and therefore at cheaper prices per item. The big scale enables Wal-Mart's 'everyday low prices' to be lower than those of any other store.

And the scale is getting even bigger. Its new stores are built larger each year, and some of its superstores take up 200,000 square feet of floor space. However, charges of monopolistic practices have been growing since the 1990s, as smaller companies are suffocated out of the market, and this could ultimately lead to a full-scale Wal-Mart backlash.

There have been other problems too such as a sex discrimination class action against the company surrounding an allegation that

Wal-Mart systematically pays women less than men and passes them over for promotion. Regardless of the eventual outcome, such lengthy disputes inevitably damage the company's brand image.

However, there can be no denying that Wal-Mart's economy of scale strategy has, so far, paid off. Its acquisition of Britain's Asda supermarket chain in 1999 has, without doubt, strengthened its position internationally, and the investment it makes in technology and store greeters is nothing compared to the growth in sales it has made over the years. Wal-Mart is now, for better or worse, a full-time fixture on the suburban landscape, with almost 3,000 'big box' discount stores across the United States and eight other countries.

Secrets of success

- *Scale*. Big stores equal big discounts from suppliers equal low prices for customers.
- *Relationship marketing*. Despite its enormous size, Wal-Mart tries to add a human element to the store through store greeters and other tactics.

Fact file

Website: www.walmart.com

Founded: 1962

Country of origin: USA

Brand fact 1: Sam Walton's three basic beliefs which were established in 1962 are: Respect for the Individual; Service to Our Customers and Strive for Excellence.

Brand fact 2: In 2003 Wal-Mart was named by *Fortune* magazine as the most admired company in America.

Brand fact 3: More than 100 million customers per week visit Wal-Mart stores worldwide.

29 McDonald's: the service brand

McDonald's is, by most people's standards, a big brand. Indeed, for many, it is the ultimate epitome of a brand giant. Few brand identities are more instantly recognizable than that of McDonald's. In fact, more people now recognize the golden arches than the crucifix. And there are over 30,000 McDonald's restaurants in operation worldwide. Now that's big.

And yet, McDonald's is a brand in need of salvation. It is in trouble, and under fire from every angle. Everyone seems to have a gripe with the company: anti-globalization protestors; health authorities; lawyers; the food industry; parents. It is probably the most hated brand in the world. So how did this happen? Why such animosity? Well, before answering that question it's important to look at how McDonald's got so big in the first place.

In 1948, two brothers called Dick and Maurice McDonald opened up a hamburger restaurant in San Bernardino, California. They had a clear understanding of what their customers wanted: simple food, served fast. Hamburgers, malt drinks and fries were the staple offerings. The place was clean, and the foundations of McDonald's brand identity can be traced back to that restaurant (a golden 'M' shone out on to the road, and gleaming red and white tiles decked the interior).

The business expanded, and the McDonald brothers opened seven similar restaurants elsewhere in California. Then, in 1954, the small chain came to the attention of Ray Kroc. Kroc was a salesman, selling milkshake makers. He had enough money to buy the US franchise for McDonald's and he had total ownership of the firm by 1961.

To understand how McDonald's became a giant, you have to understand a little about Ray Kroc. Kroc was a man who loved money, and loved spending it. He would gloat at press conferences

about his latest purchases: yachts; Arabian horses; a cattle ranch. He was ambitious, to say the least, and had an aggressive attitude towards the competition. 'If I saw a competitor drowning,' he once said, 'I'd put a live fire hose in his mouth.' Ah, how sweet.

But there was no questioning his business ability. Indeed, he has been referred to as the Henry Ford of the service industry. Kroc believed in QSC. No, not a home-shopping channel. It stood for 'Quality Service Cleanliness', a mantra he made sure all McDonald's employees were aware of.

From 1967, Kroc went international, opening restaurants around the world and snapping up the local competition. By 1990, McDonald's was part of the scenery in most countries. There was even a brand in Moscow (where the queues around the block provided the company with their best PR opportunity ever).

While the company expanded internationally, it was unstoppable. But when there were no new markets to conquer, the burger giant approached something equivalent to a mid-life crisis. With Kroc no longer at the helm, it had lost direction, and wondered what to do next.

The 90s were a troubling time for the McDonald's brand. Unable to expand geographically, they decided to keep on expanding their menu. The McDonald's menu had originally offered only 11 items. In the 90s the figure was sometimes 70. The service may still have been fast, but now the customers were taking 20 minutes just to read what was on offer.

Another problem was also starting to emerge. Just as the menu was growing, so too were the customers. In McDonald's home territory, the United States, a serious health problem was emerging, with the finger of responsibility being pointed towards the fast-food industry. Today, obesity has become a health crisis. According to the World Health Organization, 'Obesity is the dominant unmet global health issue, with Western countries topping the list.'

McDonald's, more than any other brand, has been brought into the centre of the obesity debate. It has been criticized for switching from vegetable oil to the highly saturated fat palm

oil (or 'tree lard' as it has been called). It has been criticized for targeting children with potentially fattening foods, via Happy Meals, sponsoring education materials, offering Disney freebies, and various advertising initiatives aimed at young audiences.

Most of all though, McDonald's has been criticized for super-sizing: that is to say, considerably increasing portion sizes. The idea originally belonged to David Wallerstein, one of the McDonald's directors. In the book *Fat Land (*2003), Greg Critser explains the logic behind super-sizing:

> At McDonald's in the mid-1970s, Wallerstein faced a problem: With consumers watching their pennies, restaurant customers were coming to the Golden Arches less and less frequently. Worse, when they did, they were cherry-picking, buying only, say, a small Coke and a burger, or, worse, just a burger, which yielded razor-thin profit margins. How could he get people back to buying more fries?… Sell them a jumbo-size bag of the crisp treats.

Ironically, Ray Kroc had a bad feeling about the whole idea. According to John F Love's book *McDonald's: Behind the arches (*1985), there was a heated discussion between the two men. Kroc couldn't understand the idea: 'If people want more fries, they can buy two bags.'

Wallerstein was quick to respond. 'But Ray, they don't want to eat two bags – they don't want to look like a glutton.'

Kroc's bad feeling remained. In fact, it was only after Wallerstein conducted a survey of customer behaviour that he was finally swayed, and profits soon soared. Now, the legacy of that survey can be witnessed in the epic-sized, Alice in Wonderland portions handed over at the McDonald's counter.

However, while super-sizing has helped boost profits, there could be a law of diminishing returns at work here. The growing perception of McDonald's food as unhealthy is clearly making a dent in the company's profits.

Ray Kroc's belief that the 'US public are basically beef-eating people' may still be true. But in the United States, and the rest of the globe, diet patterns are beginning to alter as a new health consciousness emerges.

However, some experts believe the health debate is a side issue. The real problem isn't the obesity of McDonald's customers, but the obesity of the brand. Some say that McDonald's has grown too big and remained too centralized to stay ahead.

'McDonald's is teetering,' Professor David Upton of the Harvard Business School told the BBC's *Money Programme* in 2004. 'Maybe they've reached the limits of growth. They can't open McDonald's too close to each other.'

Then there's the issue of quality, which was always central to Kroc's philosophy.

'If they don't make the world's best burger, the core business is going to wobble,' reckons Rita Clifton, chairman of Interbrand. 'They've got to make the world's best burger, and they've got to move beyond the burger.'

Moving beyond the burger hasn't been easy. McDonald's has never really been an 'innovation' brand. Its attempts to move into healthier food ranges, such as salads, have received mixed results so far. Its efforts to upgrade the standard burger with the ill-fated Arch Deluxe was also a spectacular flop.

On top of all this, McDonald's has acquired something of an image problem. The negative PR caused by the McLibel Trial – where the company took out a libel suit against two British environmentalists who had handed out leaflets attacking the company – was widely considered to be an own goal. The company is one of the major villains in Naomi Klein's *No Logo*, and among the anti-globalization movement as a whole.

Then there's the problem of competition. For years, McDonald's main rival was Burger King, the perennial runner-up of the fast-food industry. Now, though, McDonald's faces a different type of competitor, with a different type of fast food.

'Even if McDonald's is improving, other people are improving faster,' says Professor David Upton. For 'other people', read Subway. Many experts, including Upton, consider the sandwich chain to be McDonald's main competitive threat. It certainly has the kind of aggressive expansion plan Kroc would have been proud of, especially in Europe. For example, the company has a target of 2,000 stores in the UK by 2010.

So what will happen? Will the competition, the health authorities and the activists get the better of the burger giant? The answer, of course, depends on McDonald's. For instance, if they fail to appease the health authorities by changing their menus or by providing warnings on their food, they could well face legal trouble in the future, just as cigarette companies such as Philip Morris have done. This would obviously help out the competition considerably. Most commentators agree that McDonald's needs to change in order to survive well into this century.

It is, like many other brands, the victim of its own successful growth. As Kroc himself once said: 'When you're green you grow, but when you're ripe you rot.' It remains to be seen whether these words come back to haunt the brand.

Fact file

Website: www.mcdonalds.com

Founded: 1954

Country of origin: USA

Brand fact 1: McDonald's is the world's leading food service retailer.

Brand fact 2: McDonald's has more than 30,000 restaurants in 119 countries.

Brand fact 3: McDonald's serves 47 million people a day.

Secrets of success

McDonald's may face difficulties, but its incredible early growth provides valuable lessons for any brand:

- *Familiarity*. Familiarity may breed contempt, but it also breeds comfort. McDonald's succeeded because people knew exactly what to expect: fast service and clean restaurants.
- *Pride*. Kroc had a pride and a love of what his business provided. As he once commented, 'it takes a certain kind of mind to see beauty in a hamburger bun'.
- *Persistence*. Kroc's ambition was unflinching. 'Persistence and determination alone are omnipotent,' he said.

30 Nike: the sports brand

Think of the world's top brands and it's not long before you think of Nike, formed in 1964 by track athlete Phil Knight and his University of Oregon coach Bill Bowerman. Knight, after leaving the University of Oregon, had studied for an MBA at Stanford Business School, and this was where he'd first had the idea of a running shoe company.

During its early years Nike's main selling point was price. The shoes, which were made using cheap Japanese labour, were a lot less expensive than those produced by Adidas, which at that time dominated the market. Nike did nothing new. It provided standard running shoes at low prices. But Nike wasn't going to follow the pack for too long. Soon it was going to lead it.

The breakthrough moment came when Bowerman experimented with a new type of running shoe, with a rubber outsole. Footwear would never be the same again. And neither would Nike. Like so many other brands mentioned in this book, innovation was the key to its success. When it had followed its competitors, Nike had done okay. But now it was leading the way, it was unstoppable.

And the company kept on innovating. For instance, in 1979 it introduced 'Nike Air' cushioning in the soles of trainers. Throughout the 1980s it marketed trainers in the way Audi and Fiat marketed cars, creating branded models with various features, such as the Pegasus (1988) and the Air Max (1987). Then came the Nike Air Jordan, and one of the most famous – not to mention expensive – celebrity endorsements of all time.

Michael Jordan – a superbrand in himself – remains one of Nike's key endorsers. He is now joined by Tiger Woods, whom Nike has helped turn into the highest-earning sportsperson of all time.

The company has also tried to create a strong association with the most global of sports – soccer – by sponsoring World Cup tournaments, and individual players such as Brazil's Ronaldo.

Most of Nike's multibillion-dollar marketing budget now goes on sponsoring individual athletes. Obviously, it makes sense for a sports brand to be associated with the leading sports figures in the world, but there are downsides.

Firstly, Michael Jordan, Tiger Woods and Ronaldo are brands in themselves. In some cases, the superstar endorsers have products of their own to sell. The question therefore arises: are the sports heroes working for Nike or is Nike working for the sports heroes?

The second, more damaging, downside is that the millions spent annually on each big name contrasts with the low wages paid to workers in its factories in Indonesia and Vietnam. Human rights organizations have highlighted the irony of an organization that has chosen factory locations on the basis of cheap labour, and that then chooses to spend most of its marketing budget on a handful of sportspeople. One such organization – the San Francisco-based Global Exchange – published an extensive report in September 1998 called 'Wages and Living Expenses for Nike Workers in Indonesia'. The report stated that Indonesian Nike workers were being paid the equivalent of 80 US cents a day, and asked the company to double the wages of its Indonesian workforce. This would have cost $20 million – the annual amount that was being paid to Michael Jordan to be an ambassador for the brand.

The report added fuel to the growing number of anti-Nike protestors who had already taken part in high-profile demonstrations, such as one outside the Nike Town store on Fifth Avenue in New York, where teenage customers told Fox News cameras: 'Nike, we made you. We can break you.'

Their anger may have been more to do with what they considered to be Nike's overpriced products than sweat-shops, but as the anger was stemming from the inner cities in the United States (arguably Nike's most important market) it couldn't be ignored. Indeed, this was at a time (the late 1990s) when kids were being beaten and attacked for their footwear. In one heavily reported case, a 14-year-old New York teenager from a housing project was repeatedly beaten for his Air Jordans and left unconscious on subway tracks to be hit by an oncoming train.

Such stories have all added to the portrayal of Nike as a corporate baddie. Even Phil Knight, who is now Chairman of the Board of Directors, has acknowledged the negative perception of Nike, saying that he has been depicted as 'the perfect corporate villain for these times'.

However, while the desire for such a villain is justified in a world saturated with marketing images yet dogged by poverty, a few words should be said in Nike's defence.

Firstly, Nike has responded to its critics through positive action. It joined the Apparel Industry Partnership, a group of manufacturers working towards a code of practice for overseas factories. Following the Global Exchange report, it did raise the wages of its Indonesian workforce. The company has also improved working conditions across Asia, and has promised not to hire anyone under 18 years old in its shoe factories.

In 2003, in a British documentary on Channel Four called *Why Globalisation Works*, Nike even invited cameras into its main Vietnamese factory, and the documentary makers discovered a clean and safe working environment full of satisfied employees, many of whom had previously been unemployed. Sure, they were hardly dream jobs, but then few factory jobs are. Obviously, it is

hard to know whether this factory was representative of all Nike's manufacturing sites, but it certainly helped counterbalance the negative image of inhumane sweat-shops in second and third world countries.

Secondly, Nike cannot be blamed for inner-city 'sneaker crime', any more than fashion magazine editors can be blamed for anorexia or Britney Spears love songs can be blamed for teenage pregnancy. The argument that marketing is directly responsible for an individual's behaviour is a crude and simplistic one, to say the least. A pair of running shoes might be the object of a crime, but it's not the sole root cause. For that, we also have to look at the wider, more complex influence on young men growing up in deprived urban areas, often with very few positive role models. Indeed, there is an argument to be made that the Nike ad's hero worship of Tiger Woods and Michael Jordan helps to counteract the violent boasts and swagger of stars like 50 Cent and Eminem.

As for the issue of overpricing, well, on the face of it, Nike is guilty as charged. Their shoes cost only a few dollars to make and are sold for over a hundred dollars.

Nike gladly admits that brands are bigger than the products they represent. Scott Bedbury, the former vice-president of marketing at Nike (and the current vice-president of marketing at Starbucks) revealed in a February 2002 article in *Fast Company* ('Nine Ways to Fix a Broken Brand') that branding goes beyond the product. 'Offer more than the product,' he wrote. 'Create an experience around it and pay attention to the details.'

This 'experience' is what people are buying, just as much as the product they put on their feet. And that experience costs money. Billions of dollars, in fact. If Nike didn't spend a penny on marketing, and charged five dollars for each pair of running shoes, there would be no demand for the product. The marketing and the high prices turn products into aspirational items.

This is the catch-22 Nike faces. If it spends too much on marketing it gets accused of exploitation and overpricing by its customers. But it is exactly that marketing that has created those customers in the first place.

That is not to say that the brand is free from social responsibility. Of course it's not. Regardless of ethics, no brand in the information age can afford to ignore the concerns of its customers, employees or external activists. This is something Scott Bedbury recognizes, despite (or maybe because of) his tainted reputation among activists and *No Logo* readers. In the *Fast Company* article I quoted earlier, Bedbury talks about the way brands need to think responsibly about their markets, and not just about being cool. 'Contrary to what some people may think, Nike does not set out to be cool,' he writes. 'It knows that cool is defined by its customers. Be careful not to worship cool. It's a false god.'

Instead of cool worship, he recommends companies think about their 'karma':

> As a society, our concerns about the effects that globalisation has on cultures and the environment will only intensify, and the bar for corporate behaviour will rise. I expect that we'll look to our most trusted brands, big and small, to help reduce the enormous gap that exists between profits and benevolence.
>
> It's a new brand world out there. We are just starting to see the issues and opportunities associated with brand karma. However it evolves, I do know that strong karma will develop after years of doing the right thing.

And Nike does now seem to be taking on board the lessons of its former marketing man. The brand is certainly more transparent than it was in the last two decades of the 20th century. TV crews are inside its factories. Phil Knight has improved working conditions. And the company now appears to view corporate responsibility as more than a token PR gesture.

The Nike brand may still float high above the mundane reality of manufacturing, but it is no longer quite the target it once was. Maybe this is in part due to world events. After all, wars in Afghanistan and Iraq suddenly shifted the worries of liberal-minded

people from sweat-shops and overpriced footwear to mass, state-approved violence and governmental hypocrisy.

But it is also because Nike, like many other members of brand royalty, is starting to wake up to the new era of marketing, an era in which brands cannot inflate their brand message too far, away from the reality of the product (from how that product is produced). It has been a tough lesson. In *No Logo*, Naomi Klein wrote that 'Nike was the most inflated of all the balloon brands, and the bigger it grew, the louder it popped.'

But Nike's brand value is still riding high. The Nike swoosh – along with Coca-Cola's swirly letters and McDonald's golden arches – remains one of the most visible logos on the planet. It has, so far at least, managed to weather the storm.

'Brands like Nike and Starbucks took lightning bolts early on because they were highly visible, global and influential,' reckons Scott Bedbury. 'These companies aren't perfect, but… they will help write a much-needed new chapter on brand management. They will prove that big doesn't have to be bad, that profits are only one measure of success and that great brands can use their unique superhuman powers for good.'

And indeed, Nike is likely to stay a superhuman brand, just so long as it also continues to listen to human concerns: those of activists, those of its workers and those of its customers.

Secrets of success

- *Inclusion*. When Scott Bedbury joined Nike in 1987, his aim was to help it become a more inclusive brand, and look beyond its core market of young, fit men. The 'Just Do It' slogan was the watershed. 'It established a broad communication platform from which we could talk to just about anyone,' wrote Bedbury.
- *Sub-branding*. Nike exemplifies the way sub-branding can work. Air Jordan and Air Max became strong brands in their own right, and their introduction added a freshness to the overall Nike image.

- *Aggression*. Nike's aggressive business and marketing strategies have often been compared to those of sports teams. 'Just Do It' is not just a slogan; it's a company motto.
- *Innovation*. Nike has produced innovative products since the 1970s. It has therefore become an initiator of trends rather than a follower.
- *Sponsorship*. The possibilities of sponsorship have been stretched to the limit with Nike. It sponsors the biggest sports events and the biggest sports stars. And these stars aren't simply smiling faces on TV ads; they are what the company calls 'brand ambassadors' who take a very active role. For example, Brazilian soccer hero Ronaldo designed the Mercurial soccer boot.
- *Plato*. The Greek philosopher might not be known for his marketing ability, but he inspired Nike's former marketing man Scott Bedbury. Plato's 'concept of essence' (the belief that deep within everything concrete is the idea of that thing) has been related to Nike's marketing strategy. 'Plato… was the first to articulate the importance of a brand's essence,' says Bedbury, without a shade of irony. 'Nike's essence… is authentic athletic performance.'

Fact file

Website: www.nike.com

Founded: 1964

Country of origin: USA

Brand fact 1: Nike is named after the Greek winged goddess of victory.

Brand fact 2: Niketowns have an average of 30,000 square feet of selling space. Currently, there are 13 US and four international Niketown stores.

Brand fact 3: In October 2001, Nike opened the first of two Nikegoddess stores, dedicated exclusively to active women.

31 Starbucks: the postmodern brand

In many ways, Starbucks is the archetypal brand. It has taken a physical, tangible business idea – the humble coffee store – and turned it into a big abstract concept.

Starbucks' vice-president of marketing, Scott Bedbury, once said that 'Consumers don't truly believe there's a huge difference between products.' It is therefore the purpose of Starbucks to forge 'emotional ties' with people through what Bedbury called 'the Starbucks Experience' in a 1997 article in the *New York Times*.

This view is supported by Starbucks' CEO Howard Schultz. 'The goal was to add value to a commodity typically purchased on supermarket aisles,' he told *Fortune* magazine in a 1998 interview. 'Starbucks is not a trend. We're a lifestyle.'

Howard Schultz, perhaps unsurprisingly, has a marketing background. Indeed, when he joined the Seattle-based company in 1982 – the first Starbucks store had been set up 11 years earlier by Gerald Baldwin, Gordon Bowker and Zer Siegl – Schultz's job was to help with marketing.

However, Schultz's early ambition for the company was thwarted by the management team. After a visit to Italy in 1986, he wanted his employers to expand by opening a chain of coffee bars in Seattle. They said no, and Schultz said goodbye. He went off and opened his own coffee stores, under the name Il Giornale, which made him enough money to buy out Starbucks for $4 million in 1987, with the aid of some local investors.

From then on, Starbucks gradually grew from a coffee store into a brand empire. At the start of 1988 Starbucks employed 100 people across 11 stores. Today, it has over 3,000 stores in non-US markets, and has around 40,000 employees.

Starbucks has managed to become what Schultz has referred to as 'the third place', that is, the place between home and work, where you go to meet friends or to have your 'alone time'.

In the book *Lessons from the Top* (Neff and Citrin, 1999), Schultz talks about the 'feeling' deliberately conjured by the brand:

> In the focus groups we've done people talk about how social Starbucks is. And then we say, 'How many people did you talk to while you were in the restaurant?'
>
> 'I didn't talk to anybody.'
>
> So we have learned that it's the experience – the music, the theatre, the romance of coffee and the break that we provide.

So Starbucks is about taking a bricks-and-mortar store that sells a physical product (a cup of coffee) and converting it into something that can yield a far greater emotional power.

This idea isn't just down to Schultz. It's also down to Bedbury, who had previously been one of the masterminds behind Nike's 'Just Do It' campaigns. In an August 1997 *Fast Company* article entitled 'What Great Brands Do', Tom Peters asked Bedbury to talk about the parallels between Nike and Starbucks.

'Nike… is leveraging the deep emotional connection that people have with sports and fitness,' Bedbury explained. 'With Starbucks, we see how coffee has woven itself into the fabric of people's lives, and that's our opportunity for emotional leverage.'

Starbucks is a postmodern brand. It simulates an experience of 'community' that may be as addictive as the caffeine in a cup of latte. It is about creating an environment that is, to borrow the title of a U2 song, 'Even Better than the Real Thing'.

This experience has not been created by the two-dimensional world of advertising (Starbucks spent less than $10 million on advertising during the 1990s), but by the three-dimensional world of the stores themselves. The 'experience' is something you can walk into. It is multi-sensory: the sight of the friendly green logo, the smell and taste of the coffee, the warm cup in your hands, the background bustle and music. Every aspect is carefully thought out, and replicated in the thousands of Starbucks stores across the globe.

Instead of bombarding consumers with omnipresent advertising campaigns, the Starbucks strategy has been to focus on target areas and to create as many stores as possible within that area. This is the 'clustering' strategy that has been heavily criticized by anti-globalization campaigners such as Naomi Klein. In *No Logo*, she writes:

> The mechanics of Starbucks' dizzying expansion during the past thirteen years has more in common with Wal-Mart's plan for global domination than the brand managers at the folksy coffee chain like to admit. Rather than dropping an enormous big box on the edge of town, Starbucks' policy is to drop 'clusters' of outlets in urban areas already dotted with cafes and espresso bars. This strategy relies just as heavily on an economy of scale as Wal-Mart's does and the effect on competitors is much the same.

I would argue, though, that this policy of 'clustering' is not solely about killing off the competition – although that may be a part of it. For a brand like Starbucks, which wants to become 'the third place' or a default meeting point, it needs to be a part of the scenery.

Coca-Cola has managed to be everywhere through a combination of advertising and distribution. For a brand like Starbucks the stores *are* the distribution. They are also self-advertising: a concentration of stores in one area has the effect of a concentrated billboard campaign. It becomes a part of the scenery, and part of our collective subconscious. To become as well known as a Coca-Cola (which can be sold anywhere), the store had to be seen all over the place. Of course, this can be damaging for individual Starbucks stores as well as for competitors.

In an annual Starbucks report from the mid-90s, and quoted by Klein, the negative effects of clustering were briefly acknowledged: 'As part of its expansion strategy of clustering stores in existing markets, Starbucks has experienced a certain level of cannibalisation of existing stores by new stores as the store concentration has

increased, but management believes such cannibalisation has been justified by the incremental sales and return on new store investment.'

So the strategy strengthened the brand and overall sales, despite weakening some individual stores. Schultz saw the bigger picture, and indeed continues to see the bigger picture, as Starbucks expands, location by location, across the globe. It is a controversial strategy, certainly, but it is also one that seems to be working.

Secrets of success

- *Emotion*. Starbucks' head of marketing Scott Bedbury believes that the brand seeks to 'align [itself] with one of the greatest movements towards finding a connection with your soul'. This sounds rather scary, but Starbucks' emphasis on building emotional ties is, without doubt, one of the reasons it is one of the leading brand globetrotters.
- *Replication*. Starbucks stores follow a similar formula. This not only helps customers to know what to expect, but it also helps to strengthen and tighten the brand's identity in the public's mind.

Fact file

Website: www.starbucks.com

Founded: 1971

Country of origin: USA

Brand fact 1: Starbucks has over 7,500 coffee shops in the United States.

Brand fact 2: Starbucks is the biggest coffee chain in the world.

Brand fact 3: Starbucks shops are in more than 30 countries.

- *Community*. The Starbucks brand signifies 'community'. This is what Starbucks sells, as much as physical cups of coffee. This concept defines the brand as much as the product does. As Bedbury himself says, 'consumers don't truly believe there's a huge difference between products'.

32 Microsoft: the dominance brand

In most surveys, Microsoft is now ranked as the world's number two brand, behind Coca-Cola. Its founder, college drop-out and self-confessed computer nerd Bill Gates, is now the richest man on the planet.

The remarkable thing about Microsoft, however, is that it is possibly the most widely despised and distrusted brand in history. The bewilderment at its success is evident all over the web. Take this extract from the Building Brands site (www.buildingbrands.com):

> The value of the Microsoft brand, according to an Interbrand study, is $65 billion. That's a lot of brand value for a company that no-one actually likes. And that's exactly our point. How can Microsoft's brand be worth so much? Aren't brands supposed to be about 'intangibles' and 'goodwill'? These may be old-fashioned terms when compared to the language of the latest brand gurus, but brands, after all, are about perceptions. Or are they?

Well, yes, they are. To an extent. And for many, the perception of Microsoft and Bill Gates is akin to that of a James Bond villain, plotting global domination through amoral and monopolistic means.

Bill Gates is no Blofeld, but the plot for global domination is not far off the mark. The original Microsoft mission was 'a computer on every desk in every home, running Microsoft software'. (The last three words were later knocked off the mission statement, but they were still implied.)

From the start, Microsoft didn't just want to lead the market; it wanted to dominate it. And it knew that it would need the help of big companies to get there. In1981, when Microsoft was six years old, technology companies didn't come any bigger than IBM. So when Bill Gates's Seattle-based company was commissioned to provide the operating system for IBM's first-ever PC, he understood how big the opportunity was.

IBM, on the other hand, didn't realize the significance of this decision. After all, Microsoft was only supplying an intangible product – software. It wasn't like a computer, something physical that people could see. IBM hired Microsoft to save time and resources. Why waste your energies on creating software when someone else could do it for you? With hindsight, this may seem to have been a foolish frame of mind but this was a decade before the internet and 'Intel Inside'. In the 1980s, the big brands were about the technology *outside*. The hardware. The beige boxes. The stuff you could touch. If you had told the suits at IBM that this small Seattle software company was going to be the largest technology brand in the world within two decades they'd probably have fallen off their swivel chairs with laughter.

However, Microsoft has grown to become a brand that dominates the market in a way that even IBM never quite managed. By the end of the last century, IBM had only 10 per cent of the personal computer market, while Microsoft had 90 per cent of the market for desktop computer operating systems. What the IBM deal enabled Microsoft to do was to establish a common standard for software, an operating system Gates purchased from another company and renamed MS-DOS. In purely technological terms, experts tended to think that MS-DOS was not the best operating system. Many, for instance, thought Apple's system was far more

user-friendly. But Apple's system was only for Apple computers, and Apple was small fry compared to IBM.

And so, in an irony of almost Shakespearean proportions, it was IBM that gave Microsoft its first leg-up on its path towards global domination. IBM was able to lend all its assets (large distribution, trust, dependability) to Microsoft's operating system. IBM's saturation of the PC market led automatically to Microsoft's saturation of the software market as every IBM PC ran MS-DOS.

Most importantly, although IBM was funding the development of Microsoft's operating system, the IBM–Microsoft contract stated that only Microsoft was entitled to license MS-DOS to other companies. So even as IBM'S PC started to struggle in an increasingly crowded market, Microsoft's operating system became more and more widely used as IBM's copycat competitors also adopted it for their own computers. MS-DOS soon became the industry standard.

People may have thought Apple's operating system was technologically superior but it was confined to Apple computers. Of all the bad press Bill Gates has received, the thing that is least justified is that he is a control freak. It was only through conceding total control – by licensing his software out to almost anyone who asked for it – that Microsoft has managed to become so big. By contrast, Apple was too insular, believing Apple's operating system served to sell Apple computers and therefore couldn't be licensed to third parties. Apple and IBM were walled brands. Microsoft broke down the walls and opened out its potential market further than any other technology brand in history. It knew that if it wanted to be everywhere it couldn't be too fussy about whom it worked with.

Microsoft used the base it had created and expanded even further as the computer revolution really got under way. From operating systems such as Windows to applications such as Excel and Word, in the 1990s it became *the* name in software. As most people's computers were running Microsoft operating systems and

applications, brand loyalty was almost a given; if people were going to buy extra software or programming tools, it automatically made sense (psychologically, if not technologically) to buy Microsoft.

The company was also quick to recognize the significance of the internet, owning the largest e-mail application (Outlook Express) and one of the largest web brands (MSN).

Today, Microsoft dominates almost every aspect of home computing. It is so big that all the major issues affecting PC users are largely related to Microsoft. Of these issues, security is perhaps the largest. In 2002, Bill Gates declared security to be Microsoft's new top priority as computer viruses and 'worms' continued to target Windows and other Microsoft systems and applications. However, a year later Forrester Research found that 77 per cent of security experts said Microsoft products remained insecure.

Where others would see a threat, Microsoft saw an opportunity, and – in a typical Microsoft irony – its own branded security products were soon capitalizing on the growing market for security products.

Microsoft's domination of the software market is so heavy that security worries don't deter PC users. Or rather, they can't. After all, the decision to use Microsoft is not a carefully considered consumer choice. In fact, it's often not even a decision at all. Microsoft has dominated the market by practically *becoming* the market. After all, who needs popularity when customers use your brand without even thinking about it? The company that sells untouchable products has therefore become the ultimate untouchable brand.

Secrets of success

- *Luck*. There is no denying that Microsoft was lucky. If IBM had decided to choose another software company, or had been a bit tighter with its contract, the Microsoft story might have looked very different indeed.
- *Evolution*. Microsoft has evolved with the history of personal computing. When it started in 1975, it concentrated only on

developing programming languages. Today, it is a software company encompassing everything from operating systems to web applications.

- *Licensing*. By licensing its software to various companies it was able to broaden its base and establish its operating system as the industry standard.

Fact file

Website: www.microsoft.com

Founded: 1975

Country of origin: USA

Brand fact 1: The Microsoft corporate statement is 'Microsoft is the worldwide leader in software, services and solutions that help people and businesses realize their full potential'.

Brand fact 2: Bill Gates was a college drop-out. He is now worth over $40 billion.

Brand fact 3: In 1995, Microsoft Windows 1995 became one of the best-selling products of all time – helping the PC move into 250 million homes and businesses.