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'Equity' Brand: Evolution of a Brand From Stock Market

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Brand Management has been primarily the job of marketing specialists, because brands have so far been seen in context of consumer markets. Many companies have been known for their product brands in the consumer markets but its time now to clearly recognize a company's markets other than consumer market. Hence, a company must have a brand, which appeals to all its markets including consumer market, stock market, human resource market and supplier & intermediary market. Corporate brand generally evolves from one of the above mentioned markets. In this market it gains strength and then starts appealing to other markets. With economic revolution in India, stock markets are fast moving towards maturity making the companies look at brands in context of stock markets.

Brands have started evolving from stock markets. A brand thus evolved is referred to as an *'equity' brand* by the authors. The *'equity' brand* can strengthen the corporate brand very easily as it shares a common name with the company, which in turn can be leveraged in other markets relevant to the company. This article attempts to clearly define what authors call *'equity' brand*, evolution of *'equity' brand*, its relevance to other markets including consumer market and the strategies for the companies to build, nurture and exploit this equity. The article focuses on; 1.Various markets & relevant brands of a company and concept of equity brand, 2.Evolution of equity brand in the stock market, 3. Significance of equity brand to markets other than stock market, 4. Building an equity brand

Introduction

The central objective of any business is to create value for shareholders. A survey conducted by Business Week concluded – “The fundamental task of today’s CEO is simplicity itself: Get the stock price up, period”.[1] The key to creating shareholder value, in today’s competitive markets, is to possess differential advantage, either in quality or in price. Whether a firm is able to achieve such a differential advantage depends on the effectiveness of its business process. To possess a superior business process, it is essential to have access to the necessary resources and the ability to co ordinate them effectively. Resources can be divided between intangible and tangible assets. In the year 2000, tangible assets accounted for less than 20% of the value of the world’s top twenty companies.[2] Hence, it can be said that, the most important assets of any business are intangible: its company name, brand, symbols, slogans, perceived quality, customer base and proprietary resources such as patents, trademarks, and channel relationships. Traditionally tangible or balance sheet assets were seen as a firm’s most vital resource, but today investors view intangible assets like firms knowledge, skill and reputation as key to superior business processes.[3] According to Aaker,[4] brands should be a company's most significant intangible asset. The ratio of Market value to book value for the world's top companies averaged 15 and for the fortune 500 companies it averaged 8, implying that tangible assets represented only 5% to 12% of a company's total assets. Brands form a part of the intangible asset base that drives the firm's core business process.[5] A research conducted by McKinsey revealed that companies with strong brands consistently earn 2 to 5 percentage points higher total returns to shareholders than their industry counterparts. Part of this higher return is attributable to better current performance, but much of it is explained by higher expectations of future performance as a powerful brand is leveraged into new channels, geographies, and businesses as Disney, Gap, GE, and others have demonstrated.[6] In another study conducted by Citibank and published in Financial Times, it was found that companies with well-known brands outperformed the stock market average by 15% to 20% over a 15-year period.[7] Thus, it is clearly established that brands of a company influence its performance in the stock market.

The creation and maintenance of brands is becoming more and more important in today's intensely competitive environment. Traditionally, brands have originated, evolved and appealed to consumer markets because basically brands were created by marketers to address the needs of different customers in different segments. However, with growing importance and wider appeal of other markets, especially resource markets such as Capital Market, Labor Market and Suppliers & Intermediaries Market, authors believe that brands can evolve from these markets too.

Also, there has been a marked change in the approach of firms towards branding, while previously they used to concentrate on building product brands, now-a-days firms are concentrating more on building corporate brands. Even P&G, who have been known for their product branding strategy, are concentrating more on corporate branding.[8] An interesting study[9] conducted by the marketing council in 1995 surveyed about 370 senior executives in United Kingdom and asked them to rate the companies on the basis of their perception about the historical importance of the corporate in Business. The top four were: P&G, Unilever, Coca

Cola and Mars. Three of these companies are chiefly known for their brands and not as brands. The same respondents when surveyed recently rated different companies for present day importance and they were: Virgin, British Airways, Tesco and Direct Line. All these are brand names and not just corporate names. In the Indian context, Infosys Technologies, Reliance Industries, Wipro, Satyam Computers, Global Telesystems are among the fifty most actively traded securities during the year 2000 – 2001,[10] in the capital market segment of the National Stock Exchange. Again all these are not just company names but Corporate Brands. And it can be said that these brands have primarily evolved from the stock market. In this paper, the authors examine the process of evolution of brands from the stock market and their influence on other markets.

Company, Markets and Brands

A company can have several identities, each different for its different audiences. These identities represent a promise by the company to deliver the benefits to the relevant markets. The target audience in each market is different and so is the benefit perceived by each of them. (See Figure (i) annexed)

Figure (i) indicates that different brands of a company appeal to different markets and the values conveyed by each of them, like product brands appeal to consumer market, VCM (Value Chain Membership) brand to supplier & intermediary market, Employer brand to human resource market and 'Equity' brand to stock market. Some companies have all the brands using the same corporate brand name, but most of them have different names for brands appealing to different consumer markets. Authors believe that irrespective of whether the name is identical or not, the perceived image of a brand and its associations are different for different audiences and hence every company would have all the four brands mentioned above.

Product Brand is the name associated with one or more items in the product line, which is used to identify the source or character of the items.[11] In order to target different segments with different offers of the same satisfier, companies have multiple brands in the same category. These brands are promoted independently to different target segments. Some brands, in the process, become powerful in terms of awareness and preference in the larger consumer segments. They eventually influence the identity of the company itself. In order to transfer the equity of product brand, some companies change their names to the product brand names; for example, Pioma Industries Ltd. became Rasna Ltd. and Sanskrut Comforts Ltd. became Symphony Ltd.

Employer Brand establishes the identity of the firm as an employer. It encompasses the firm's values, systems, policies and behaviour towards the objective of attracting, motivating and retaining the firm's current and future employees. Employees of a firm are its greatest assets. With ever-increasing competition, attracting good talent to the organization has become difficult. In response to the scarce resources of talent, organizations have turned to a concept called employer branding so as to attract the best talent to their organization.[12]

VCM (Value Chain Membership) **Brand,** according to the authors, is a company's identity as perceived by its suppliers and intermediaries. It expresses the company's goodwill with the objective of enhancing its bargaining power and offering market assurance benefit to its value chain members. With firms continuing to concentrate on core competencies, the trend of outsourcing as a strategy to reduce costs has placed heavy emphasis on the process of supply management. The firm can enhance its supplier's value by focusing the supplier's efforts on specific outcomes. This is a symbiotic relationship. A good corporate brand embodies company values and a promise to deliver the value. The supplier gets market assurance as well as affiliation benefit, whereas the out sourcing company is assured of good quality and low cost.

The 'Equity' Brand primarily evolves from, and appeals to, the stock market. Brands especially of companies in the TMT (Technology, Media, Telecom) segment of the stock market, command considerable awareness, benefits, values, culture & personality in the stock market. These brands definitely appeal to human resource market and can appeal to consumers if they are associated with suitable products in the consumer market. Stock markets today, have become more powerful and command mass appeal making 'equity' brands stronger and since 'equity' brand shares a common name with corporate brand, it is easy to leverage the equity of 'equity' brand.

Corporate Brand has appeal over all its stakeholders in supplier and intermediary market, stock market, consumer market and human resource market. A Corporate brand thus, has several facets; however, the most likely image of the corporate brand would be the one, which is strongest among its different resource markets. According to the authors, it would be this brand, which the corporate brand would draw upon. Brand, which becomes stronger, needs to be associated very strongly with the corporate brand, many times, by a common name. VCM, Equity and Employer brands share a common brand name with the corporate name and hence, image or equity associated with those brands can easily be transferred to create a corporate brand. (See Figure –(ii) annexed).

Over the last decade, the Indian bourses have undergone a sea change. The markets have come a long way from ring based trading to screen based trading and the catalysts in this process were the investors, regulators, competing corporates, market analysts, media and technology. Many Indian companies in their quest for market expansion have also forayed into International Financial Markets. Growth of the stock market in terms of its size, the change in the composition of market participants, the products being traded and the metamorphosis in the trading process have all contributed to the evolution of a brand from the stock market. As a result, the stock markets have become larger, more accessible, credible & involving. Figure (ii) depicts how these factors have favored the evolution of the 'equity' brand.

Mass appeal & Size of Stock markets

Trading volumes in the stock markets have increased many folds in the last 5 years. The daily turnover of the National Stock Exchange during the first half of year 2000 was more than Rs. 5000 crores as compared to a mere Rs. 17 crores. in November 94.[13] With the stock market inching towards maturity, the number of investors as well as the number of institutions involved in the market have increased. In a survey of Indian investors conducted by SEBI - NCAER in June 2000, it was found that an estimated 12.8 million, or nearly 8 percent, of all Indian households representing 19 million individuals had directly invested in equity shares or debentures or both in the financial year 1998-99. The investor households have increased at a compounded growth rate of 22 per cent between 1985-86 and 1998-99.

Accessibility

Economic reforms and technological changes have made stock markets reach out to more and more people. The setting up of National Stock Exchange has been perhaps the most important event in the capital market reforms, which has taken place in the last decade. It was set up with the objective of providing nationwide trading facility for all types of securities and to provide equal access to all investors all over the country.[14] Emergence of business media – dailies, television channels and most importantly the web has made access to information on stock markets very simple. Ever since the beginning of screen based trading in 1994, the BSE turnover increased at 45 percent per annum and NSE turnover has increased by more than 200 percent per annum.

As a result not only has the number of trades increased but also the convenience to trade has increased. Today, stock markets not only appeal to few large investors but also to the common man. The markets have become more accessible even to the rural audiences and it is an interesting fact that the rural investor households have increased at a compounded growth rate of 30 per cent compared to 19 percent for urban investor households, between 1985-86 and 1998-99.[15]

Credibility

There are stricter norms in terms of minimum promoter capital and lock-in period for investor protection. The markets are becoming fully electronic. The dematerialized form of share trading and increased role of Institutional investors, are important developments, which have made today's stock markets more mature. The introduction of rolling settlement system, creation of consumer protection funds, setting up of investor complaints cell, insurance policy to broker members and empowerment of SEBI are important developments towards creating a healthy stock market. The capital market segment of NSE registered a turnover of Rs. 1,10,056 crore with about 122 lakh trades during July 2000. On an average 5.5 lakh trades were transacted during the month.[16] This supplemented by the fact that the number of households investing in the stock markets has increased and that there has been a greater increase in the rural investors indicates higher involvement of the common investor in Stock Markets. Such an enhancement in the role played by the common investor is an indication of the growing credibility of the stock market in their eyes.

Involvement:

Unlike any other market the involvement of an investor in the stock market will be more, because the value of the investment is easily quantifiable. Hence it is being closely watched by all the participants in the market i.e. the investors, media, analysts and the regulators. Be it because of the transparency norms or the concern for shareholder value, companies today disseminate information about their practices, future strategies etc. through electronic and print media.

As seen in Figure (ii) and as mentioned previously, a mature stock market is characterized by high volumes, high accessibility, high credibility and high involvement. As a result, the companies, whose shares trade in the stock market, enjoy increased awareness. Because of the electronic trading mechanism, the stock markets are accessible even from rural centers, hence the brand appeals to a variety of audiences. With the increase in credibility of the stock market in the eyes of the investor fraternity, the reliability of the market's evaluation of a company has increased. As noted earlier, unlike other markets, in the case of stock markets, the underlying asset being money, the involvement of the investor community is very high. In the course of making a decision to invest or not to invest, shares of different companies are analyzed on various parameters. The stock market's evaluation of the performance of a company on various parameters, leads to the building up of what the authors call 'equity' brand.

'Equity' brand - Its Significance in other markets

In most cases, the corporate brand name and the name with which the company is listed in the stock market is the same. Hence, a sustained good performance in the stock market gets very easily translated into corporate brand perception. In the Indian context, Infosys and Reliance are brands, which, have largely evolved from the stock market and hence, can be called equity brands.

As seen in the figure (ii), equity brand leads to enhancement of the corporate brand image. Since VCM brand and Employer brand, share the same brand name with the corporate brand, they gain directly from enhanced corporate brand. The dotted line in the above figure signifies the disparity between corporate brand name and the product brand name in most of the consumer markets. If like VCM and Employer brands, product brand names were the same as corporate brand name, the equity brand would influence consumer markets directly.

Emerging Consumer Markets- Making Equity Brand more meaningful

Following points in context of the emerging consumer markets lead one to believe that corporate branding and hence ‘equity’ branding will be favored in the consumer markets too:

<u>Mass customization</u>

With the emergence of mass customization and one to one marketing, brand proliferation within a company is losing relevance. [17] In such a marketing process, the customers participate in new product development and customized products are developed using collaborative interactions. At Levi-Strauss & Co, jeans offered under their personalization program called Personal Pair is truly customized. Under this program, more than 10,000 jean patterns are being offered.[18] Similarly Dell Computers offer collaborative customization and develop products to suit individual requirements. According to a recent survey, more than 60% businesses in America felt the pressure to customize their offerings.[19] Thus, developing multiple product brands, each catering to different segments may not be relevant for a company. As the media gets more interactive, the dialogue will be between the customer and the company rather than the customer and the product.

Economies of scope

Economies of scope, refers to offering more varieties to few customers as against economies of scale, which refers to offering a few varieties to a large number of customers. Acquiring new customers can cost five times more than the cost involved in satisfying and retaining current customer.[20] A traditional marketer finds more customers for his products, while modern marketers find more products and services for its customer. Success metric for today's marketers is 'share of customer' and not 'market share'.[21] Again, in such a case a consumer would have relation with corporate brand name rather than various sub brands from that company.

Cost of Brand Building

In todays over - communicated society the cost of establishing a name is increasing. Companies, however, need an identity to deal with all its stakeholders. Product branding requires each brand to stand on its own and have its own investment, which in terms of research and development (R&D) and advertising and promotion would prove to be very costly. With little parental support, getting through the stages of brand awareness and acceptance in the market can be highly resource consuming, which is one of the reasons why Unilever is reducing the number of its brands from 1,600 to 400.[22]

If the corporate brand itself can serve the role of liaison between the company and its customer, the need for creating sub brands, which appeal only to the consumer markets, is less felt. Corporate brands have wider appeal and are identified not only by consumers but also by stockholders, employees, suppliers, intermediaries and the Government. Thus, it helps in reducing the cost of brand building.

Apart from these factors, the growing importance of service sector in the economy has made corporate branding, more suitable in consumer markets as generally services are identified with, and chosen by, their company name and reputation. Hence, a company can rely only on corporate brand and adopt blanket branding or corporate brand names combined with individual product names for their products in consumer markets. Thus, on one hand, stock markets have started generating powerful brands and on the other hand, favorable marketing environment is created in the consumer markets to support this phenomenon.

Corporate Governance - Building 'equity' brands

Strong brands, customer awareness, market share and satisfied customers are not ends in themselves but the means to achieve the ultimate goal of creating shareholder value. In the competitive markets, the key to create stockholder value is to possess differential advantage. In most cases product brands are built through marketer controlled stimuli i.e. advertising, merchandising or sales promotion, etc., 'equity' brand as the authors define it, is more susceptible to environmental stimuli. Hype could be generated around the equity brand by extensive publicity, price rigging or announcement of ambitious plans but the effect of this will be felt only in the short run because in the long run the stock market tends to assume equilibrium. So, brand building through the stock market can take place through proper corporate governance, which makes the 'equity' brand less susceptible to environmental stimuli.

Corporate governance is a system by which companies are directed and controlled. The corporate governance system encompasses the structural and behavioral issues of corporate board, as how it should respond to its shareholders, financiers, government and employees. It addresses a large number of issues such as: disclosure in statement of accounts, transparency in dealings, role of the directors, degree of accountability to shareholders, lenders and overall public good (concern for environment, conservation of resources etc.).[23] In a study[24] carried out in 1996 by Mckinsey & Co. and Institutional Investor Inc. covering institutional investors, CEOs and senior executives, it was found that most of the respondents agreed that they would pay more for well-governed companies. The average premium specified was 16 percent. Good governance, therefore, would result in higher valuation due to reduced risk perception.

The rewards of good corporate governance go much beyond these; it affects the human resource market, which will result in the best talent being drawn to the organization. Customers and suppliers will take pride in associating themselves with such a company. Communities will cherish to have good corporate citizen in their midst. Good corporate reputation, management effectiveness, new product development and market position among other things affect the stock price and hence the valuation of a company. The earnings and stock price in turn also affect the corporate reputation.[25]

The stock market takes a holistic view of the planning, implementation, performance and governance, of the corporate strategies. The information that comes to media or the common investor is already discounted by the stock market. Hence, it can be said that the stock market can act as the barometer of performance, as well as the harbinger of things to come as a result of the strategies adopted by the management of the company. Credibility thus built must be communicated to the relevant publics through a well-planned public relation exercises and transparent information supply to the shareholders.

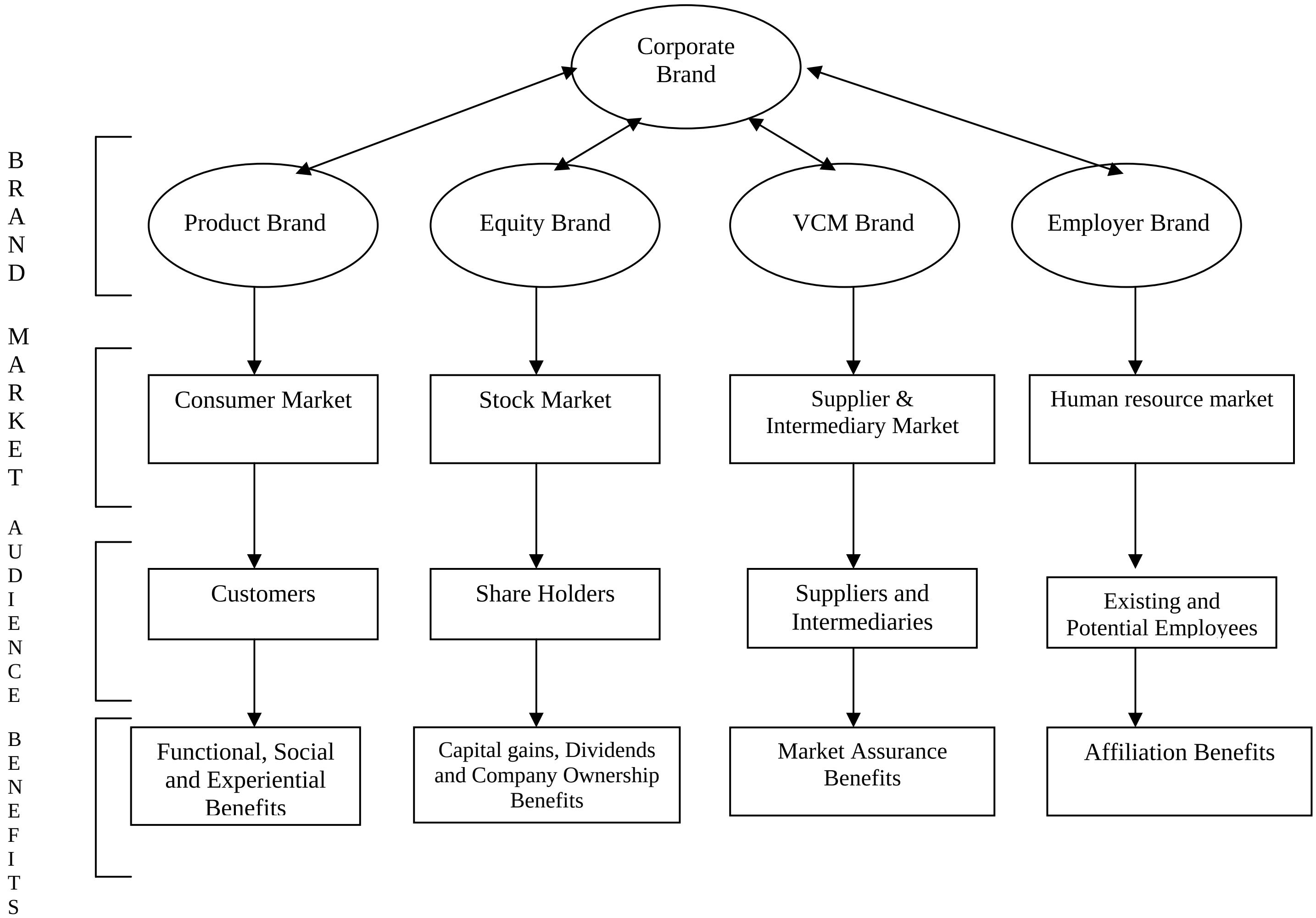
Conclusion

Brands, when integrated with the firms' other tangible and intangible assets, help the firm to achieve differential advantage. The perceived image of a brand and its associations are different for different audiences in different markets. As a result, every company can be said to have four brands viz., Product brand, Employer Brand, VCM brand and Equity brand, which in turn contribute to the image of Corporate Brand. The model proposed in the article argues that, brands are not only built in consumer markets but also in stock markets. Brands have started evolving from stock markets. A brand thus evolved is referred to as an *'equity' brand* by the authors. The *'equity' brand* can strengthen the corporate brand very easily as it shares a common name with the company, which in turn can be leveraged in other markets relevant to the company. A consistent good performance in the stock market helps the company to build an '*equity*' brand, which subsequently has an impact on other markets, including consumer markets.

Among other things, it is the developments in information technology, the changes in composition of market participants, the changes in the trading and settlement process as well as the introduction of more sophisticated risk hedging instruments, which increased the information, as well as valuation, efficiency of the Indian stock markets. Thus, it is argued in the article that the Indian stock markets have become mature enough to evolve a brand – 'equity' brand. Changes in consumer markets favor branded house more than house of brands and building brand in stock market can build a corporate brand which can appeal to the most markets of a firm. To develop an *‘equity’* brand, a firm should try to develop good corporate culture, which in turn asks for good governance. The company values, business principles, management practices, ethical standards, stake holder relationships (employees, unions, stock holders, vendors and communities in which it operates) traditions maintained by the organization etc are factors which determine the corporate culture.[26] These soft factors are difficult to imitate and hence enable a firm to differentiate it effectively.

Moreover, it is cost effective to have one brand, which can easily appeal to all the relevant markets of a company than building a brand portfolio. The present study is a theoretical proposition, in its current form the model suffers from limitations under certain circumstances. Future studies could look into further refinement of the model as well as empirical validation of the same.

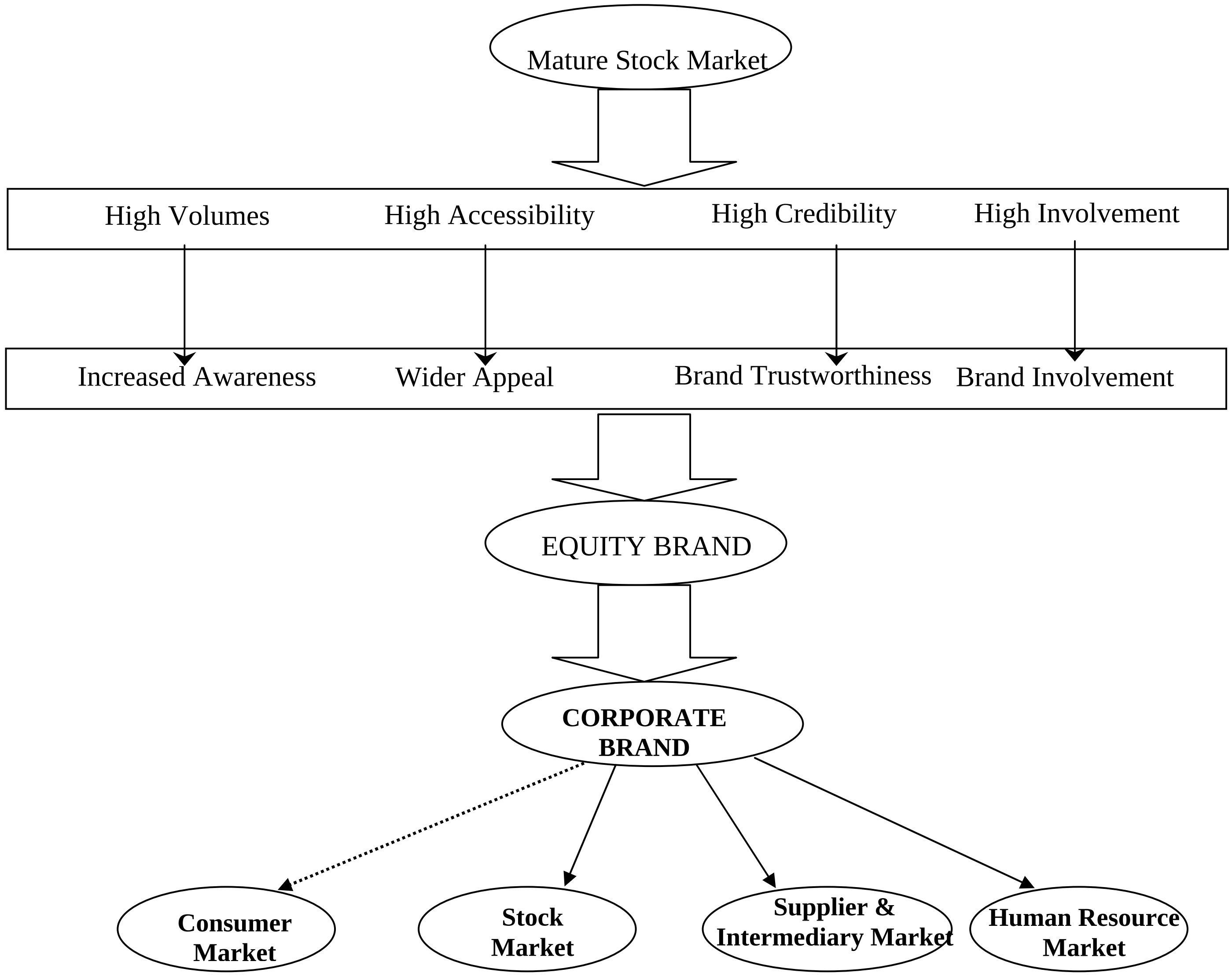
Figure – (i)



Brand - Benefit Model

<u>Figure – (ii)</u>

Stock markets - Evolving the 'Equity' Brand



The ‘equity’ brand evolution model

End notes:

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