NATIONAL ASSOCIATION OF ELECTRICAL DISTRIBUTORS

The Future of Brands

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Session Topics

- ➔ The Nature of Brands
- ➔ Future Forces
- ➔ Implications For the ED Channel

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- ➔ **The Nature of Brands**
- Future Forces
- Implications For the ED Channel

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What Exactly Is a "Brand"?

A *simple* word, phrase or symbol that evokes a value proposition in the mind of an individual

- A "value proposition" means understanding what you will get and how much it will cost
- Much of the value may be intangible and emotional

"Products are built in factories while brands are built in the mind"
- Walter Landor, circa 1941

"Branding is about signals"
- Allen Adamson, BrandSimple, 2006

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A Consumer Brand Can Signal…

…what I want others to think about me

…what I will get out of the experience

The most valuable brands are consumer oriented, and the majority of branding and brand marketing work comes from the B2C space, not B2B

BrandZ Top 100 Most Valuable Global Brands 2011

#	Brand	Brand Value 2011 ($M)	% Brand Value Change 2011 vs. 2010
1		153,285	84%
2	Google	111,498	-2%
3	IBM	100,849	17%
4		81,016	23%
5	Microsoft	78,243	2%
6	Coca-Cola	73,752	8%
7	at&t	69,916	N/A
8	Marlboro	67,522	18%
9	中国移动通信 CHINA MOBILE	57,326	9%
10		50,318	12%
11	ICBC	44,440	1%
12	vodafone	43,647	-2%
13	verizon	42,828	N/A
14	amazon.com	37,628	37%
15	Walmart	37,277	-5%
16	WELLS FARGO	36,876	97%
17	ups	35,737	35%
18	hp	35,404	-11%
19	Deutsche Telekom T **	29,774	N/A
20	VISA	28,553	15%

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Question: Do Brands Matter in B2B?

- Do B2B buyers need to signal their wealth or status?
- Are they influenced by the emotions around a brand "experience"?

"If … customers …buy because it gives them a positive emotional experience, then branding is very important. If your customers buy … for purely practical and rational reasons, then branding will not help you"
- Ian Heller, The Ultimate Guide to Brand Differentiation, 2011

"[Brand] has virtually no relevance to B2B complex systems enterprises."
- Geoffrey Moore, blog post, 2006

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Answer: Absolutely!

In B2B, branding is fundamentally about saving time

- A brand offers a shortcut, so you spend less time on:
  - Product research
  - Supplier evaluation
  - Price comparison
- Emotional connections are still important because B2B buyers and influencers are *human beings*
  - They remember traumatic events like delivery and product failures
  - They don't want to look bad
- "Trust" and "relationships" are a big part of a distributor's brand

  They know my business and their products, so I trust them to guide me to the right solution ***[reduce product selection time]***

  They've made "heroic recoveries", so I'm confident they will come through when I need it most ***[proven supplier performance]***

  Our relationship means they won't cheat me on price ***[reduce price comparison time]***

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The Nature of Brands

➔ **Future Forces**

Implications For the ED Channel

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Force #1: More Knowledge, More Power

- Better information: web search, content rich sites, independent ratings
- Dialog: blogs, social media
- Skills transfer: communities and forums (e.g. ECN) , more professional offerings (NAED, AD, UID)
- Improved knowledge *about customers*: business intelligence, CRM

Would your customers still buy from you if they knew everything about you?

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Force #1:
More Knowledge, More Power

Research driven	Brand driven	Channel driven
High cost, risky, customized	Medium importance, meaningful differentiation	Minor cost, commoditized
		
Brand provides ***awareness***	Brand determines ***selection***	Brand ***less relevant***

Lower Information Cost → ← Less Time

Effortless research *reduces* the power of brand inertia

Time pressure *increases* the value of brand "shortcuts"

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Force #2:
Social, Local, Mobile (SoLoMo)[1]

Customers are no longer just passive consumers of a product or service. They help to create it!

Local + Social + Mobile

Solutions are tailored based on time and place

Information can be accessed from anywhere at anytime

1. Coined in early 2011 by John Doerr , legendary venture capitalist at Kleiner Perkins Caufield & Byers

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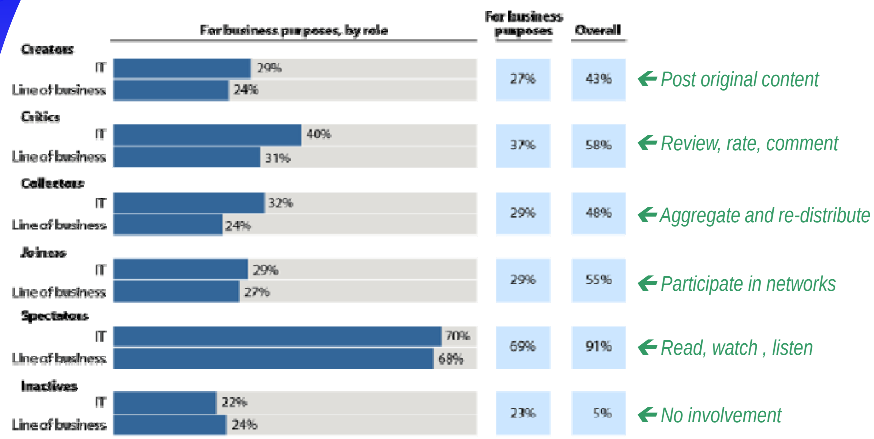
Force #2: SoLoMo Is Real in B2B



Forrester Research 2009, study of 1,217 companies with >100 employees

Other factoids:

- 93% of B2B marketers use social media (MarketingProfs, April 2011)
- B2B customers are ready to speak to sales reps only after gathering ~60% of necessary information (Babcok Jenkins, B2B Summit 2011)
- 4 smartphones are now sold for every 1 desktop computer. (IDC, June 9 2011)

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Force #2: SoLoMo Might Mean…

- Customer interruption sales call don't work because the decision maker is
  - On the plant floor or jobsite
  - Working from home
  - Busy doing research
- The email to the customer service rep is replaced by
  - Scanning a UPC or QR code and getting instant pricing and availability
  - Taking a digital picture of a product and finding an immediate substitutable part using a manufacturer app
- Prime real estate is the highest average user rating on amazon.com rather than the the first page in the "red catalog"

Bottom line: customers exert far greater control over the timing, location and method of interaction with a supplier

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Force #3: Channel Optimization

- o A marketing channel is an interdependent group of firms which delivers a *complete* product
  - – The hot dog is the manufacturer's product
  - – The condiments are the channel services
  - – The customer is buying lunch

The brand experience goes far beyond the "product"

- o Required channel services are defined by the *end customer*
  - – These include: awareness, application support, transaction processing, bulk breaking, bundling, time and place convenience, financing
  - – Partners can be eliminated, services can't
  - – When a different partner can provide the needed service better or more cheaply, the channel ultimately adjusts to do so
- o These adjustments are like the San Andreas fault
  - – There are constant changes in underlying customer needs as products and markets evolve
  - – The channel appears to be stable until the built up forces create an earthquake

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Force #3: Channel Trends to Watch

Manufacturers

- Price to reward market making activity and brand support
  - – A partner's compensation (e.g. gross margin) ideally reflects the value of its services
  - – The size of an individual order and annual spend are no longer the only criteria
- Get closer to their customers
  - – Better data collection and analysis
  - – Value added and post sales support services
  - – Deeper integration of distributor and manufacturer information systems, including sales

Distributors

- Get more focused on their core competency (strategic options)
  - – Customer intimacy with field sales reps, true inside sales reps and multiple touch points
  - – Cost leadership with scale buys, low cost logistics and leaned out sales
  - – Service innovation with product marketing and technical specialization
- Fill gaps in their product lines to maximize their share of their customers' wallets
  - – Non traditional product lines
  - – Customer centric services
  - – Proactive sourcing and re-sourcing
  - – Distributor brands

Ask yourself "would it look like this if we were starting over from scratch"?

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Force #3: Distributor Brand[1] Ledger

- ☺ Far higher gross margins (25 – 50%)
- ☺ Allows us to compete at more price points
- ☺ Enables tighter control over the customer relationship
- ☺ Provides sourcing freedom and flexibility
- ☺ Increases channel leverage and market power

- ☹ Only slightly higher net margins (<5%) due to higher expenses, lower inventory turns
- ☹ May lead to selling on price rather than value
- ☹ Puts the onus on the distributor to build the brand
- ☹ Incurs product quality, liability, IP and recall risks
- ☹ May threaten supplier relationships

Bottom line: success is based creating a genuine brand value proposition and differentiation

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1. Using the term "private label" demonstrates a high degree of internal perspective and brand myopia

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The Nature of Brands

Future Forces

➔ **Implications For the ED Channel**

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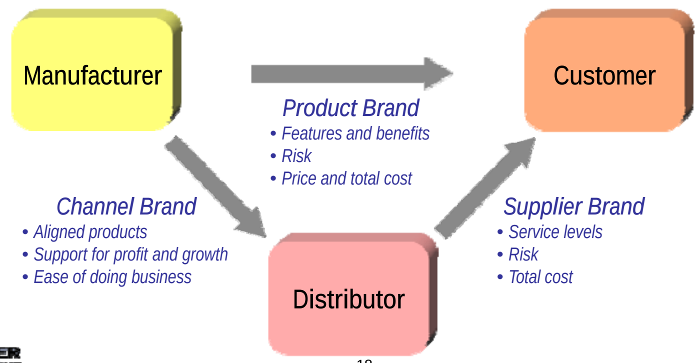
Brand and Channel Implications

- Winners will be those that know most about their customers and position their brands accordingly
- Brands built on ignorance or information walls will fail
- Margin erosion is an indication of failure to provide a true brand story

  Customers aren't getting cheaper, they're getting smarter
- Manufacturers should distinguish between product led and channel led business



The Brand Promise

- The best brands are promise-centric rather than product- or service-centric
- The brand promise is more than advertising copy: it must permeate every customer interaction and be continuously reinforced
- Brand execution has three elements
  1. Setting expectations
  2. Performing to meet or exceed them
  3. Providing a "servicescape" to support them
     - Employee appearance
     - Counter and vehicle appearance
     - Signage
     - Advertising
     - Packaging and documentation
     - Phone system messages

If we don't work actively to create a brand image customers or competitors will create it for us!

Next Steps

1. Make a sober assessment of your current brand position by customer segment
   - ✓ *Use an external third party and collect data, not anecdotes*
2. Evaluate the 3 big trends to identify opportunities and threats
   - ✓ *Best done with a small group of free thinking, market savvy executives*
3. Consider some scenario planning for any high impact outcomes
   - ✓ *Include line manager who are most intimately familiar with the situations and who would be responsible for resulting action plans*
4. Incorporate the findings into your strategy and channel/supply chain planning
   - ✓ *Brand positioning should ultimately be incorporated into every aspect of your business*
5. Develop metrics to track progress on your improvements and provide early warning indicators for key threats
   - ✓ *It's not real unless it's measured*

Thank You!

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