

chapter one

Strong Brand, Strong Reputation

One Without the Other
Creates Imbalance

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The free market system is pure oxygen . . . the
life-sustaining force in business.

Greed, arrogance, and ambition ignite the
destructive behavior in business.

When sparks collide with pure oxygen, there's an
explosion and everyone gets hurt.

Only clear values and a strong corporate culture
can create a true firewall between free markets
and destructive behavior.

In traditional marketing, reputation is simply a dimension of brand. BalancedBrand brings the perspective that brand and reputation are really two sides of the same coin—and represent your complete business. Executives and marketers must understand that while brand and reputation are interdependent, they are not interchangeable. In fact, a brand is a set of promises, associations, images, and emotions that companies create to build loyalty with their customers. Brand is from the inside out. Your company controls your brand promise, position, and attributes.

Reputation, on the other hand, is outside in. A reputation is built on direct experiences, others' opinions, rumors, and third party validation from outside stakeholders and is shaped and formed by your company's and employees' actions, perceptions of your industry, origin, and stakeholder biases. Through BalancedBrand, the ultimate goal is to create and protect both a strong brand and a strong reputation.

Brand is inside out.
Reputation is outside in.

Brand and Reputation

A strong brand is a core element of a BalancedBrand, but it's just the start. Many top executives confuse having a strong brand with having an equally strong reputation. Because their product or service sells well, they presume their customers must love and respect them. After all, the proof is in the revenue numbers. This delusional thinking combined with hubris has led to catastrophes such as those of Arthur Andersen, WorldCom, and Enron.

A strong brand is only the start of a BalancedBrand. Without the support provided by a strong reputation, it can topple easily.

Occasionally, a formerly respected company gets saddled with arrogant or greedy leadership, and, along with SEC hearings, perp walks, and courtroom trials, brands that were once trusted and esteemed fail and die. These failures always involve carelessness with the organization's most precious asset, its reputation.

Immutable Laws

In his book *The 18 Immutable Laws of Corporate Reputation*, Ronald J. Alsop presents the value of establishing, keeping, and repairing reputations.¹ Alsop is a news editor and senior writer at the *Wall Street Journal* with expertise in covering corporate brands and reputations. His book explores how companies such as FedEx, Disney, GE, and The Home Depot have built or destroyed their reputations. What makes his book so relevant is the wide variety of industries covered from a journalistic point of view. Alsop does a terrific job of blending clear, concise stories with a step-by-step practical guide for building and protecting reputations.

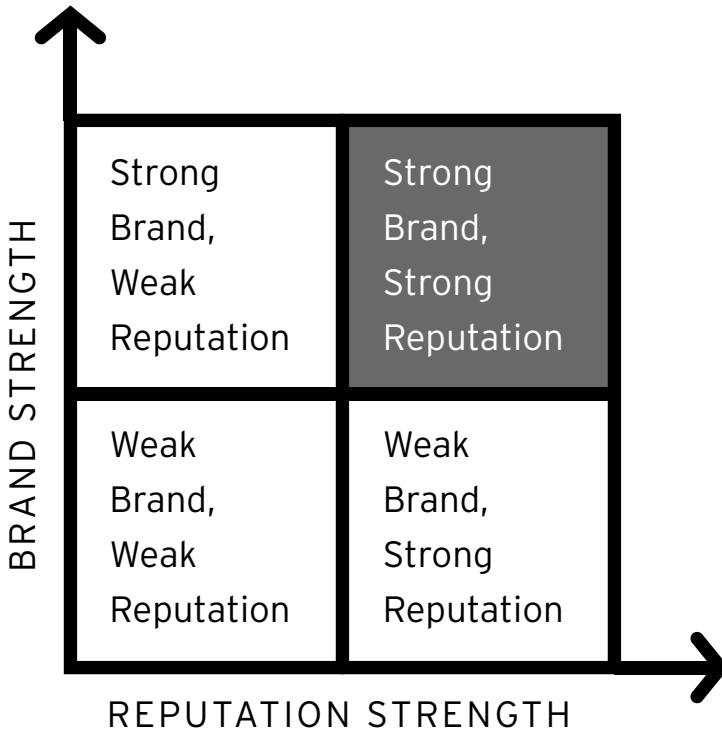
Shifting Brands and Reputations

Brands and reputation shift from strong to weak depending on a company's action and changes in the marketplace. It is easy to believe that these shifts don't exist, because the changes in reputation are often subtle and occur over a long period of time. Occasionally, a major event or disaster erodes a brand or reputation overnight.

Brands can be affected by competition or abrupt changes in customer preference that erode brand strength quickly. The following matrix identifies how brands and reputations work in tandem.

Bulletproof brands and reputations—the ones that seem to grow and prosper year after year—are increasingly rare. There are many obstacles along the path to a strong brand and strong reputation, including market competition, shareholder demands, skyrocketing

Shifting Brands and Reputations

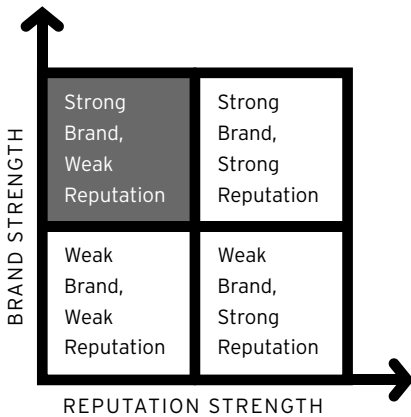


promotion costs, and the sheer velocity of innovation. Customers have also become so jaded that it's nearly impossible to build long-term trust and loyalty. Unfortunately, because Wall Street expects miracles every quarter, many companies feel that time is the one thing they can't spare. If an effort doesn't work overnight, it's quickly dumped in favor of the next "great idea." This continual churning of strategies is why so many companies have trouble executing a viable marketing plan. A lack of consistency is not only demoralizing to the whole organization but can destroy your brand and reputation. With

an in-depth examination of brand and reputation strength, you'll see the interdependent relationships between brand and reputation and how they play out in the marketplace.

Strong Brand, Weak Reputation

More Is Falling Than the Prices



When Sam Walton was alive, he understood that the essence of the Wal-Mart brand was sticking up for the little guy. Walton's positioning of Wal-Mart wasn't simply as a big discount store; it was an ally of its lower- and middle-class shoppers, working to get the best deals for the little guy. His homespun, friendly retailing style helped to turn Wal-Mart

into the largest retailer in the world. More important, Walton also understood that the people who worked at Wal-Mart matched the demographics of his customer base.

Things have dramatically changed. Wal-Mart, being sued by its employees for exploitation, is facing the largest class action suit for sex discrimination in U.S. history.

The Associated Press reported that the company has aggressively fought employees' efforts to unionize. The company has also been criticized by the United Food and Commercial Workers union, which continues to try to organize Wal-Mart workers. Wal-Mart is also struggling with community backlash.

Most prominent was the failed attempt in 2004 to put a store in Inglewood, California, where the retailer lost a referendum that painted the company as an unwanted source of traffic and low-paying jobs.

In response to reported criticisms, Wal-Mart's chief executive Lee Scott went on the offense. On January 12, 2005, the company took out more than 100 full-page newspaper ads outlining the wages and benefits it pays its employees and the good the Bentonville-based company says it brings to communities.

The ad states that the company's average pay is nearly twice the minimum wage, that 74% of its hourly workers are full time, and that Wal-Mart offers health and life insurance, company stock, and a 401(k) retirement plan. Wal-Mart has more than 1 million domestic employees.

Scott said he wants Wal-Mart to overcome its reputation as a company that does not pay well and has minimal full-time workers. "We're taking this time to say, 'Hold on a minute, we have good jobs,'" Scott said.² "I thought it was ridiculous," Scott said of the attention drawn by the Inglewood failure. "We had a record number of stores open this past year . . . [and] this year we will open a record number of stores." Scott said no one source of criticism prompted the new offensive. "I liken it to being nibbled to death by guppies," Scott said.

Mr. Scott may discover the guppies are sharks.

Wal-Mart risks eroding its market position because it seems to lack an understanding of the customer, employee, community, and vendor values that drive relationships and loyalty. Thus far Wal-Mart's efforts to address these issues have resulted in ambivalence in the marketplace. There isn't a clear opinion on Wal-Mart's reputation.

The business question is, how will Wal-Mart's labor practices impact its reputation and sales in the long term?

If you put aside your personal values or business ethics and look strictly from a revenue perspective, the question becomes, Is it cheaper to pay more for labor in order to protect Wal-Mart's reputation? All of the millions of dollars that Wal-Mart has invested in building its brand as "the place with friendly employees and falling prices" are at risk because of weak reputation.

While Wal-Mart has built its business on low-cost labor, economies of scale, total supply chain management, and the best

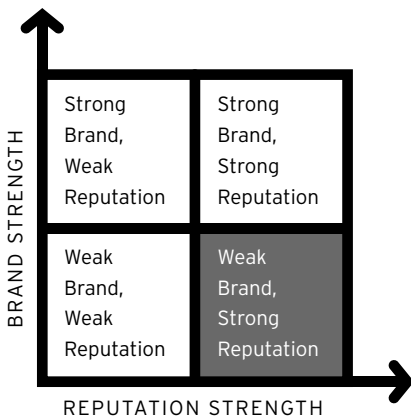
inventory system in retail, their operational excellence has only managed an average net profit margin of 3.4% for the past five years. In contrast, Target has built its business model around values alignment with its customers. Target has built its business model on superior merchandising to customers' desire for design, contemporary shopping experience, and low cost. Target's average net profit margin is 4.3% for the past five years. Target has built a clear brand and reputation advantage over Wal-Mart.

The question remains, how many weak relationships can any company afford to have regardless of size? At last count, Wal-Mart has strained relationships with many of its vendors, employees, and communities. Wal-Mart will be a pivotal test case for the importance of stakeholder values alignment.

[Weak relationships offset the strength
of healthy brands.]

Weak Brand, Strong Reputation

Fender Takes Its Licks



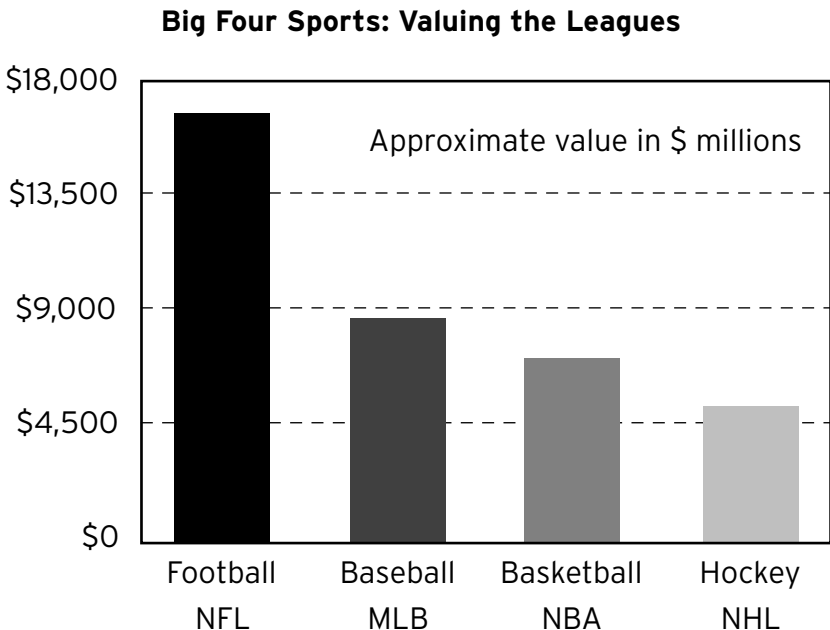
In 1948, Leo Fender revolutionized the electric guitar industry by introducing the Fender Broadcaster, which was quickly renamed the legendary Fender Telecaster. The Fender Stratocaster, launched in 1954, was arguably the most popular guitar ever made. These guitars offered a unique sound that is still sought by rock-and-roll stars like Eric Clapton. Fender

guitar aficionados will tell you that if you want a real Fender, you have to buy one made between 1948 and 1965. That's because after

serious illness in 1965, Leo Fender sold his company to CBS and, in the opinion of experts, ruined the quality of the guitars. Today you can buy an old Fender for up to \$10,000 or a new Fender for around \$300. The Fender reputation has still been able to sustain a weak brand because of its product history, not its cheap, imported knockoffs.

The Brand Has No Teeth

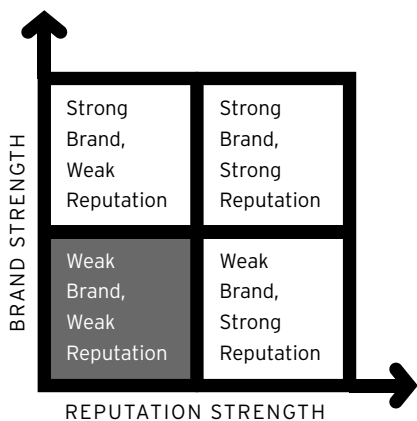
While reputation is enough to carry some companies, the National Hockey League (NHL) is facing a very different problem. The NHL has a very loyal fan base and has traditionally enjoyed a very strong reputation among those followers. The recent player lockout and lost season may have severely damaged the NHL's biggest asset, its reputation. That threat put the league in extreme peril because it falls significantly short in brand value delivery when compared with other professional sports. The league has never been able to garner



the television audience necessary to generate large revenues. The numbers tell the story: the National Football League (NFL) has nearly \$20 billion in deals from various networks. Major League Baseball has more than \$3 billion, the National Basketball Association (NBA) has nearly \$5 billion, and the NHL has only \$600 million.³

And while its followers are loyal, hockey is not a sports brand that has caught on with the majority of Americans. According to this recent Harris Poll, pro football is by far the nation's favorite sport. Hockey was the favorite of only one-ninth as many fans as the NFL, ranking below baseball, the NBA, auto racing, college football and basketball. It's certainly no surprise that no matter how loyal the fans or how great the players, the brand value of the NHL is four times less than that of the NFL.

Weak Brand, Weak Reputation



There are thousands of businesses you've never heard of in this category. They are not well known in the community nor do they have any kind of recognizable reputation. Each year many businesses fail because their customers, employees, and community are underwhelmed by mediocre products or services. Successful companies can also fall prey to Weak Brand

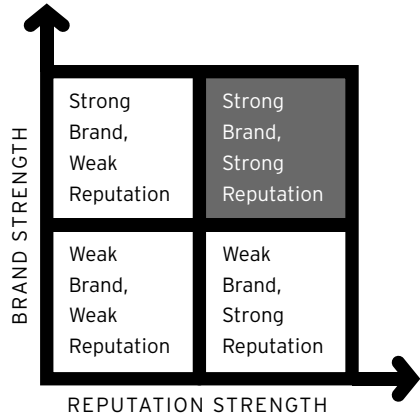
and Weak Reputation.

Kmart, Squirrt, Atari, Wang, and Oldsmobile are all examples of companies that have either gone out of business or are struggling to stay in business because they have Weak Brand and Weak Reputation.

Strong Brand, Strong Reputation

The Famous Blue Box

The most enviable position is to have a strong brand and a strong reputation, although few companies have been able to hold that position over the long term. Tiffany & Co. is one of the exceptions. Tiffany & Co. has been making heirlooms since 1837. With more than 7,000 employees and 100 stores worldwide, Tiffany & Co. has built earnings of more than



\$300 million on sales of more than \$2.2 billion in 2004. Though the company is working through a recent revenue decline, its long-term performance has been nothing short of spectacular. The distinctive blue box was introduced 138 years ago and continues to symbolize world-renowned quality and craftsmanship. Tiffany & Co. built its reputation on such icons as designing a presidential inauguration pitcher for President Lincoln, creating Union Army swords used by Generals Grant and Sherman, redesigning the Great Seal of the United States of America (still on the back of every \$1 bill), introducing the famous Tiffany setting of a six-prong diamond solitaire engagement ring, and designing the Super Bowl trophy.

Since its inception, Tiffany & Co. has been the stuff of legends, including Truman Capote's 1958 classic *Breakfast at Tiffany's*. Not only has it built one of the strongest brands and reputations in the world, but Tiffany & Co. continues to find and cultivate new generations of clientele. In 1974, Elsa Peretti introduced her exclusive silver jewelry collection, which is wildly popular with 18- to 25-year-old women.

From a philanthropic perspective, Tiffany & Co. strengthens its reputation by contributing to and actively participating in local communities where the company does business. Through a culture of quality, service, and innovation, Tiffany & Co. is one of the best-known and most respected brands in the world.

Mining Values Tiffany & Co. Chairman and CEO Michael Kowalski understands the importance of aligning Tiffany's values with its stakeholders.

In an open letter to Forest Service Chief Dale Bosworth, published March 23, 2004, in the *Washington Post*, Kowalski criticized the agency for approving the Rock Creek Mine.⁴

According to the *Spokesman-Review* in Idaho, the proposed mine would extract silver and copper by boring underneath the wilderness area in Montana, which is home to endangered grizzly bears and lynx. It would also discharge wastewater into a tributary of Lake Pend Oreille.

"We're certainly one of the world's largest consumers of diamonds, silver and platinum," Michael Kowalski acknowledged in a phone interview with the *Spokesman-Review*.

"But we've always believed that mine development should respect the environment," he said. "In this case, we believe that the recreation values represent a more valuable resource than the minerals."

Consumers want to buy jewelry with a good conscience, Kowalski said. Tiffany's—long associated with the very best in jewelry—promises that as part of its brand.

"There's an expectation . . . that the precious metals and gemstones crafted into our jewelry were produced in ways we all would be proud of," he said.⁵

Not all of Tiffany's stakeholders were in agreement with the company's position. Tiffany's statement on the Rock Creek Mine, however, shocked the mining industry. The project hadn't been in

the national spotlight before. While permits were issued for the Rock Creek Mine, Kowalski's public position on environmental issues stirred a national debate.

On September 16, 2004, Jewelers of America, the industry trade group representing manufacturing and retail jewelers, announced a new set of standards for social responsibility. The standards reflected Tiffany & Co.'s position on silver mining.⁶

Only the Best Being a world-renowned designer, craftsman, or retail specialist is not enough to be able to work at Tiffany & Co. The indoctrination of all Tiffany employees is rigorous. Each employee is taught Tiffany's values for world-class quality, uncompromising service, and social responsibility. All associates are expected to be able to tie the famous Tiffany's bow that adorns every blue box. Jewelers working in the back room are expected to wear coat and tie as a reminder that they are the keepers of the Tiffany's tradition for making heirlooms for the next generation. Tiffany's focus on changing values has resulted in unprecedented success in their category. They lead their industry with an estimated 19% share of the \$50,000 plus jewelry market.⁷ Their net profit margin has averaged 11.7% over the past five years. Few other companies have been as consistent in living its values as Tiffany. This is the foundation of their greatness.

In the Interests of Patients

Health care is one of the most complex services to deliver. Unlike other businesses, health care delivery relies on a model of both for-profit and nonprofit. Few organizations have been able to bridge that gap as well as Mayo Clinic. The relevance of this example lies in how Mayo has used its values to overcome the complexity of healthcare. Mayo Clinic has been long recognized as one of the best private group practice, education, and research institutions in the

world. Royalty, presidents, the rich and famous, along with another 500,000 people looking for a miracle or the best care available come to Mayo Clinic each year. What makes Mayo so special?

Mayo Clinic has been able to achieve and maintain world-class status through vigilant adherence to its principles and culture established back in 1910 by Doctors William and Charles Mayo. Ask anyone who works in Mayo Clinic what the key cultural value is, and they will tell you, “The needs of the patient come first.” This is a distillation of the vision and values set by Dr. William Mayo. Dr. Mayo identified three principles that he felt were crucial to the future of Mayo Clinic:

1. Continuing pursuit of the ideal of service and not profit
2. Continuing primary and sincere concern for the care and welfare of each individual patient
3. Continuing interest by every member of the staff in the professional progress of every other member⁸

Using these guiding principles, the Mayo care model has built its renowned medical practice based on collaboration, the elimination of financial barriers, and an egalitarian physician and staff model that reinforces teamwork over individual accomplishments. Patients don’t just get a doctor, they get Mayo Clinic. Using their collaborative culture, Mayo is able to tap into some of the world’s most qualified medical experts and specialists to treat each unique medical challenge. Doctors at Mayo Clinic say, “When the going gets tough, I share my stuff.” In other words, they work together to share resources and support each other to deliver exemplary service.

These principles are the foundation for the values and continuous success of Mayo Clinic. With more than 46,000 staff and physicians serving patients each year, Mayo Clinic’s success is predicated on everyone sharing one set of values. As a result, Mayo

Clinic is able to provide the best care to every patient every day through integrated clinical practice, education, and research.

Word of Mouth Mayo Clinic's strong brand and reputation was created through word of mouth. The majority of patients said good things about Mayo after their visits. In fact, 88% of all those who prefer Mayo reported that word of mouth from friends and family influenced their preference. Other significant sources included the media (62%) or a doctor's recommendation (56%).

To deliver the ideal service experience, the Mayo Clinic has developed a patient-centered Mayo Model of Service.

Dr. Leonard Berry, Distinguished Professor of Marketing in the May's School of Business at Texas A&M University, conducted an on-site study of Mayo Clinic's health care services and proclaimed, "Mayo Clinic leverages its core values as effectively as any organization we have ever studied." While studying Mayo Clinic's service, Dr. Berry found that the Mayo brothers' vision and values permeated the entire organization. During the annual weeklong "Heritage Days" celebration of Mayo Clinic, the famous Mayo brothers' quotations, especially those promoting the patient's interest first, appear in high-traffic spaces within the facilities. Mayo physicians are called "consultants" to reinforce the importance of conferring about their patients. Storytelling and repetition are vital for sustaining the values of Mayo's culture. States one longtime member of the staff, "I don't recall a speech or meeting I attended where the core values of the institution were not mentioned."

The cornerstone of Mayo Clinic's care model is the organization's ability to attract team players, according to Berry. Their entire recruiting process focuses on how well a candidate fits within the Mayo culture.⁹ The investment in finding the right employees has resulted in remarkably low turnover rates. The national average turnover for nurses is 20%, whereas the turnover rate for Mayo hospital nurses in 2003 was 3%. Voluntary physician turnover rates at Mayo were less

than 4%. It would be impossible to run an effective integrated, multi-disciplinary health care practice with high turnover rates.¹⁰

Mayo's commitment to teamwork, education, and research ensures that Mayo Clinic will remain in the forefront of medicine. Mayo Clinic is an extraordinary organization that has created a world-class brand and reputation by consistently living their values.

Management of brand and reputation strength is difficult without reliable measurement. In Chapter Two, we examine brand and reputation measurement models that will help you create a baseline for understanding your brand and reputation strength.

Chapter One Summary

Brand is inside out. Reputation is outside in.

Brand and reputation are not interchangeable.

Strong Brand, Strong Reputation

The goal of BalancedBrand is to have a strong brand and a strong reputation.

