BRANDTAXI | Insights

Brands Have Become a Critical Factor in Successfully Expanding into the U.S.

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High growth globalizing companies often find it difficult and unprofitable to enter the U.S. and other developed markets. To achieve the turnover and ROI they seek, they are finding that it is the brand asset that differentiates an offering and drives higher margins and profitability. Particularly for companies in China, India, Brazil and other high growth countries, successfully expanding their global footprint is an enviable objective, but more difficult to achieve than ever. Many seek to minimize risk and expand with a price entry. However, unless corporations recognize and act upon the importance of building strong "brands", they will most likely fail to achieve their U.S. objectives.

Mega-trend shift

The mega-trend shift towards high growth market-based companies who have been successful in their home countries trying to expand to the U.S. is based on sound logic:

- Drive for greater revenues and profits
- Appeal of the large middle class with strong per capita income
- High number of diaspora living in the U.S. that often become the first wave of "acceptors"
- Recognition that the U.S. ensures a stable government and significant economic incentives
- Access to skilled labor forces, technology, and strong distribution channels.

Although nearly one-third of the Fortune Global 500 are now based in high growth markets, only a small percentage have strong operations and revenues accruing from the U.S.; of the 147 high growth companies, only 28 have U.S. annual revenues over $500MM. This is because the barriers are different. Just having a competitive price and a high quality offering is not enough of a reason for success in a saturated market. Price and quality are merely table stakes.

Further, in the past decades, expansion in the U.S. has been largely "brandless" investment growth – high growth-based companies being in the right place at the right time, or being in less saturated markets. But today, there are fewer opportunities and most markets have become very competitive. This drives down profits and impacts ROI.

Brands are a powerful differentiator

Brands have become the primary differentiator and a way for companies to garner the attention of customers, consumers and the trade. Successful companies have learned how to "harness the power of the brand". One of the most visible examples of differentiation creating engagement and loyalty is the Apple brand. The company spends heavily on understanding and communicating its brand, and is therefore able to enjoy margins that its competitors aspire to. Their unwavering brand mantra to "think differently" has shaped a unique offering on the global stage.

There are a handful of high growth-based examples including some well-known names:

Samsung now rivals Apple as a leader in smart phones with a 30% market share and over $20B in profits. Its focus on innovation, an "inspire the world, create the future" aspirational tag line targeted to a young audience as well as superb connectivity across devices and platforms have been integral to its success.

Hyundai entered the U.S. as a cheap vehicle and overcame country-of-origin issues by offering the first power train warranty. The company focused on the design and performance of its cars, differentiated its offering and then spent heavily on its brand. They now have a market cap of $9B, and even offer a premium luxury sedan Genesis for $40,000, inching their way into the high-margin luxury category.

Corona initially rose to popularity among U.S. university students on Spring break visiting Mexico over 30 years ago. Clarity about positioning their brand, extensive advertising campaigns and significant levels of spending to capture the spirit of Mexican beaches and "enjoy the moment relaxing and connecting" have made it the #1 selling imported premium beer in the U.S. with over $4B in sales.

Strong financial returns are the reward
These examples point to the silver lining of creating a strong brand – they can reap huge financial benefits in the form of increased revenues, market share and profits. Building a strong brand not only creates a preference beyond the functional aspects of a product or service, it puts it at the top of the consideration set. Brands establish a sophisticated "relationship" with consumers and become the "reason-why" customers and consumers can engage and the trade channel pays attention.

There are many financial benefits to building powerful brands in the U.S.:

- ***Achieve higher prices and better margins***. Brands help companies separate themselves away from commoditized pricing. Powerful brands provide a rationale for companies to charge more for their products and services. Nike apparel is not purchased for performance characteristics alone. Consumers pay more for the Nike brand because it makes them feel like a professional athlete**.**
- ***Sustain longer-term earnings***. Brands build deep levels of loyalty and therefore sustain longer-term earnings. Brand preference goes very deep. Because brands are essentially an emotional relationship, consumers often return for more. Thus brands keep consumers from wandering.
- ***Raise higher levels of capital***. Brands provide a strong platform for raising higher levels of capital. As a brand becomes successful, public and private sources of capital pay greater attention and develop greater confidence in the certainty of an investment.
- ***Signal to M&A acquisition candidates***. Brands signal a unique value proposition to partners and acquisition candidates that attracts the right kind of partners. They become an efficient way to make the right connections.
- ***Drive innovation and new product development.*** Branded products and services generally carry a price premium of an estimated to be at 20-30% above those of private label, allowing companies to generate better levels of cash to reinvest into the business or introduce a stream of new products. Most often, companies use this excess cash to focus on continual innovation.
- ***Generate additional revenues*** from opening up marketing opportunities. While not apparent, U.S. marketers are always looking for unique ideas to stand apart, and constantly look for new ways to expand their influence. An intriguing and unique brand proposition can stimulate new dialogues and opportunities.

Brand-building is not arduous, but the key challenges must be addressed
Having studied both successes and failures of large global companies trying to enter the U.S., we have isolated the critical challenges so that companies contemplating U.S. market entry can be objective about their decisions. The keys center on six areas companies should address:

- ***Recognize that brands are the driver of preference***. Quality and price are merely the table stakes. With so many parity products and services in a very competitive marketplace, the intangible brand asset has risen to become a most important element in creating differentiation and preference. While product quality and price are very important, they are often not the reasons U.S. consumers pay attention and engage.
- ***Commit to significantly investing in brand-building.*** Unlike the traditional cost management and efficiency of manufacturing, which uses a low cost driver, investing in brand development is critical but expensive, and has to be measured over longer time frames. And it is very hard to build a strong brand without investing in development and marketing.
- ***Address country-of-origin issues***. Some countries have a very poor reputation in U.S., and others have very positive and strong equity. Corporations must deal with how they want to position the source of products and services. For example, it took decades for products from Korea to achieve the quality perceptions they deserved and now own in the U.S. While U.S. consumers may be fickle, these kinds of issues must be addressed head-on.
- ***Adapt the business model***, and strike the right global/local balance. What works in the home country is often not effective in the U.S. Business models may need to be adapted to succeed. Often a key is to clarify the balance of global brand-building vs. local brand development. Facing these questions can help in building a strong brand in the U.S.
- ***Innovate continuously***. Company performance in the U.S. business environment is rewarded by efficiency, productivity and continuous improvement. In fact, because many markets are so fast-moving, innovation is a requirement to stay relevant and viable. Companies that don't continuously innovate become stagnant.
- ***Take a long-term perspective***. While a company should accrue short-term gains, it must also have patience to realize full financial results. It has taken years for Samsung, Hyundai and Corona to achieve their leadership positions and although the time needed is shortening, it will take a similar time for other high growth market-based companies.

Elements of powerful brands
Successful brands share certain characteristics. To build a strong brand, especially in the U.S., there are key areas that must be addressed to build a connection with key audiences and engender trust and loyalty. The rudiments fall into four areas:

- ***Unique and differentiated***. Unless a brand can secure a unique positioning in the marketplace, it has little chance of breaking through. Because so many markets are saturated, finding this unique space is challenging and requires robust analysis and insight.
- ***Credible***. A brand must be credible in its promises. Thus understanding what a company can credibly promise is critical. To do this, management teams must learn to be realistic about their offerings, and not promote a positioning that is unsupportable.
- ***Relevant***. To connect with key audiences, a brand must be positioned in a way that is relevant and meaningful. As opposed to a sales mentality that pushes product at consumers, successful brands are shaped by understanding each important audience and addressing their needs on their terms.
- ***Transparent***. Consumers in the U.S. marketplace have the luxury of selecting from many alternatives. With the explosion of information availability, they are already very skeptical about the messages they receive, whether from governments, the churches, corporations and organizations, and especially companies marketing products and services. Because they can very easily determine what is true and not, a brand positioning must understand the need for transparency in communications. Without it, consumers will turn a cold shoulder.

How to build a strong brand in the U.S.
In order to build a successful brand in the U.S., it is imperative to first develop a clear and powerful strategy. This has to be based on laser-like analysis and thinking so that a market entrant can find a unique and ownable position in the marketplace. Once this is done, a powerful "brand idea" can be shaped. Then a clear road map can be developed to guide implementation. These are the key steps in the brand building process:

- Conduct a market analysis to determine investment levels and requirements
- Identify an available "position" in the marketplace that the brand can "own"
- Rationalize that conclusion against how the brand is positioned in other global/developed markets
- Craft a unique and compelling "brand idea" that will drive communications and behaviors
- Drive the "brand idea" in every application and customer touch point
- Develop a program to enable the employee base to become primary "brand ambassadors"

Developing a powerful brand in the U.S. marketplace is an absolute requirement. Without a strong brand, the chance of failing to achieve objectives is quite high. The good news is that developing a strong brand is achievable… it just requires an organized process with critical insights that can lead to successful entry and new dimensions of profits.

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