

Persuasive Brand Value

AmicusBD Quarterly

The New Frugality



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Amicus **BD**
Brand Dimensions

Truth: We are pretty much over supplied, over retailed, over stimulated, and over spent.

Early visions of a quick v-curve rebound have faded. Now we’re looking for stability in uncharted waters ... maybe a Japanese-style economic malaise – a “lost decade.” Shock, disbelief, despair ... most consumers have yet to connect with their inner-most emotions. The global glut-tony of consumption – the “looking for stuff to buy” – is being swiftly replaced by retrenchment, apprehension, and an all-out lockdown on discretionary spending.

Buckle-up – the fundamentals have changed. The world has changed. Many pre-existing trend lines are accelerating. Example here is the dramatic ramp-up of consumers dropping their landlines for cell-only or IP telephony and bundled broadband services. Nielsen calls them “cord-cutters.”

Call it the new frugality. With striking changes in purchase dynamics and behaviors, we’ve entered a new age of modesty, responsibility, and discovery: discovery of basic needs, risks, alternatives, and self-reliance.

Pragmatism rules. Conserving capital is not only a corporate maxim. It is also the new household budgeting reality. Some consumers have “gone to zero.” Some are trading down. Many are evaluating new alternatives and reprioritizing. Most are reducing their use-frequency and visitation. Wallets are shrinking; yet, for die-hard frugalists, this is a time of plenty.

As consumers re-evaluate their purchases and loyalties, they will similarly challenge their perceptions of the “true value and real benefits” received. Consumers will no doubt focus on real value versus short-term pleasure. It is a moment of truth; and tough decisions are being made –

many with irreversible consequences. New brand relationships will be tried. New purchase habits will result. Yes, some of this will be temporary – but the potential length of this economic down-cycle and return to more prosperous times (3, 5, 8 years) suggests that tectonic shifts could occur in some market segments. The world will not return to where it was.

2009 will be marked as a long, tough year where consumers continually adjust, compromise, and redefine “value.” It is not just about low price. New frugal behaviors will look to stretch budgets, save for really-special occasions, trial new options, and ration the use of premium products. Consumers will demand more knowledge and greater immediacy. They’ll be taking control and be assertive. In support, social networks and information sharing will continue to explode.

Pizza Hut clearly sees an opportunity to grow use-occasions as part of a broader brand narrative. Their new Tuscani-branded lasagna (\$14.99, serving 4 persons) is clearly positioned against the authentic Italian eat-out market ... “restaurant quality delivered.” The brand has also recognized the changing marketing and distribution landscape. In 2008, Pizza Hut unveiled a new *Facebook* application that enables connected fans to order directly from their Facebook page. As a result – with almost 800,000 fans – Pizza Hut is currently the most popular restaurant brand in Facebook (facebook.com/PizzaHut).



Pizza Hut ... expanding targeted use occasions, customer segments, and distribution

The current economic retrenchment will not be a brief detour. We see long-term structural changes. As such, the brand waters will part; some opportunistic brands will strengthen and race forward. Others will shrink or specialize. Many will become fragile, limp along, or fail.

Marketers have become very strategic – seeking guidance and believing very little. Their new priorities: Flatten (... as in organization), speed (... as in everything), engage (... as in consumers, employees, and investors), and new (... as in metrics, economics, and points of value). Our advice: Go buy a new pair of ultra-performance, long-distance running shoes.

For many, the past 3 Q's have been a search-and-destroy for waste, the seeking of alternatives, and a reprioritization of everything. But maybe even more urgent is the need to stand back, gain perspective, and think beyond today's troubles. While we face all-new "truisms," dynamic, well-constructed brands delivering compelling and innovative value will emerge stronger, wiser, and more agile. *Southwest Airlines*, for one, will exploit the languishing economy to continue their expansion into major cities – once the province of legacy carriers.

The New Frugality ... The New Reality – I'm afraid for those brands that are simply retrenching, deconstructing, ignoring, or seeking simple solutions. The orgy of growth that many undertook was not sustainable. It required them to constantly extend beyond discreet customer segments and "excellences" to attract ever-broader markets. In doing so, passionate and sustainable brand values became subservient to corporate growth goals and almost-commodity loyalty schemes.

The new frugality demands that many brands develop all-new economics. This means new metrics, new competencies, and new methods of brand building, marketing, distribution, service delivery, merchandising, etc. This is a very different proposition than cost-slashing. At its core, is a return to reinventing or rediscovering a brand's passion and persuasion. It must be about getting better – not just getting by. For the loyal or prospective customer, *how are you addressing my new realities? Am I still at the center of your thinking, or are you hoping I just won't notice?*

Resilient brands have passions that mirror their target segments' desires, apprehensions, and motivations. Additionally, they take consumers "somewhere they've never been before." That said, brand value is not static. Rather, it is dynamic and always created in the consumer's mind. Everything else (... imagery, messaging, rewards, products, designs, services, etc.) are just signals and gestures along that pathway.

So, in the new frugality, a value brand is no longer that lower-priced offering at the bottom of the feeding chain. Creating differentiated value will be the battleground through this and the next economic cycle.

McDonald's, having rediscovered their persuasive passion several years back, has become an early performance standout in the current downturn. Other strong brands like *Cathay Pacific* have also moved quickly to create and communicate their "value markers." The airline's updated 2009 version of their "All Asia Pass" allows 21 consecutive days of roundtrip travel to (up to) 4 of their 24 Asian destinations. Depending on gateway city, the set price in their new Economy Class begins at \$1,499.

One early learning is that price discounting is no longer the motivational value it once was. This was demonstrated by the 70% "extreme discounting" required to drive pre-holiday sales at exclusive designer stores like Saks and Barneys New York. For a broad swath of the economy, discounting is no longer driving true incremental sales as value dynamics have changed dramatically for a majority of consumers.

As we overlay generational shifting and the traction of new technologies, brand value (... and the delivery of that value) is being permanently altered. As such, brand economics must transform as well.

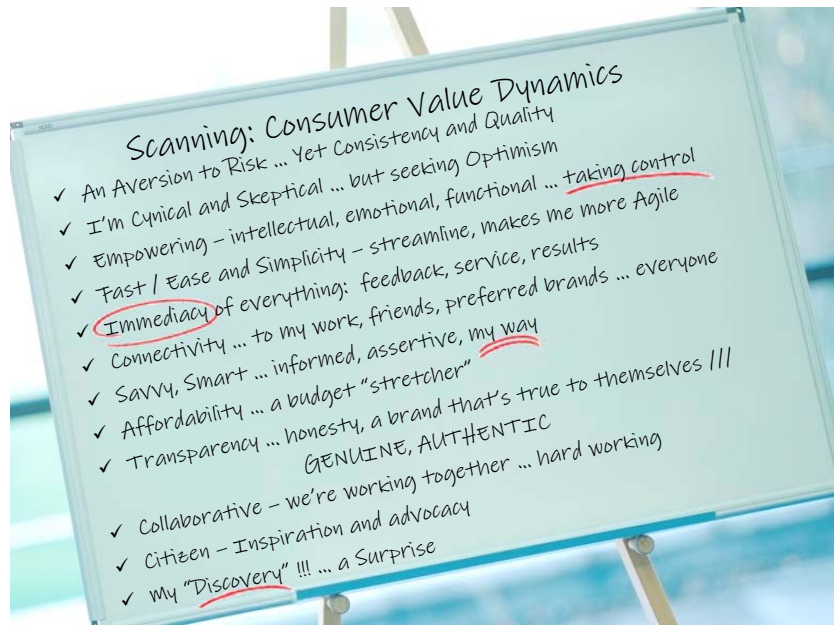
More nimble retailers like *Best Buy* realized this early on; and focused their attention toward new offerings with new economics like the expansion of their *Best Buy Mobile* stores. These occupy less than 10% of a standard 40,000 sf footprint and focus on the still-very-hot mobile market (see more later). What a better time to negotiate and lease space in shopping malls and urban locations! Re-thinking their baseline infrastructure costs, Best Buy is also expanding their "brand signature" with automated, self-serve vending kiosks in major airports. Developed by ZoomSystems, these *Best Buy Express* kiosks sell computer accessories like chargers and storage devices, cell phones, digital cameras, travel adaptors, iPods, and the like.



Best Buy Express and Best Buy Mobile ... changing the brand's economics and merchandising

So with the new frugality, what values, virtues, and affinities remain strong – or are emerging? Maybe not a great surprise, but most are a continuation (... if not an acceleration) of trends already evident. Much of this is generationally driven.

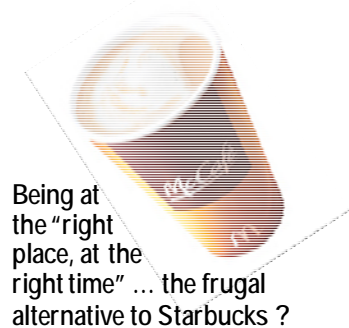
With a new-found aversion to risk, consumers are becoming "savvier." They want to be empowered. They want to take control – be agile. They have a thirst for comparative information. Everything comes with a sense of urgency and a desire for immediacy. Impulse, real impulse, will be severely constrained. It is about knowing the options and the alternatives. It is about making better decisions. Established brand relationships will be tested:



Is the brand as good as it used to be? In these challenging times, how have they adapted ... have they gotten better? What new value and innovative benefits have they created for me? Is the brand mirroring "where I'm at?"

Most brands are quickly tailoring their offerings, sourcing lower-cost alternatives, and adjusting inventory levels. Likewise, there's a dramatic pull-back on selection and fewer new product introductions. Some specialty brands will need to reposition and/or change their narrative. Many poorly capitalized and unfocused brands will limp along for a while – their options unfortunately deteriorating. Speed and simplicity underscore tomorrow's successful brands.

For smart brands, this is clearly a time to be cautiously opportunistic. **McDonald's McCafe** (... currently at 7,000 U.S. units with full roll-out expected by mid-year) seems well positioned against "challenged" **Starbucks** and resurgent **Dunkin Donuts**.



Denny's Super Bowl ad-buy offered free Grand Slam breakfasts on February 3rd – and over 2 million people took advantage. For many it was a first-trial introduction, others a "reconnect," and for loyalists a free reward during hard times. As Denny's CEO Nelson Marchioli notes, *"this free offer is our way of reacquainting America with the Denny's brand. You don't know the real Denny's unless you've been in our restaurants in the last several years, experiencing the quality of our new menu items and our service first-hand."*

So ... the new frugality is not just about low-price. Powerful consumer trends like self-empowerment, global

connectivity, and ramped-up collaboration are accelerating and must be embraced. Sales of **Apple's** up-to-\$300 **iPhone** continue to surge. Why? I think it has much to do with the transformative power of the innovative web 2.0 apps creating an adaptive, next-generation "enabling device."

Especially in tough times, new markets are going to be created. New prod-

ucts, services, and experiences are going to be introduced. We don't yet know the winners and the losers, but sitting on the side-lines (... waiting for all this to pass) is not sane.

Technology, transparency, and generational trends are speeding up. New and lasting consumer realities are being created.

With the introduction of their speedier 3G iPhone (July 2008), Apple enabled the use of open-sourced, third-party "apps." These are dedicated, task-specific programs that deliver an ever-broadening universe of new functionalities, collaboration, and entertainment. The vastness, simplicity, and sophistication of these apps is remarkable. The majority cost less than \$5. Hundreds of new ones appear weekly.

Of the 15,000+ (... mostly built by others) "apps," many extend the immediacy of social brands and social recommendations.

By leveraging the power of technologies like GPS, all-new functionalities are created. The **marcopolo** app displays a dynamic map showing the current location of your iPhone-enabled Facebook friends, as well as driving directions. **CityWatch** enables geo-tagging and sharing of multi-media and text including content from **Flickr** – the largest online photo management and sharing website. **Car Spotter** guides you back to your parked car overlaying the location on highly-accurate street maps (including satellite views) ... and walking directions from where you're standing.

2.0 apps are revolutionizing the way people work, access information, share, talk, and manage their lives. Some encrypt and store personal protected information. Others auto-search and analyze information. Some are as mundane as a carpenter's bubble-level or a guitar tuning meter.

Brands are also moving quickly to leverage web 2.0 applications. Kraft Foods' *iFood Assistant* app is a shopping list organizer and mobile recipe box that comes with 7000 Kraft recipes. New media brands like micro-blogger Twitter are using apps to continually extend their reach and value. Among dozens of Twitter-directed apps, *Twitter-vision*, for example, geo-maps incoming "tweets." *GroupTweet* enables broadcasting within workgroups and other unique private communities. *twInfluence* measures, tracks, and publishes top influencers by Twitter category.



iPhone and web 2.0 apps: tapping global creativity and collaboration to deliver next level empowerment and connectivity.

Apps can also present significant operational challenges. There are already at least three card counting apps enabling players to cheat at blackjack. Two of these even have a stealth mode making the phone appear to be turned-off while the app is in use.

Fundamental change is at hand. Brands must visualize the new tomorrow. Along the way ...

- ✓ Test ... power-up your brand's passion. Make it compelling, make it authentic. Tell a story – one that engages with today's realities and the new frugality.
- ✓ Energize ... consumer benefits that speak to your brand's passion(s). Deliver new solutions and empowerment applications. Answer the question: *what have you done for me lately?*
- ✓ Engage ... customers in your brand thinking. Foster consumer participation and create brand intimacy. Design actionable and interactive listening posts that fuel all brand functions.
- ✓ Break through ... with distinctive brand moments and service touchpoints. Wow !!! your customers in unexpected and simple (... yet ownable) ways.

- ✓ Transform ... develop dramatic new flexibilities, speed-to-market, and consumer immediacy. Create new brand agility and market reconnaissance. Cut your marketing cycle-time (at least) in half.
- ✓ Fill ... the messaging void. Get consumers talking about your brand. Make your storyline come to life.
- ✓ New consequences ... create forward-looking metrics. Challenge historic customer segmentation and valuation. Validate loyalty and relationship costs.
- ✓ Be opportunistic ... remain fluid and shorten ROI scenarios. Take some risks.

There will be a significant realignment of brand leadership in many markets over the next 5 years. The urgency to create and deliver real value (... in the customer's mind) will only accelerate. Everything is on the table.

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The Amicus team pursues a collaborative process that leverages your organization's talents and assets to create buy-in and drive speed to market: **global grand positioning and personality, branded experiences and touchpoints, service engagement culture, distribution channels, and acquisition / loyalty marketing.**

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