WHARTON SEI CENTER

RETURN ON NATION BRANDING

Innovation, Reputation and Economic Prosperity

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for Advanced Studies in Management

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First Edition

1

Countries as Brands

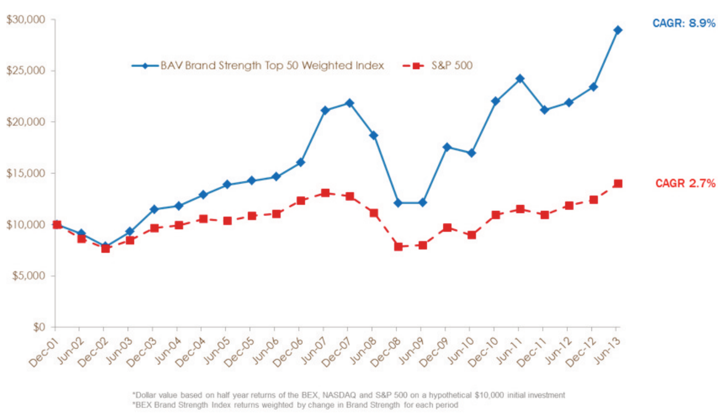
Just as products have images and associations in customers' minds known as brands, so do nations. A nation's brand is the perception of the country, its people, policies, politics, and the products that emanate from there. The question being addressed in this study is the impact of these perceptions on the countries' gross domestic product (GDP), that is, does the perception of a nation directly impact on the financial prosperity of the land?

Proctor and Gamble produces a number of products with which we are all familiar—Crest, Scope, Head and Shoulders, Tide, Pampers, just to name a few. Each of these products have brand names that the company has been more than willing to invest in. P&G spends to create awareness of the brand and drive positive brand perceptions. Why does P&G advertise to help understand that Crest reduces decay prevention? They don't do it solely to make us better informed as consumers. They do so because there is good return to the company if we are aware of Crest and have a positive association with its properties. This return is reflected in P&G's ability to charge a premium price for Crest and/or to create greater volume of sales for the product. Most companies gain significant returns on brand development through a combination of the two.

BAV Consulting, which owns the Brand Asset Valuator® database—the world's largest and longest running study of consumer brand perceptions—has consistently found that investing in brand pays off in financial outperformance. Figure 1 is a chart demonstrating the outperformance of BAV's Brand Strength Index vs. S&P 500 since 2001.

Figure 1

Performance of BAV's Brand Strength Index vs. the S&P 500 since 2001



For purposes of this analysis, we set out to discover if the brand of a nation adds economic value just like more traditional brands do for their companies.

First and foremost, we establish our assumption that countries, just like credit cards, or supermarkets or apparel, can be brands, and that measurable brand perceptions can be applied equally to all types of brands. Just as brands like Coca-Cola can be described as fun, friendly and high quality—so can Australia, Brazil and Italy.

BAV Consulting has been collecting country brand perception data as part of its bigger brand study since 1993, allowing them to more precisely define, measure and understand the impact of country branding.

We know that some nation brand imagery and equity is derived from the products respective countries produce and export all around the world. Germany is well-known for its engineering, and hence, the development of excellent automobiles. Italy is known for fashion. Switzerland is known for banking and watches. China is known for low-cost manufacturing and Scandinavian countries are known for their dairy products. Some products take advantage of their nation's positive brand image by promoting their country of origin. For example, Swiss Army Knives or German engineered BMW's.

This does not always work in a positive direction if the nation is not particularly known for excellence in certain areas. We would contend that the company name Lenovo was created to make it unclear that it is manufactured in China, as the name sounds very un-Chinese. This is probably wise as China today is not particularly known for being reliable and for technology innovation. Similarly, Häagen-Dazs ice cream is given a name that most associate with being from Denmark, and hence, carries a positive association even though it is manufactured in New Jersey, a domain not particularly known for its dairy products, despite the existence of Jersey cows. Both Lenovo and Häagen-Dazs are potentially very valuable assets for both China and New Jersey, respectively, if the connection between each brand and its provenance was clearer; however, the companies themselves see negative brand risk in being associated with the negative attributes of their respective areas of origin.

Associations between nations and their associated corporate brands can shape a Nation's relative competitive advantages. The

United States, for example, is a very powerful brand globally; what Brand USA means to different groups, however, varies. Below is a demonstration of what brands are considered the most "American" by citizens of each country below. Uncovered through personality profile correlations between each brand and "Brand USA" in each respective country, these brands represent bigger picture associations each citizen has with what it means to be American. We can see, in Figure 2, that the Japanese, for example, think of the U.S. as a fun and creative place (Disney! MTV!); this lends itself well to the desire to travel to America for an exciting time. Italy sees the US as more rugged—think Dodge and Dockers—and might also go to the US for some adventures. Brazilians have a more upscale and serious view of the U.S., and might consider it a great place to look for employment.

Figure 2

Nations and their brand images affect many other aspects of a country's economy beyond just their associated corporate brands. There are some countries that are known for their capabilities such as innovation or intelligence/security, as associated with Israel, or for their low cost manufacturing capabilities, as noted earlier, such as China and India. These capabilities could come from human resources—like the well-educated work force in India—or from natural resources, such as oil from Saudi Arabia or Russia or diamonds from South Africa. These perceptions, often borne from reality—but sometimes from incorrect assumptions—can have real outcomes in commerce.

Nation brand perceptions ultimately impact various parts of a country's financial well-being, and in this overview we will focus on three key components: exports, direct foreign investment, and tourism.

Our previous discussion of Germany as a car expert and Switzerland as an expert in financial services relate directly to the export economy. We can say the same about shoes from Italy, beef from Brazil, or electronics from Japan.

Perceptions of nations on dimensions like friendliness, culture, excitement, and traditionalism, and many others, are highly related to people's willingness or desire to travel, and significantly impact a country's tourism economy.

Perceptions of countries on dimensions like creativity, intelligence, and infrastructure establishment all lead to higher levels of direct foreign investment.

Each of the components identified above—exports, direct foreign investment, and tourism are major contributors to a nation's economy as reflected in the gross domestic product, GDP. In the next section we will present our preliminary findings on how important—from a financial standpoint—nation brand equity is to each component. First, we need to better understand how brand equity is measured when it comes to countries.

2

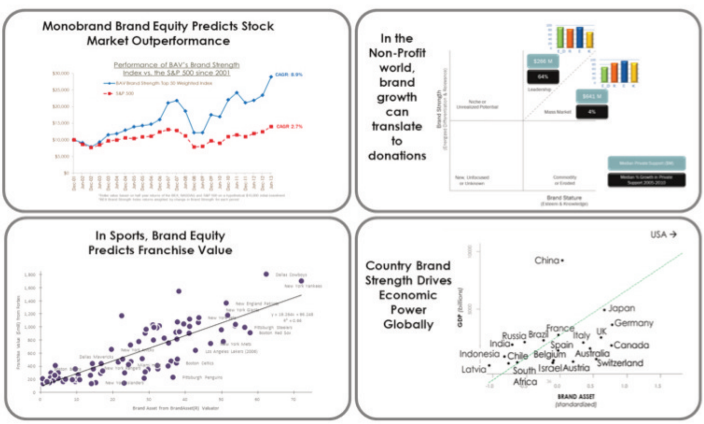
Measuring Country Brand Equity and Its Added Value

We know now that countries are brands just like in the traditional marketing sense. How can we put a value on a country's brand? For this, we turn to the BAV Model of Brand Equity—which was developed in partnership between academics and marketers in the early 1990's and was a revolutionary approach to understanding consumers' relationships with brands (see history of BAV at http://bavconsulting.com/history/ and academic theory at http://bavconsulting.com/academia/).

The BAV Model is based on a standardized survey developed in its inception in which nationally representative samples of consumers globally rate brands in over 200 categories, on a category-agnostic basis, on 72 brand equity, engagement and personality dimensions. Some of the metrics are rolled up into high level brand equity measures, while other metrics are used to better understand the levers that each brand has to use in growth. Typically, these levers are uncovered through econometric modeling, and could differ by category. What is universal, however, is the power of the overall brand to predict financial outperformance, no matter the category; this includes country brands. Please see examples in Figure 3.

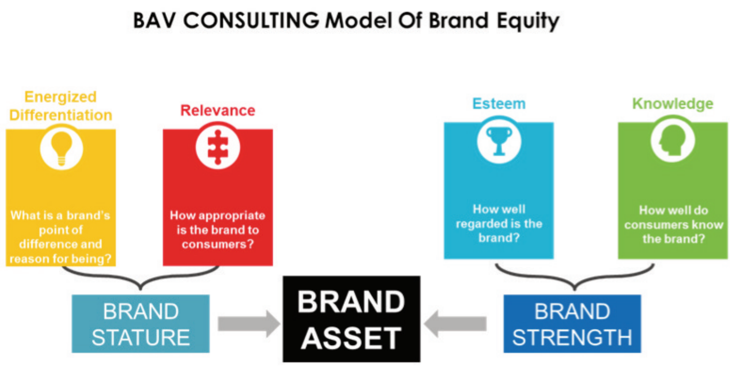
Figure 3

Relationship between brand equity and financial outcomes by category



BAV defines Brand Equity broadly with a metric called Brand Asset. Brand Asset consists of two dimensions: Brand Strength and Brand Stature. These two metrics, in turn, are rolled up from four Pillars of Brand Equity: Energized Differentiation, Relevance, Esteem and Knowledge, as shown in Figure 4.

Figure 4



The most typical metrics used to gauge levers in the BAV Model are the 48 Personality attributes on which all brands, regardless of category are measured (Figure 5).

Figure 5

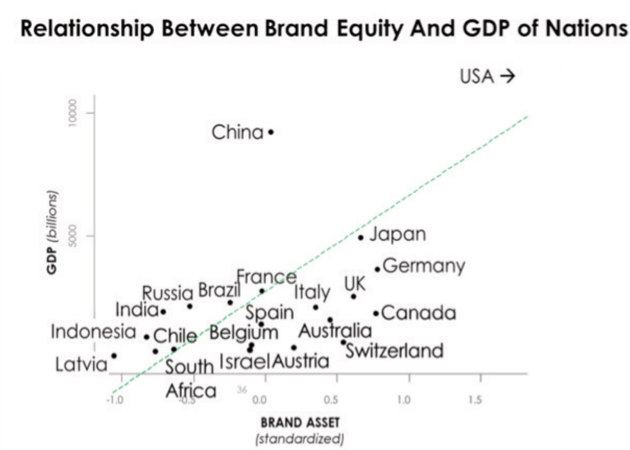
BAV Consulting has been tracking perceptions of Country brands on these dimensions since 1993, with numerous data points collected to date (Figure 6).

Figure 6

In partnership with Wharton, BAV has recently embarked on a large project to better understand the exact relationship between the key financial indicators mentioned earlier, and brand equity.

At the highest level, the relationship between GDP and Brand Asset show promising results, with 62% overall correlation between Brand Asset and GDP (Figure 7).

Figure 7



Further, digging into the key economic indicators we outlined above: exports, foreign direct investment, and tourism—we see the important role that brand equity plays in driving financial results. On average, Travel Spend and Brand Asset are 61% Correlated—with Brand Asset explaining up to 30% of movement in Travel Spend.

While the relationship between Foreign Direct Investment (FDI) and Brand Asset is slightly less strong—with just 49% correlation—an investigation exploring how nations can increase the power of their brand to drive FDI demonstrated fascinating results about the importance that individual perceptions—the levers—play in the process. Countries that are in the top 50th percentile in perceptions of Innovation see a much stronger relationship between their FDI and their Brand Asset. The same goes from brands that are in the top 50th percentile in progressiveness, and in the bottom 50th percentile in being seen as Traditional. The impact on the relationship to Travel and GDP is similar (Figure 8).

Figure 8

Brands That are Seen as More…

	INNOVATIVE	PROGRESSIVE	NOT TRADITIONAL
	DEMONSTRATE	DEMONSTRATE	DEMONSTRATE
GDP	1.09x	1.05x	1.34x
Travel	1.17x	1.14x	1.32x
FDI	**1.21x**	**1.19x**	**1.36x**

…as powerful of a relationship in brand equity to GDP, Travel Spend, and FDI, respectively

We also saw that tourism is two to three times more related to the level of perceived innovation than trustworthiness. Foreign direct investments are also related to the perceived "complexity" of a nation. Complexity also has an impact on a nation's GDP.

The implications are quite interesting. A nation needs to be concerned about its global image. It directly affects the economy. A country should carefully watch to see how it is perceived around the world in terms of brand equity, and make efforts to change the perceptions that impact that equity. Changing course can have a direct impact on their economic prosperity. It quantifies the importance of investing in innovation and exuding perceptions of cultural progressiveness onto the world stage.

How does a nation change its perceptions in the world? That we do not know yet, but it is on our agenda. We are early in this work, but thought it would be good to share what we have discovered to date. We suspect there are many factors that shape a nation's brand. When a nation has human rights violations, there are perceptions that are formed that may affect its economy. When foreign aid is provided to some part of the world affected by a tsunami or earthquake, not only is this the "right" thing to do, but there may also be a payback as the nation might be viewed as friendlier or generous. Or, we often think about the cost of war as the money spent or the number of lives that are lost, but we should add to that the impact on people's view of the warring nation, its resulting brand, and therefore, the implications for the economy into the future. Perhaps, the decision to enter into war will have yet another reason to pause before the missiles are launched.

As noted, this work is in its early stages, yet, we have no doubt that a nation, like any company, has an asset—its brand. It is necessary to monitor how the nation's brand is perceived. It is beyond an issue of national pride, as it has a direct impact on the nation's economy.

3

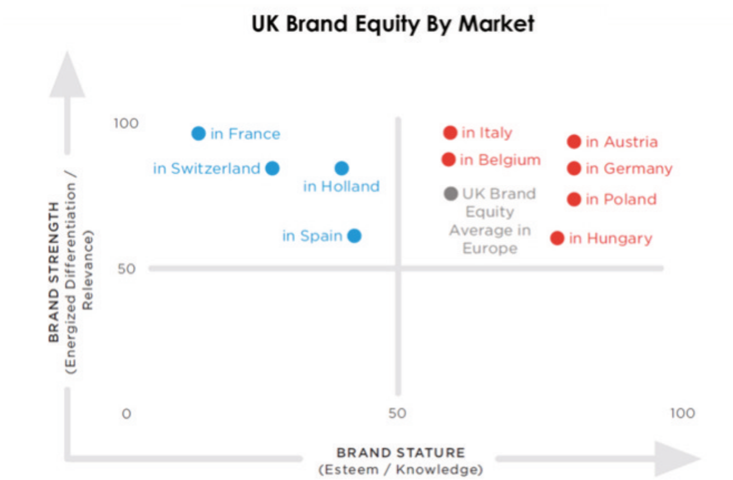
Case Studies

As part of our work, we have looked into specific country brands and situations to assess current equity, perceptions and priorities. Below is a case study of Brand UK as perceived by Europe and a look at what the evolution of Brand India means for its future.

UK

The UK is a powerful brand in the EU overall, but varies in perceptions by market. For example, its high value in Austria and Germany drives overall brand equity up, but there's room to improve in Spain and Switzerland (Figure 9).

Figure 9

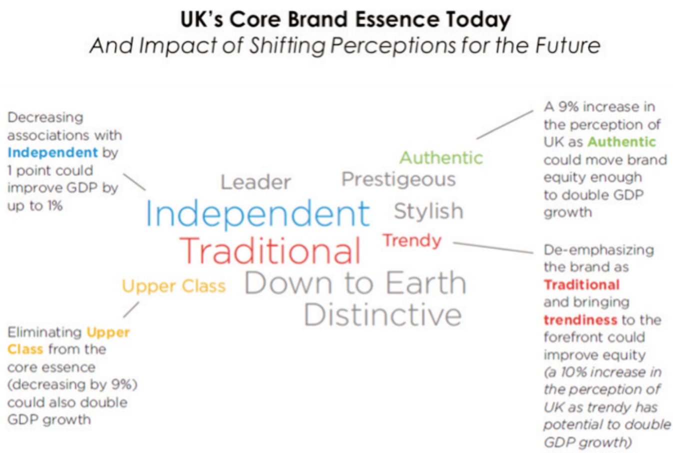


Country Brand Strength Drives Economic Power Globally

Driving Brand Asset up—by growing Brand Strength and Brand Stature—could have significant implications for UK GDP going forward. Looking at brand data since 1993 in Europe, we find that a 1 point growth in Brand Strength could mean up to 6.5% higher annual GDP, while 1 point growth in Brand Stature could mean up to a 2.7% increase in annual GDP.

The question is: what should the UK actually do to drive Brand Strength and Brand Stature? The answer is in shifting perceptions of the brand. Today, the brand's personality profile is quite conservative and closed-off; we find that becoming more open and forward-looking could have a direct impact on GDP. For example, decreasing perceptions of Independence by being more open to its EU membership can soften the UK brand image, and drive better trade relationships. Emphasizing more of its authenticity and trendiness in promotional materials could help drive tourism, and ultimately GDP as well (Figure 10).

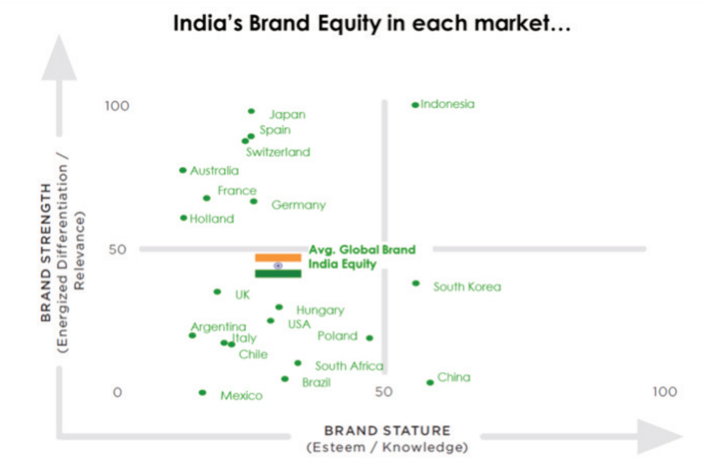
Figure 10



India

India is still a developing brand globally—but with significant potential, especially in the eyes of Japan, Spain, Switzerland and Australia. Possibly because of its proximity, it is seen as an especially powerful brand in Indonesia (Figure 11). Because of its emerging status, there is significant room to shape what India means to the people of the world, and decide how to position the brand. Should India remain the place for outsourcing, due to its educated but economical work force, or should it be positioned as a hub for innovation, or as a prime travel destination—be it for business or spiritual learning?

Figure 11

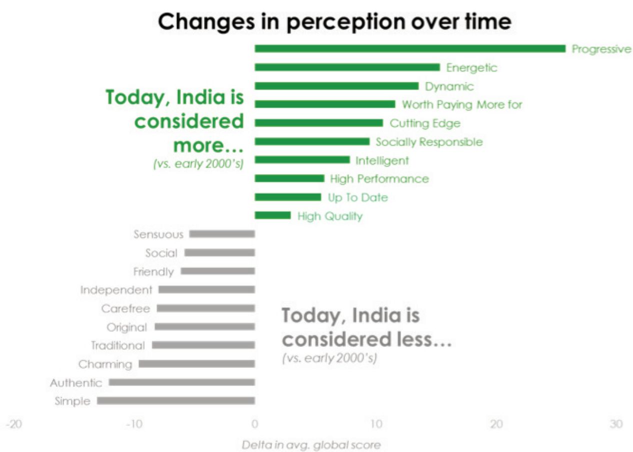


Today, in the eyes of the general global population, India's core brand essence is about its mysterious—and somewhat distant—charm, which could help perpetuate the tourism industry but could also serve as a hindrance from engagement. Evolving the brand to be friendly in a way that is welcoming rather than reserved could bring in both more tourists and more business people (Figure 12).

Figure 12

We are seeing the brand perception evolve in the last decade (Figure 13). The direction is towards a more innovative India that would be more appealing to businesses, the tech center especially. India is being more recognized for its progressiveness, its dynamism, quality and intelligence. While still a part of its core essence, it is becoming more than just tradition and simplicity.

Figure 13


Changes in perception over time
Today, India is considered more…
(vs. early 2000's)
Progressive
Energetic
Dynamic
Worth Paying More for
Cutting Edge
Socially Responsible
Intelligent
High Performance
Up To Date
High Quality
Sensuous
Social
Friendly
Independent
Carefree
Original
Traditional
Charming
Authentic
Simple
Today, India is considered less…
(vs. early 2000's)
-20
-10
0
10
20
30
Delta in avg. global score

Conclusion

We expect Nation Brands—like India's—to evolve no differently than the way corporate brands do, though the evolution might be more gradual. What is important is to monitoring that evolution, and to directing it in the right way. While Yahoo is on its way back to leadership today, its change in a short period of time from an exciting and innovative brand into a more staid brand greatly impacted its bottom line (Figure 14). We expect the same could happen for Nation Brands that remain complacent about their image and do not actively engage in managing it.

Treating Nation Brands just like corporate brands exponentially increases the possibilities for shaping our future as global consumers, and increases the power that governments have to drive success for a sustainable future. We look forward to continuing and expanding our work in this field to better help countries control their destinies.

Figure 14


Evolution in Perceptions of Yahoo
According to Americans
YAHOO!
2001
DARING
DYNAMIC
INNOVATIVE
INTELLIGENT
PROGRESSIVE
TRENDY
YAHOO!
2012
RELIABLE
FUN
TRUSTWORTHY
FRIENDLY
LEADER
SOCIAL
SMIRNOFF
ICE
HBO
COLDPLAY
STEVE MADDEN
PEPSI
Twist
iPod
MAXIM
SNL
SATURDAYNIGHTLIVE
Kodak EasyShare Gallery
Applebee's
the Y
TLC
THE SALVATION ARMY
CRAFTSMAN
BAND-AID
JOHN DEERE
BARNES&NOBLE
Olive Garden
Hotwire
Fx
ADOBE FLASH PLATFORM