The Decline of Brands

Sure, there are more brands than ever. But they're taking a beating—or, even worse, being ignored. Who's to blame? A new breed of hyperinformed superconsumers.

By James Surowiecki

The world, it seems, is disappearing beneath a deluge of logos. In the past decade, corporations looking to navigate an ever more competitive marketplace have embraced the gospel of branding with newfound fervor. The brand value of companies like Coca-Cola and IBM is routinely calculated at tens of billions of dollars, and brands have come to be seen as the ultimate long-term asset—economic engines capable of withstanding turbulence and generating profits for decades. So companies spend billions on brand campaigns and try to indelibly mark everything in sight, from the ING New York City Marathon to the Diamond Nuts cup holders at SBC Park.

Since 1991, the number of brands on US grocery store shelves has tripled. Last year, the US Patent and Trademark Office issued an incredible 140,000 trademarks—100,000 more than in 1983. The average American sees 60 percent more ad messages per day than when the first President Bush left office. A handful of years ago, David Foster Wallace fantasized in *Infinite Jest* about an America in which corporations sponsor entire years—the Year of the Whopper, the Year of the Depend Adult Undergarment. The fantasy seems more reasonable by the day.

And yet there's something strange going on in branding land. Even as companies have spent enormous amounts of time and energy introducing new brands and defending established ones, Americans have become less loyal. Consumer-goods markets used to be very stable. If you had a set of customers today, you could be pretty sure most of them would still be around two years, five years, ten years from now. That's no longer true. A study by retail-industry tracking firm NPD Group found that nearly half of those who described themselves as highly loyal to a brand were no longer loyal a year later. Even seemingly strong names rarely translate into much power at the cash register. Another remarkable study found that just 4 percent of consumers would be willing to stick with a brand if its competitors offered better value for the same price. Consumers are continually looking for a better deal, opening the door for companies to introduce a raft of new products.

Marketers may consider the explosion of new brands to be evidence of branding's importance, but in fact the opposite is true. It would be a waste of money to launch a clever logo into a world of durable brands and loyal customers. But because consumers are more promiscuous and fickle than ever, established brands are vulnerable, and new ones have a real chance of succeeding—for at least a little while. The obsession with brands, paradoxically, demonstrates their weakness.

The single biggest explanation for fragile brands is the swelling strength of the consumer. We've seen a pronounced jump in the amount of information available about goods and services. It's not just bellwethers like Consumers Union and J.D. Power, established authorities that unquestionably shape people's buying decisions, but also the crush of magazines, Web sites, and message boards scrutinizing products. Consumers have also become more demanding: Even as the quality and reliability of products have generally risen, satisfaction ratings have not budged, and in some cases they've actually fallen. Businesses are now dealing with buyers who are armed with both information and harsh expectations. In this environment, companies that slip up—even if it's simply failing to match customer tastes—can no longer count on their good names to carry them through. And consumers have become far more willing to experiment with products, because the amount of information out there makes taking a chance far less risky. By the time you think about buying that digital altimeter barometer, chances are the bleeding edge has already weighed in at Epinions. This gives nascent brands an opportunity to succeed, but it also makes staying power a lot harder to come by. Welcome to the What Have You Done for Me Lately? economy.

Some industries are suffering more than others. In consumer electronics, quality has risen across the board, making product differences harder to discern. Manufacturing has commodified: Most of today's computer equipment, television screens, and stereos are made by a small handful of contract manufacturers and then slapped with a logo before hitting store shelves. That doesn't mean that making a better gizmo no longer matters—offering genuinely innovative products is, more than ever, the best way to capture market share. But savvy consumers are no longer willing to pay a high premium for an otherwise identical product just because it has a fancy nameplate.

Undoubtedly, there are strong brands that can still command a premium. In one recent survey by Landor Associates, 99.5 percent of people said they'd be willing to pay more for a Sony. But the size of that premium is smaller than ever. Five years ago, Sony charged 44 percent more for its DVD players than the average manufacturer. Today, Sony DVD players cost just 16 percent more than the average. And yet, even though the price of Sony's most expensive DVD player fell 60 percent between 1999 and 2003, CyberHome, maker of absurdly cheap DVD players, has knocked off Sony to become the biggest DVD-machine seller in America. Similarly, in the fashion industry, a stronghold of brand identity and obsession, prices fell an average of 9 percent between 2001 and 2003. At least part of the reason is the uptick in private-label sales, which now account for almost half the market. The rise of retailers like Zara and H&M, which make their own cheap but nice designer knockoffs, and the emergence of a high-low aesthetic (in which top designers no longer dictate taste) have weakened the power of fashion brands and fragmented the industry into myriad small ones. Sure, superbrands like Louis Vuitton and Prada can still command a heft price premium. But they're increasingly the exception.

Marketing types either don't see this trend or choose not to talk about it. In the words of advertising legend Jim Mullen, "Of all the things that your company owns, brands are far and away the most important and the toughest. Founders die. Factories burn down. Machinery wears out. Inventories get depleted. Technology becomes obsolete. Brand loyalty is the only sound foundation on which business leaders can build enduring, profitable growth." Similarly, in the new book *Brands and Branding*, Rita Clifton, chair of Interbrand UK, puts it this way: "Well-managed brands have extraordinary economic value and are the most effective and efficient creators of sustainable wealth." These assertions claim that while factories, source code, and patents are ephemeral, brands are real. But in fact, their long-term value is shrinking. They're becoming nothing more than shadows. You wouldn't expect your shadow to protect you or show you the way. It only goes wherever you do.

Look at Nokia. In 2002, it had the sixth-most-valuable brand in the world, valued by the consultancy Interbrand at $30 billion. But the very next year, Nokia made a simple mistake: It didn't produce the clamshell-design cell phones that customers wanted. Did consumers stick around because of their deep emotional investment in Nokia? Not a chance. They jumped ship, and the company's sales tumbled. As a result, Nokia lost $6 billion in equity. How about Krispy Kreme? In 2003, Fortune called the doughnut maker America's "hottest brand." Then came what might prove to be the hottest name of 2004: Atkins.

Annual rankings of brand value are littered with examples of firms that watched billions of dollars in supposed "brand equity" vanish—not because they messed with their identities, but simply because they didn't make a product or deliver a service that people needed. Even genuinely powerful brand association is no longer a guarantee that a company will make money. TiVo has revolutionized television, and even introduced a word into the consumer vernacular. But it hasn't made a dime in profit. In the past year, the company has cut prices sharply to try to compete with the cheap DVRs coming to market from cable and satellite companies. Similarly, Apple has had to continually introduce better variations on the iPod—and cut prices—to fend off copycats.

Marketers aren't completely deceived (or being deceiving) when they argue that customers make emotional connections with brands, but those connections are increasingly tenuous. If once upon a time customers married brands—people who drove Fords drove Fords their whole lives—today they're more like serial monogamists who move on as soon as something sexier comes along. Gurus talk about building an image to create a halo over a company's products. But these days, the only sure way to keep a brand strong is to keep wheeling out products, which will in turn cast the halo. (The iPod has made a lot more people interested in Apple than Apple made people interested in the iPod.) If a company must constantly deliver new value to its loyal customers just to keep them, those customers aren't loyal at all. Which means, save for a few perennials like Coke, brands have little or no value independent of what a company actually does. "Brands have run out of juice. They're dead," says Kevin Roberts, CEO of advertising giant Saatchi & Saatchi and author of the new book *Lovemarks*. "Now the consumer is boss. There's nowhere for brands to hide."

This is all, of course, a bad thing for marketers. A brand is supposed to provide a haven from competition, offering what Nokia CEO Jorma Ollila calls insurance against missteps. But the disappearance of loyalty means that insurance is vanishing, too—which is great for consumers. When companies can't count on their reputations to carry them through, they're forced to innovate to stay alive. The erosion of brand value, then, means heightened competition—and everything we know about economics tells us that the more competition, the better off consumers will be.

The truth is, we've always overestimated the power of branding while underestimating consumers' ability to recognize quality. When brands first became important in the US a century ago, it was because particular products—Pillsbury flour or Morton salt—offered far more reliability and quality than no-name goods. Similarly, many (and arguably most) of the important brands in American history—Gillette or Disney—became successful not because of clever marketing, but because they offered something you couldn't get anywhere else. (Gillette made the best razors; Disney made the best animated movies.) Even Nike first became popular because it made superior running shoes. Marketers looked at these companies and said they were succeeding because their brands were strong. In reality, the brands were strong because the companies were succeeding.

Over time, certain brands came to connote quality. They *did* provide a measure of insurance—which in turn made firms less innovative and less rigorous. (Think of the abominable cars General Motors, Ford, and Chrysler made in the late 1960s through the 1970s—remember the Pinto?—in part because they assumed that they had customers for life.) That sense of protection is eroding in industry after industry, and instead of a consumer economy in which success is determined in large part by name, it's now being determined by performance. The aristocracy of brand is dead. Long live the meritocracy of product.

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