The Business Model IS the Brand

Opening up business models to build lasting brands

Ray Podder [1-March-2004]

By now, we all know that a brand is more than its image or its promise. It is even more than an expectation of performance set by marketers, which constitutes everything from the consumer's experience to the business itself.

Today, price and quality are easy to replicate, so as brand custodians, we invest in creating emotional relevance. However, emotional relevance by service and experience levels is also relatively easy to replicate. Thus, we look to socially responsible measures to elevate our brand over the next, as illustrated by the recent upsurge of cause marketing initiatives (Celebrities against world hunger sponsored by McDonalds, anyone?). So what's next? Maybe the better question is what's always been?

I propose it is the business model. The way a business sustains profitability over time affects all of the processes required to maintain your brand. Everything from the economic model to the labor model to the marketing model ultimately indicates the performance to be expected from your brand, especially, in today's highly media sensitive environment. The inner workings of the Enrons and Parmalats of the world are easily discovered and distributed to public scrutiny exemplifies this factor. Brands with business models that may be unfair, socially reprehensible and self-serving are easily translated to undesirability status. With so many equally compelling choices, do brand parents have any choice but to have business models, which are on their best behavior? So does it not make sense to examine the business model before we focus on the brand's exterior?

Unfortunately, some brands still don't get this. Arguably, I can point out popular brand business practices, which will require modification or even reinvention of their models if they want to avoid undesirability in the long term.

Take the example of current merchant models. The types of brands that aggregate other brands as the merchants of their product offerings. Brands like Expedia and Hotwire that sell hotel rooms from brands like Marriott and Hilton, etc. Or brands like Macy's and JcPenny which sell brands from Nike and London Fog, etc. Basically brands with the current business models that buy in discounted bulk from the brands they carry and resell it back to the brands' own potential customers at price points they (the aggregate brands) can control.

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Today, this idea of "merchanting" may no longer be a sound model. In the brick and mortar cost models of yesterday, this type of commerce made all the sense in the world. But today the business model has to add real value, and information on business process and competition is not only abundant, it's readily accessible. Circumventing the middleman is a few clicks away, and the Internet has made that all too simple. Buy low and sell high is business 101, right? You might think so, yet today models that still operate this way face some restructuring challenges.

In the hospitality industry, contracts are being re-negotiated so that hotel brands can match prices with the aggregator brand, while every effort is being made to drive traffic to the hotel's web site for reservation bookings as opposed to the aggregator's web site. It is a tug of war, one in which customer loyalties seem to be up for auction for whoever is currently selling to them. While the battle for the consumer goes on, deals are being made with the opposing team. It has been said there is a brand erosion, the question is, who's brand is being diluted and why? It seems that both are being diluted like going back and forth on a seesaw, as each tries to force what they believe to be the stronger business model.

Similar movement is happening in the retail sector, as each participating brand invests in more and more elaborate loyalty programs with targeted marketing programs and secret web sites designed to generate business away from the mass retailer. In the financial services sector, the popularity of online lenders and brokers also point to this same phenomenon. People want to know what exactly they are being charged for, and consequently choose brands that benefit them the most by aggregating ideal candidates for their choosing. The music industry might be sending the clearest message of all by artists promoting their own web sites and releasing permission to pay-for-download services as opposed to their label to maximize sales.

So what do these emerging trends mean for the next generation of business models? For one, it is about full disclosure of business practices. Profitability is the lifeblood of any business, but when your customers can see your back office workings, then it also has to be fair and just to earn their business. Today, there are no secrets, at least not for long.

I believe those brands that can enhance the value of the brands that they aggregate just fare better. The recent 53% annual increase in gross sales at eBay, the most unbiased of brand aggregators, is a testament to just that. Brands today can appeal directly to consumers who want them, they have a medium like the Internet to stay relevant with minimum expenditure, and they are less and less dependent on middleman driven sales. Their customers want unadulterated access, and prefer interactions where they can connect directly to them, and they need a platform of trust and reliability to facilitate just that. I believe the next change in merchant business models is about subscription revenue over wholesale profit margins, disclosure over secrecy, and direct access over middleman maneuvering.

Regarding other types of the business models, the discussions are just beginning.
I am reminded of a quote from the 3000 years old ancient wisdom of the Mahabharata:

> ***"A king who is mindful only of the means of profit never succeeds in either merit or wealth"***

In the modern age of brands, brand kings should probably check their business models before this ancient bit of wisdom becomes their current bit of prophecy.

Ray Podder is an entrepreneur, brand strategist and designer with a unique focus to help companies build on ideas that their customers can connect and grow with. With over a decade's experience as a unique thinker, he helps companies develop inventive business cultures to produce stronger brands with leaner use of their resources.