Founder Brands

Managing Intangible Assets from Original Vision to Sustained Value

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The business of meaning

Davis

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1. Introduction: Founders and Their Lasting Influence

Some of the world's most valuable and well-known companies share a common brand trait that has not been explored in depth. Apple, Dell, Ford, Google, Mars, Microsoft, Nike, Starbucks and Wal-Mart, to name just a few, are "founder brands." These are brands where the founder or founding family exercises significant influence over the management of the brand and direction of the business.

In this paper, Davis Brand Capital identifies the qualities that define founder brands and explores some of the challenges in managing them for maximum value.

Founder brands play a critical role in today's global marketplace, and are fundamental to job creation and innovation: more than 35% of *Fortune 500* companies are family owned or controlled, and 60% of all public companies in the United States are family controlled. Of all wages paid in the United States, 65% come from family owned or controlled companies.[1]

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When family businesses do grow into major brands, they are neither well understood, nor particularly well studied, even by brand experts. The most important consideration to date is that by Nancy F. Koehn of the Harvard Business School in *Brand New: How Entrepreneurs Earned Consumers' Trust from Wedgewood to Dell*.[2] Even this fine book is more a business history than it is a deep study of the dynamics shaping founder brands.

Given the economics involved, there is a surprising lack of attention paid to what defines founder brands and how to manage their unique opportunities and challenges effectively. The current focus of brand study generally centers on large consumer brands or on the structural aspects of brand management (e.g., the proper place and role of sub-brands in an overall portfolio). David A. Aaker's work is particularly responsible in this area.[3] Others focus on documenting the rise in importance of so-called personal brands, an idea born from the head of the remarkable Tom Peters.[4]

1. Introduction: Founders and Their Lasting Influence

The intersection of these areas of inquiry seems especially interesting for a meaningful discussion of founder brands. Understanding how entrepreneurship, exceptional brand strategy, appropriate brand structures and personal charisma drive lasting, successful founder brands is of practical importance to any owner or manager of such a brand.

Davis takes a comprehensive view of brand. The firm considers the total collection of intangibles that produce value for a company – with customers, investors, employees and communities – to be its brand capital. Based on more than 15 years of study and client experience, Davis has documented the concept of founder brands in the brand capital framework, and presents it in this paper for the first time.

While a founder brand may be most easily defined as one where a founder or founding family exercises significant influence over the business, the nature of that influence poses important questions when considering issues such as brand image, promise or reputation. Influence might come through ownership, effective voting control, management or a strong deference to history.

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According to the International Finance Corporation, a World Bank Group member, the definition of family and founder owned companies is as follows:

> *"…companies in which the founders or the founders' families have either complete ownership or effective control of the companies and, usually, a significant role in the companies' managements. In many family firms the founder or the founder's family will maintain complete ownership of the company, while in others they will have a legally defined controlling stake. However, in some cases, the controlling stake may be* de facto*, rather than* de jure*, with the family exercising effective control or significant influence, even though a single family bloc does not own the majority of shares."*[5]

The influence of that individual or family can leave an indelible imprint on a brand, its subsequent growth and the ultimate value it creates. To appreciate this point, one need only consider the passing of the inimitable Steve Jobs, or the influence of Estée Lauder and her heirs on the global beauty business.

In other cases, the founding influence can seem eclipsed: when asked to name "GE's greatest leader?" would most answer "Jack Welch"… or "Thomas Edison"? Can most readers name the founders of UPS as quickly as they can FedEx's Frederick W. Smith? "Who founded Delta, the world's largest airline?" may go unanswered, while Sir Richard Branson's founding of Virgin Atlantic is part of business lore.

Davis' aim is to shape a more substantive understanding and guide a more disciplined management around these unique types of brands by highlighting some of their opportunities and challenges.

Iconic founder brands are often the result of the efforts of a supremely charismatic and motivated individual. In that case, the brand and the individual can become one in the public's mind. *Managing to separate the two entities – founder from brand – and ensure the brand's longevity is one of the core issues founder brands must navigate.*

2. Brand Management for the World's Economic Engine

Founder brands make enormous contributions[6] to the U.S. economy, with the greatest amount of U.S. wealth residing in family owned and family controlled businesses. Consider: 80 to 90% of all U.S. businesses are family owned or controlled; 60% of all public companies in the U.S. are family controlled; 35% of *Fortune 500* companies are family owned or controlled. It is also worth considering that the brands on the 2011 *Davis Brand Capital 25* list represent a market capitalization of more than $765 billion.[7] More than 31% of that amount, or $244 billion, results from the seven founder brands on the list. The ranked founder brands are: Apple[8], Microsoft, Google, Toyota, Volkswagen, Samsung and Wal-Mart.

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The founder brands on the *Davis Brand Capital 25* have a market capitalization exceeding $244 billion.

2011 DAVIS BRAND CAPITAL 25

DAVIS BRAND CAPITAL SCORE

BRAND VALUE | COMPETITIVE PERFORMANCE | INNOVATION STRENGTH | COMPANY CULTURE | SOCIAL IMPACT

	COMPANY	INDUSTRY	2010	2009	DAVIS BRAND CAPITAL SCORE
1	**Apple** Cupertino, CA USA	Technology	7	12	180.06
2	**IBM** Armonk, NY USA	Technology	1	1	178.06
3	**Microsoft** Redmond, WA USA	Technology	3	4	172.41
4	**Google** Mountain View, CA USA	Technology	13	11	172.32
5	**Hewlett-Packard** Palo Alto, CA USA	Technology	2	3	171.17
6	**General Electric** Fairfield, CT USA	Diversified	4	2	164.40
7	**Procter & Gamble** Cincinnati, OH USA	Consumer Products	6	9	163.04
8	**Intel** Santa Clara, CA USA	Technology	9	6	160.66
9	**Coca-Cola** Atlanta, GA USA	Beverages	14	16	160.16
10	**Cisco Systems** San Jose, CA USA	Technology	10	5	154.64
11	**BMW** Munich, Germany	Automotive	12	n/a	152.28
12	**PepsiCo** Purchase, NY USA	Beverages	n/a	24	150.08
13	**Walt Disney Company** Burbank, CA USA	Entertainment	20	7	148.03
14	**Johnson & Johnson** New Brunswick, NJ USA	Health Products	25	18	147.64
15	**Daimler** Stuttgart, Germany	Automotive	n/a	n/a	146.45
16	**Citi** New York, NY USA	Financial Services	n/a	n/a	145.52
17	**Exxon Mobil** Irving, TX USA	Energy	19	21	144.02
18	**Goldman Sachs** New York, NY USA	Financial Services	16	n/a	141.15
19	**Nestlé** Vevey, Switzerland	Food & Beverages	15	n/a	139.10
20	**Toyota Motor Corporation** Toyota, Aichi Japan	Automotive	n/a	8	138.87
21	**Volkswagen** Wolfsburg, Germany	Automotive	17	n/a	138.54
22	**AT&T** Dallas, TX USA	Telecommunications	n/a	13	138.26
23	**Samsung Electronics** Seoul, South Korea	Consumer Electronics	8	n/a	136.96
24	**Wal-Mart** Bentonville, AR USA	Retail	5	10	135.41
25	**Wells Fargo** San Francisco, CA USA	Financial Services	n/a	n/a	134.93

2. Brand Management for the World's Economic Engine

All of the ranked companies represent leaders in management of intangibles, including: brand value, competitive performance, innovation strength, company culture and social impact.

Such a holistic view of brand capital provides a truer indication of an entire business' strength, effectiveness and growth potential. Notably, according to a Federal Reserve study, U.S. companies alone invest at least $1 trillion annually in intangibles, roughly equivalent to the $1 trillion invested annually in tangible assets.[9] In 2011, according to Davis' own research, companies excelling in the management of their intangible assets, or brand capital, outperformed the S&P 500 by 9.32% and the NASDAQ by 11.12%. Davis' research also revealed that founder brands outperformed the S&P 500 by 13.53% and the NASDAQ by 15.33%.[10]

13.53

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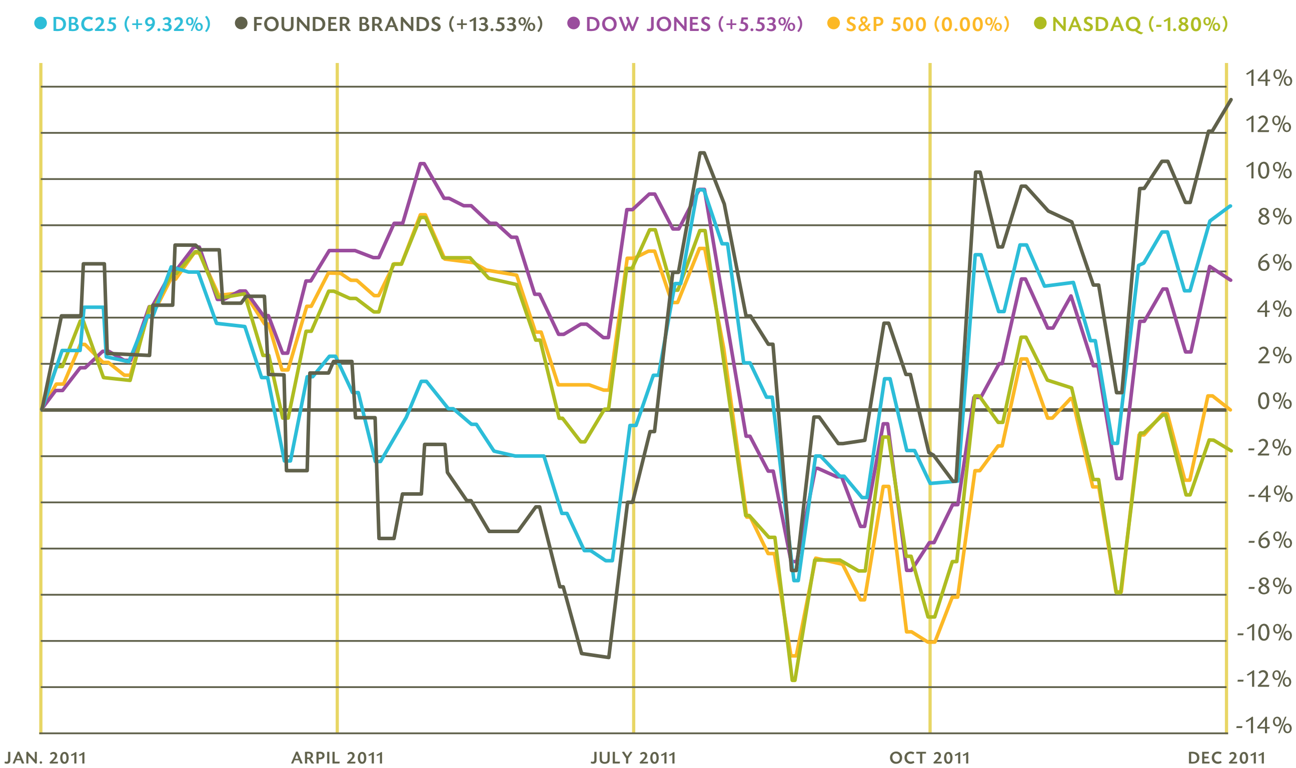

2. Brand Management for the World's Economic Engine

In the following pages, Davis addresses the unique qualities, opportunities and challenges facing founder brands via the five categories of intangibles assets comprising brand capital:

- image and reputation
- business performance and competitive position
- innovation and intellectual property
- cultural and human factors
- social responsibility and impact.

3. Founder Brands in the Brand Capital Framework

Image and Reputation

Management of corporate reputation has become a discipline all its own, and most brand managers consider brand image to be of primary importance. For founder brands, though, image and reputation are not abstract concepts. They are highly personal ideas and ideals – embodiments of the original brand promise made between entrepreneur and customer. This is particularly true if the name of the founder or founding family also serves as the corporate name, or the name of a flagship product.

For founder brands, image and reputation are not abstract concepts.

At least initially, founder brands often benefit from a charismatic and driven leader, as consumers and markets establish a personal, trusted relationship with the brand and the person. However, managing this finite, personality-focused equity can be a major challenge, especially in times of personal, family or corporate crisis.

In the past decade, there have been many such instances. Martha Stewart Living Omnimedia faced not just significant public relations issues when its iconic founder was sentenced to prison time, but also significant erosion of market capitalization as the focus of the brand itself became less certain. Michael Dell returned to his computer company to attempt a turnaround as its marketshare plummeted. Howard Schultz came back to Starbucks specifically to re-establish the brand's dedication to coffee culture.[11] And the world wondered how Apple would survive its founder's untimely passing. But in Apple's case, the naysayers have been proven wrong, at least in the short run. Steve Jobs had effectively prepared Tim Cook. Only 10 months into his tenure, Cook already ranks as the country's top-rated chief executive with a 97% approval rating.[12]

Howard Schultz came back to Starbucks specifically to re-establish the brand's dedication to coffee culture.

Conversely, IBM has evolved into an iconic global brand, even though its legendary visionary surely shaped the company's ideals and lives on in the gameshow techno-celebrity, Watson.

IBM celebrated its 100th anniversary with a manifesto honoring not its powerful founder, but the more universal power of "thinking" that legions of global employees embrace as "IBMers."[13]

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For founder brands, management will be well served to ask if image and reputation are equated with a charismatic leader, conveyed through a brand promise that lives beyond personality, or delivered through a higher ideal that both honors legacy and shapes the future.

Business Performance and Competitive Position

Often immortalized in legendary tales, the early days of a founder brand require a laser focus on business performance to satisfy demand, seize marketplace opportunities and assert a brand's competitive position. Nancy F. Koehn has noted that many of America's great entrepreneurs built lasting brands by deeply understanding shifts in consumer demand ahead of others.[14] Their drive, relationships with customers and novel insights into human motivations produced countless billions of dollars. Recent examples of this phenomenon are mostly technology-driven success stories, such as Facebook and Zappos.

In the best-case scenario, focused success leads to a sustained, clear view of business opportunity and competitive position with the customer remaining central. But this can be difficult for founder brands, especially after some initial success. A sense of personal infallibility when taking on competitive challenges can drive founder brand collapse and ignite corporate crisis.

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Consider, for example, the case of a titan in American industry, who pushed to capture a momentarily hot trend before any competitor. He forced a product to market too soon, refusing to conduct research, test consumer response or undertake disciplined package design. The result? A failed product, carrying a beloved family name.

The relationship between founder and company can be complex. Consider the upward trajectory of Google, led once again by co-founder Larry Page, after former CEO Eric Schmidt seemed to lose focus on the importance of the company's "don't be evil" mission in a major television interview about privacy.[15] Jerry Yang's attempts to right the long-suffering Yahoo, the company he co-founded, resulted in turning him into just one more executive dismissed by a dysfunctional board.[16] Hewlett-Packard had a lengthy and public fight with its founding families[17] as it evolved into the depersonalized technology giant, HP. The road from founding garage to founder brand is not always clear, nor free of potholes and u-turns.

Founder brands that intend to win in the long run and keep hard-earned competitive positions should consider what defines success: customer trust and loyalty, not indulged egos and power-play victories.

Innovation and Intellectual Property

While innovative spirit and entrepreneurial drive are not necessarily hereditary, founder brands are typically stewards of a rich legacy of innovation. In turn, they often own intellectual property (i.e., names, processes, technologies) that are of vital importance to the competitive strength of their businesses and brands. Would Progressive be the powerful founder brand it is today without the invention of its transparent, comparison pricing?

Founder brands are typically stewards of a rich legacy of innovation.

Many founder brands, however, struggle to manage and leverage their past achievements in a meaningful, future-focused way. As they mature, one of two scenarios often emerge: 1) founder brands rely heavily on history as a selling point, rather than leveraging past achievements as a launching pad for future innovations; or, 2) the weight of legacy is so heavy and reverence for the founding history so great that change is considered a risk at best, treasonous at worst.

Many founder brands struggle to manage and leverage past achievements in a future-focused way.

Until recently, Ford was a prime example of these historic traps (and many worry it may be again one day), but for now the company has emerged with the strength of independence on its side. Under William Clay Ford Jr.'s leadership, Ford found ways to leverage its long history and turn it into a future-focused platform through its technology and design leadership.

Undervalued and mismanaged intellectual property assets may also pose a major issue. The most (in)famous of these battles may be the fight for ownership of the Graphical User Interface (GUI), which was popularized by Bill Gates' Microsoft though invented by Apple (after its founder witnessed it in a research laboratory at Xerox's legendary PARC).[18]

Furthermore, in Davis' experience, founder brands tend to undertake innovation projects with extreme levels of due diligence, which can be both a positive and a negative, given a rapidly changing marketplace. According to Joichi Ito, director of the MIT Media Lab:

> *"it is now usually cheaper to just try something than to sit around and try to figure out whether to try something. The product map is now often more complex and more expensive to create than trying to figure it out as you go. The compass has replaced the map, and 'rough consensus and running code' has become the fundamental philosophy for the so-called lean start-up movement."*[19]

Founder brands tend to undertake innovation with extreme due diligence, which can be both a positive and a negative.

For example, the reluctance to embrace digital technology as a business and as a marketing tool, can seem the safer bet to more established brands. Where Kodak was ultimately undone by its own invention, digital photography, Ralph Lauren's son David is turning his father's nostalgia-driven brand into a digital leader.[20] Lauren's feat is especially impressive in an industry infamous for its unease with technology and for a founder brand with the first generation still at the helm.

Portfolio strategy is essential to a founder brand's longevity: it protects the equity in the founder brand, while allowing it to innovate in appropriate ways, so it may connect with a new generation of consumers with different needs and habits.

Cultural and Human Factors

Founder brands tend to be defined by remarkably strong company cultures. How that strength manifests itself is of particular interest. Davis' experiences indicate a range from highly enabled cultures, with teams that are unified by a set of ideals and values, to highly compliant cultures, with extreme levels of "command and control" from the top. Both approaches can produce great degrees of success; the common element seems to be the clear understanding of expectations set by an influential founder.

Founder brands tend to be defined by remarkably strong company cultures.

Founder brands often summarize culture discussion as "being part of a family." And things can get much more intensely metaphoric as well. Consider statements, such as: "if a new person or partner doesn't fit in here, we reject them like a bad kidney." Or: "Diversity isn't our focus; we all bleed the same company colors."

The intensity of founder brand cultures, though, can end up creating not just team dedication, but insular environments in which the absence of the king's clothes is never spoken. It took a grieving mother and the government of the United Kingdom[21] to tell the public and shareholders what was already likely clear to many on the inside: Rupert Murdoch and his children might not be the best choices to run the global media empire he had started.

The intensity of founder brand cultures can end up creating insular environments.

Conversely, founder brand cultures may go the opposite direction of the "all defining" closed systems noted above. Some simply become irrelevant over time, out of deference to the founder's ideals, no matter how times change. This often marks the onset of a period of crisis, and a loss of way in expressing what makes the founder brand relevant to current customers, employees and communities.

Founder brand cultures rise – and may fall – on the vision and spirit of those who brought them to life. Translation of the culture over time, to reach greater and different populations without losing core cultural touchstones, stands as a central challenge for founder brands.

Social Responsibility and Impact

Historically, founder brands have often been particularly effective champions of social responsibility. Ben & Jerry's surely deserves leadership recognition in this area.[22]

> Historically, founder brands have often been particularly effective champions of social responsibility.

During the past 30 years, the corporate approach to social impact has changed dramatically. What began as "cause marketing" grew into "corporate social responsibility." Then came the rise of "social agenda marketing"[23] and the notion of "creating shared value"[24] both of which point to an alignment of business objectives and social initiatives. And now the B Corporation takes social responsibility into the legal structure of corporations.

Patagonia, under founder Yvon Chouinard's vision, became one of the first B Corporations and stands out for its commitment to the environment. The company goes so far as to encourage consumers to buy less of its products when possible.[25] Chipotle and its founder Steve Ells redefined fast food and brought renewed strength to American farming with the notion of "food with integrity."

Consider the example of one major U.S. founder brand, which takes a more abstract approach: the company refuses to make any corporate contributions. Instead, it matches only those chosen by its own employees, regardless of cause, giving 100% of social agenda setting to the people who live and work in communities across the U.S. This would sound – and be – risky to many companies, but the one committed to it believes that such trust is a reflection of its own ability to hire responsible people, not mandate their beliefs or involvement.

On a much grander scale, one might consider the singular generosity of Microsoft founder and chairman, Bill Gates, in his funding of the Bill & Melinda Gates Foundation. While separate from Microsoft, the Foundation reveals the Gates mind at work in familiar ways: finding and deploying solutions to global needs; first in computer software, next in vaccines and other health issues.

While nearly none can match Gates' wealth, vision and commitment, others have built their entire businesses around a social cause. For example, TOM's shoes does not wait to give: its non-profit subsidiary, Friends of TOMS, gives away one pair of shoes for every one purchased.

For founder brands, the original trust connection between entrepreneur and customer very often extends into a broader commitment between brand and community; actively institutionalizing such commitments may help founder brands cement their future success.

4. Conclusion

Founder brands are subject to unique opportunities and challenges throughout their lifetimes. To manage their brand capital for fullest value, a keen understanding of the particular nature of their intangible assets is necessary.

1. For founder brands, image and reputation are not abstract concepts. Some founders return to "rescue" their brands and protect their family names. Founder brands stand the test of time by effectively turning their founder's ideals into operating standards. They must commit to an evolution and codification of their core principles if they are to succeed over the long term.

2. Many of America's great entrepreneurs built lasting brands by deeply understanding shifts in consumer demand ahead of others. However, a sense of personal infallibility can drive founder brand collapse and ignite corporate crisis. The ability to step back and ask what is best for the brand, not the founder, is essential to keeping the hard-earned competitive position and consumer trust.

3. Founder brands often struggle with how best to manage and leverage past achievements in a meaningful and future-focused way. They also have a tendency to undertake innovation projects with extreme levels of due diligence, an approach that may cause them to lose competitive edge even if it limits perceived risk. A sound portfolio strategy helps protect and leverage the equity in founder brands, while allowing it to connect with a new generation of consumers in a timely fashion.

4. While a strong company culture is often synonymous with a founder brand, blind deference to the founder's ideals can render the brand irrelevant as it matures. Translation of the culture over time to reach greater and different populations is a central challenge for founder brands.

5. Historically, many founder brands excel at social responsibility and some have even spearheaded new notions. Founder brands are in a particularly good position to extend the trusted relationships they enjoy with their customers. They can further cement their brand's future success by institutionalizing the implicit contract they entered with early supporters.

About Davis Brand Capital

For more than 15 years, Davis Brand Capital has advised some of the world's leading companies and founder brands on intangible asset management. The firm works across diverse categories, such as beverage, entertainment, finance, industrials, media, retail and technology. Davis consults in the areas of strategy, customer insight, valuation and performance measurement. The firm publishes the *Davis Brand Capital 25*, the only yearly ranking of the companies excelling in intangible asset management. Davis is headquartered in Atlanta, with operations in New York, St. Louis and Washington, DC (affiliate). For more information, please visit DavisBrandCapital.com.

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