

# MICRO-CAP REVIEW

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# BRANDING THE MICRO-CAP COMPANY

■ BY CHARLES ERNST AND EDMUND BELAK

TOO OFTEN MANAGEMENT FAILS TO SEE HOW A COMPANY'S BRAND AFFECTS THE STOCK PRICE. THINKING THAT MARKETS ARE EFFICIENT, MANY BELIEVE THAT EARNINGS ALONE WILL DRIVE THE STOCK PRICE. UNFORTUNATELY IT IS NOT THAT SIMPLE.

**B**uilding brand value is equally important as generating strong earnings. When a company focuses on building strong brands and earnings, its stock performance improves in a more dramatic way. This is particularly true if a brand is well established. Conversely, the stock price of a well-branded company is often more resilient to earnings shortfalls.

## THE NEW BRAND

Today's successful brand requires a new way of thinking. It requires a fresh approach that reaches the emotional and "aspirational" touch points to distinguish a brand from its competitors. Branding is more than the look and feel of a company. Branding is about the way a company does business – from logo colors, products, employee behavior to customer service. It is also about the corporate policies and procedures, employee-to-shareholder communications and corporate governance policies.

A company has a need to distinguish itself from competitors and portray itself as the "solution" in its respective industry. It also needs to be at the forefront of sound corporate policies. Building brand loyalty implies growing a base of consumers and investors who have a strong attachment to a company and its products. The emphasis should be on those constituencies, not the company. This quality distinguishes those companies that are well respected and those that are not.

Once the brand idea has been identified, it is critical to build a recognizable brand and create brand loyalty. This is done through all elements of design, language, imagery and presentation. It is also done through consistent communication to key audiences. A company must earn brand loyalty. Most consumers are willing to pay a premium price if they believe the product or service is superior over others; i.e., true value versus price. For the same reason, investors are willing to pay a higher price for a company's stock. Brand loyalty does not come simply from consumers or investors knowing a com-

pany's name. The process must go deeper and result in the company providing superior customer service and shareholder communications. Customers and investors must recognize the company's excellent service and investor communications, as much as they recognize the company's name and logo.

## What Is a Brand?

**A brand is the relationship between the company and its key audiences that builds loyalty.** A brand should create consumer and investor preference. Each customer and investor should choose a company's brand over another. Strong brands allow companies to charge higher prices and generate higher profits. That is why people pay more for Nikes than Reeboks. Diluted brands hurt the business and lower a company's stock price.

Brands are composed of *functional attributes* (what customers/investors identify with a company's products or services) and *emotional connections* (what customers and investors

believe). A successful brand addresses the *aspirational* benefits of a customer versus merely the *functional* attributes. This is how a company begins to create preference. Creating preference is the true value of a strong brand.

To protect brands, micro-cap companies have to resist commoditizing themselves by competing solely on price and function. This commoditization destroys brand value. Using an emotional connection that rings true for a company is critical. So how does a micro-cap company leverage that powerful brand sentiment to counteract what is typically a lack of float, low trading volume and the lack of analyst coverage? To accomplish this, it is important to conduct research that will define the company's brand and provide a foundation for all of the company's communications. This type of research can identify which professional micro-cap investors may be potential shareholders.

### **Understanding Brand Value**

A brand is about the relationship between a company and its target audiences. It is essential that a company understand what is required to build a strong brand. Long gone are the days when a company can boast the merits of its product and stock price. Today people think differently about brands. Customers tune out traditional phrases such as "new and improved" and "amazing deals," just as investors tune out "a real value" or "guaranteed growth."

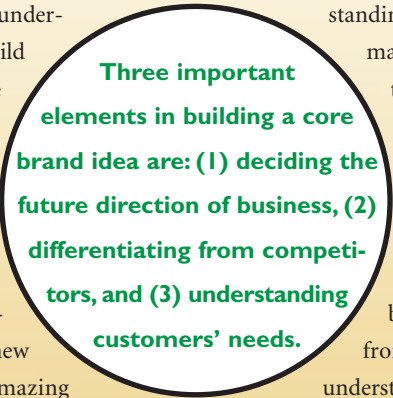
To be successful, brands must answer customer needs at an aspirational level. To succeed over time, a brand should be timeless and classic (Amazon, American Express, Apple, BMW, Coca-Cola, Disney, eBay, FedEx, Gap, Google, Harley-Davidson, IBM, McDonald's, Nike, QVC, Starbucks and Xerox). When a brand is better understood, it will help provide direction for corporate behavior and communications that will resonate with customers and investors. It provides direction for

all communications, such as store design, collateral, signage, advertising, and employee and shareholder communications. In addition, a strong brand attracts people in the financial community – whether they are analysts, investors or financial media. Strong brands are extraordinary sources of value and therefore must be understood and nurtured. Unless a company has a clear view of its brand positioning, it is difficult to capitalize on its powers with audiences.

Thus, understanding the needs of target audiences (customers, employees and shareholders) is critical to effectively market a product or service line. Without these insights, brand initiatives are less efficient and less effective. Knowing the needs of key audiences helps sharpen communications and marketing efforts.

### **THE BRAND IDEA**

Successful brands are built on three criteria: being *unique*, being *credible* and being *relevant*. We shape brand thinking by understanding what is unique in the marketplace, what is credible to communicate and what is relevant to the audience.



**Three important elements in building a core brand idea are: (1) deciding the future direction of business, (2) differentiating from competitors, and (3) understanding customers' needs.**

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### **BRAND EXTENSION**

Once the brand idea is articulated, a company can extend, or "stretch" the brand. This offers ways to capitalize on brand awareness, leverage positive associations and help bolster the stock price. Brand extension allows a company to enter new product categories or into new markets or market segments. For example, a company can take a product targeted to adults and extend it to the teen market, or take a consumer over-the-counter brand, such as a

pain-relief product, and make it available for new categories, such as headaches, night time use or time released versions. A company may also take a brand up to the premium segment through the use of words like platinum, limited edition, signature collection or executive class.

Brand extension that increases revenues is a great way to attract investors. Some examples of this include Starbuck's extension into CDs and coffee liqueur; the Tide to Go stain removal pen; Wheaties vitamins; Steinway furniture polish; hardcover books from *O, the Oprah Magazine* and Iams pet insurance. However, it is important to understand the limitations of a brand. If stretched too far, there is potential risk to dilute a brand by over-saturating the market. This problem can drain corporate resources, cannibalize market share and shelf space, confuse customers and create a negative customer experience. This reinforces the importance of robust brand research and knowing your customers, market space and competition.

### **LINKING BRAND TO BUSINESS GROWTH AND SHAREHOLDER VALUE**

The value of a brand is its impact on critical audiences. A great brand allows audiences to better understand the company's vision, strategic direction and business model. A company needs to be known. Raising awareness is accomplished by developing a strong brand through consistent and compelling communications. A great brand attracts customers, investors and the media. And it does so not only because the company looks to be professional, but also because the brand conveys the way the company interacts with employees, customers, shareholders, partners, suppliers and even competitors.

For more information about the value of today's brand in moving a micro-cap business forward, please contact Charles Ernst or Edmund Belak at the Ernst Communications Group, LLC, (609) 395-1231, or at [www.ernstcommunicationsgroup.com](http://www.ernstcommunicationsgroup.com).