

Brand strategy

Are brands central to banking?

Bank brands score low compared with brands in other sectors. And there is no consensus among banks on branding strategy. What are the implications?

Start with a striking contrast. The world's most valuable business sector has few world-beating brands (Table 1).

Market value vs brand value

Banks now dominate the stock markets. In the *FT Global 500* for 2006 – which ranks the 500 largest companies globally by stock market value – 80 of the 500 companies (and 20 of the top 100) are banks.

The next largest sector by number of companies is oil & gas producers with 37 members, less than half the number of banks.

And the banking sector in the *FT Global 500* excludes American Express and leading investment banks such as Merrill Lynch, Goldman Sachs and Morgan Stanley. These are among the 19 companies captured in the *FT Global 500*'s 'General financial' category.

Yet, despite their dominance of stock markets, few banks have succeeded in building top-ranking brands. According to the 2006 *BusinessWeek/Interbrand Annual Ranking of the 100 Top Global Brands*, no financial services companies are in the top 10, only two are in the top 20 and only nine make the top 100.

Further, of the nine financial services companies in the *BusinessWeek/Interbrand* top 100, only four count as 'banks' under the *FT Global 500* classification. American Express and the investment banks count as 'General financial' while bancassurer ING is captured under the *FT Global 500*'s 'Life insurance' category.

And of the remaining four, it appears likely that JP Morgan makes the *BusinessWeek/Interbrand* top 100 on its strength as a global investment bank brand (it is included in the *100 Top Global Brands* as JP Morgan rather than JP Morgan Chase) while UBS is most likely to qualify on its strength as a global brand in private and investment banking.

National vs global

In some respects, contrasting banks' rankings by market value with their rankings by brand value is a little misleading.

There are various criteria for potential inclusion in the *100 Top Global Brands* designed to focus the ranking on global brands. These include a requirement that in most cases the branded business must have at least one-third of revenues outside the home country.

Interbrand also requires evidence that the brand is established in a wide number of markets around the world. At the very least, it needs to have a substantial presence in at least one country in each of the following four regions: North America, Latin America, Europe and Asia-Pacific. It also needs to be managed consistently as a global brand.

As Interbrand acknowledges, there are many strong national financial services brands that do not meet its global criteria. In particular, Interbrand's global criteria tend to favour investment over retail/universal banks given the home market focus of the latter.

Investment banking, focused on the international capital markets and multinational customers, is now a global business, at least at the level of the largest players and transactions. It is no surprise that the major investment banks such as Merrill Lynch, Goldman Sachs and Morgan Stanley qualify for inclusion in the *100 Top Global Brands*.

In contrast, retail banking, focused on personal and SME business customers, remains largely a national business. Indeed, in some important markets (including Germany, Italy, Spain and the United States), retail banking remains to varying degrees a sub-national business, with regional and local banks continuing to be significant.

Most retail bank brands therefore do not meet the Interbrand global criteria. Indeed, only the two retail/universal banks with something approaching a global presence, namely Citi and HSBC, make the *BusinessWeek/Interbrand* top 100.

However, though the pace is slow, international retail banking is growing – in particular through:

- Major cross-border European deals (notably Banco Santander/Abbey, BNP Paribas/BNL, UniCredit/HVB/Bank Austria Creditanstalt and ABN AMRO/Banca Antonveneta)

1. High market value meets low brand value?

FT Global 500 2006		BusinessWeek/Interbrand Best Global Brands 2006	
Rank	Company (sector for non-banks) (country)	Rank	Company/brand (country of origin)
	<u>Banks in top 100</u>		<u>Financial services brands in top 100</u>
4	<i>Citigroup (US)</i>	11	<i>Citi (US)</i>
6	Bank of America (US)	14	American Express (US)
11	HSBC (UK)	21	Merrill Lynch (US)
18	Mitsubishi UFJ Financial (Japan)	28	HSBC (UK)
22	JP Morgan Chase (US)	33	JP Morgan (US)
31	UBS (Switzerland)	36	Morgan Stanley (US)
36	Wells Fargo (US)	37	Goldman Sachs (US)
39	Royal Bank of Scotland (UK)	42	UBS (Switzerland)
43	Mizuho Financial (Japan)	85	ING (Netherlands)
47	Al Rahji Banking & Invest. (Saudi Arabia)		
49	Santander Central Hispano (Spain)		
52	Wachovia (US)		
59	Sumitomo Mitsui Financial (Japan)		
63	BNP Paribas (France)		
67	Barclays (UK)		
70	Unicredito Italiano (Italy)		
78	BBVA (Spain)		
84	Credit Suisse (Switzerland)		
90	Société Générale (France)		
92	HBOS (UK)		
	<u>Other financial services brands from BusinessWeek/Interbrand table in top 100</u>		
54	ING (Life insurance) (Netherlands)		
72	Merrill Lynch (General financial) (US)		
83	Goldman Sachs (General financial) (US)		
86	Morgan Stanley (General financial) (US)		
91	American Express (General financial) (US)		

Notes:

1. **FT Global 500 2006:** Companies ranked by market capitalisation as at March 31 2006 (in US\$ at 31/03 exchange rate). **Best Global Brands 2006:** The brand value is the dollar value of a brand, calculated as net present value (NPV), or today's value of the earnings the brand is expected to generate in the future (for the time frame from July 1 2005 to June 30 2006). **Note:** due to lack of space, ranking only (and not market / brand value in US\$) shown in table above.
2. In table, companies selected from FT Global 500 2006 includes all 'Financial Services' brands in Best Global Brands 2006. Of these, four categorised in FT Global 500 2006 as 'Banks' (highlighted in italics), four as 'General financial' (in blue) and one as 'Life insurance' (in red). All other 'Banks' in top 100 of FT Global 500 2006 also included in table.

Sources: Financial Times (FT Global 500), BusinessWeek/Interbrand (Best Global Brands)

- European banks expanding outside Europe – for example in the US retail market (notably HSBC, RBS, BNP Paribas, ABN AMRO), Latin America (Banco Santander, BBVA, ABN AMRO) and North Africa (particularly the major French banks)
- Use of direct channels (phone, internet), where ING has been a pioneer through ING Direct

Excluding the two major Swiss banks (whose international activities are focused on private and investment banking), all the European retail/universal banks that make the top 100 of the *FT Global 500* now have retail operations outside their domestic market. Even HBOS, perhaps the most nationally focused of the European retail banks in the top 100, has retail operations in Ireland and Australia.

Global, local or ‘glocal’?

Cross-borders expansion in retail banking gives banks the opportunity to develop international brands.

But much depends on whether banks adopt a single brand across their international operations. International expansion highlights a strategic branding decision for large banking groups, particularly if they expand through acquisition. Should acquired brands be retained, or should they be replaced with the brand of the acquirer? Decisions already made with acquisitions at national level may shape a bank’s

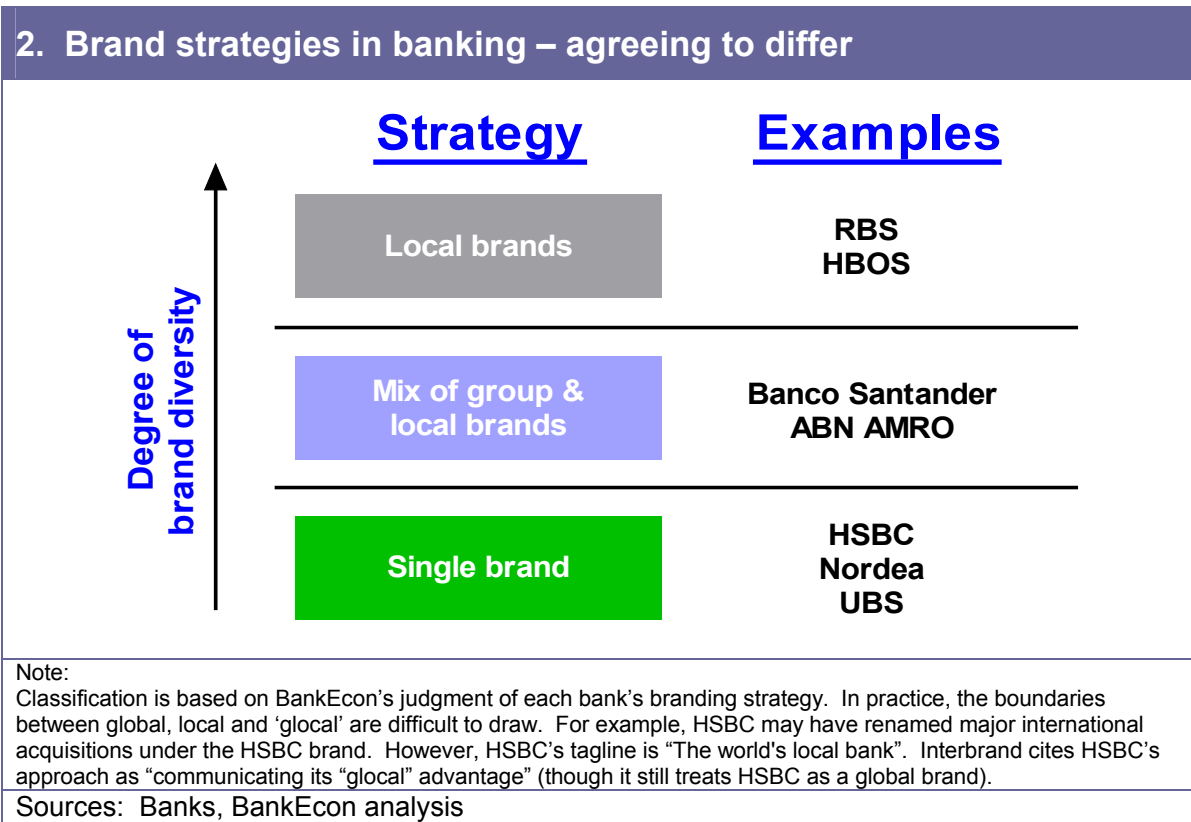
international branding strategy.

Looking at the major European banks, what is striking is their diversity of approach. Some banks impose a single brand across the group while others maintain a portfolio of different brands (Chart 2).

HSBC has adopted a uniform international brand name, rebranding major acquisitions (eg Midland in the UK, CCF in France, Grupo Financiero Bital in Mexico) as HSBC. In contrast, RBS retains distinct brands for individual subsidiaries and operating units both in the UK (for example, NatWest and Direct Line) and internationally (for example, First Active in Ireland and Citizens Bank in the US).

A ‘third way’ involves retaining the acquired local brand, but combining or overlaying it with the group brand. ABN AMRO is among the banks pursuing this strategy. For example, following its acquisition of Banca Antonveneta, ABN AMRO recently announced a new branding and logo for its Italian subsidiary. Banca Antonveneta will be known as Antonveneta in branding and will carry the ABN AMRO shield, supported by the ABN AMRO endorsement. In addition, Antonveneta will include in its marketing the tagline "Making More Possible," adopted globally by all ABN AMRO's businesses in February 2005.

The costs and benefits of a particular brand strategy are often finely balanced.



The economic benefits of a more unitary approach may include more efficient marketing and greater cross-selling opportunities. Offsetting these benefits are the risks of customer confusion and irritation when long-established names are dropped, and the contribution distinct brands can make to building and sustaining a presence in a particular market.

Banks also face the challenge of aligning the brand strategy with the overall group structure and operational approach. A multiplicity of brands may make more sense in a decentralised business structure where business units have significant operational autonomy. In contrast, a single main brand may be more appropriate for a more centralised or integrated business model.

How important are bank brands?

Given the variety of brand strategies being pursued by banks, it is clear that the question of whether to go global, local or 'glocal' remains open.

But whether global or local, the more important question is just how important brands are to retail banking. After all, banks have been highly profitable during recent years despite apparently weak brands, as their market value rankings indicate.

Interbrand comments in its report accompanying the top 100 brands for 2006: "Brands have never been more important in financial services – where your finances are handled is a badge of distinction and an expression of success." (p18) But do the rankings bear this out, at least with retail/universal banking?

Take Citi and HSBC, the two retail/universal banks that meet the Interbrand criteria and can therefore be compared across brand and market value. The two banks rank more highly by market value (4th and 11th respectively in 2006) than by brand value (11th and 28th respectively).

Compare this with say Coca-Cola, which ranks 1st for brand value but 42nd for market value and IBM, which ranks 3rd for brand value but 26th for market value.

Interbrand comments in its report: "If the brand value percentage of market capitalization is low, it suggests that the business is driven by other kinds of assets (tangible and intangible) and that the brand is relatively unimportant. It might also mean that the business is failing to leverage the brand as much as it could and that investors should be concerned about that." (p24)

Interbrand also comments that "the comparison of brand value to market capitalisation is mainly useful for mono-branded businesses, as the market capitalisation relates to all company assets". This is a test Citi and HSBC are more likely to meet than banks pursuing a multi-brand strategy such as RBS.

Using the BusinessWeek/Interbrand and FT Global 500 data for 2006 to make an initial comparison, brand value is a much lower percentage of market capitalisation for Citi (9%) and HSBC (6%) than for say IBM (43%) and Coca-Cola (68%). In fact, brand value as a percent of market value is lower for Citi and HSBC than for any of the top ten global brands in 2006 as ranked by BusinessWeek/Interbrand.

Do we therefore conclude that brands are relatively unimportant in banking? Or do we conclude that banks such as Citi and HSBC have failed to build strong brands, and a major opportunity awaits the first bank to get it right? Attempting to answer this question would require a much more thorough analysis. However, given the amounts banks spend on brand promotion, these initial findings indicate it is a question they urgently need to consider.

Sources and references:

For further information on the FT Global 500 2006: www.ft.com/reports/ft5002006

For further information on the BusinessWeek/Interbrand Best Global Brands 2006: www.interbrand.com/surveys.asp

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