McKinsey & Company

Marketing & Sales Practice

The future of brand strategy: It's time to 'go electric'

Data shows that as choices and channels increase, brand trustworthiness is more important to consumers than ever.

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May 2020

At the 1965 Newport Folk Festival, Bob Dylan went electric. He plugged his guitar into an amp and proceeded to play his first all-electric set. The chords were the same as before, but the arrangements were new—a new sound for a new age. A lot of traditionalists hated it. But Dylan was never afraid to try something new, and it's safe to say he was onto something when he went electric.[1]

Brand strategy today resembles popular music in the 1960s: "The times they are a-changin'." Consumers now jump from brand to brand, product to product, and site to site at a flick of their wrists. At the same time, brand relevance remains high. Brands are beacons of trust. The more choices consumers have, the more important these beacons become. Our research shows that brand relevance is especially high in categories that offer almost unlimited choice, such as online dating, online shopping, and online travel booking. For online shoppers, risk reduction is the most important brand function by far, well ahead of image benefit and information efficiency. A strong brand radiates trust and shields shoppers from the risk of making the wrong choice.[2] That said, data and analytics are transforming the way brands and customers interact with each other. In this situation, it's time to update the proven principles of brand strategy. It's time for brand strategy to "go electric."

Three sources of strength

Strong brands consistently outperform the market. The world's 40 strongest brands yielded almost twice the total return to shareholders (TRS) of an investment in a Morgan Stanley Capital International (MSCI) World index certificate over the course of the 20-year period ending in 2019 (exhibit).

Brands draw their power from three sources: science (insights generation and performance measurement), art (creativity), and craft (management and execution). In times of rapid change, strong brands particularly need the benefits of these robust foundations: a deep understanding of customers and the market based on rigorously tested concepts, a clear purpose brought to life by creativity, and an inspiring brand experience delivered consistently across all touchpoints to drive both brand perception and business performance.

At the same time, however, research shows that companies that are brand innovators are growing their top-line four percentage points faster than less-innovative companies.[3] Even the best brands, it seems, can benefit from new methods and approaches in all three sources of brand power—science, art, and craft.

Science: Data-driven brand-equity management

To protect and enhance brand equity in the omnichannel age, marketers must embrace new methods and new data sources:

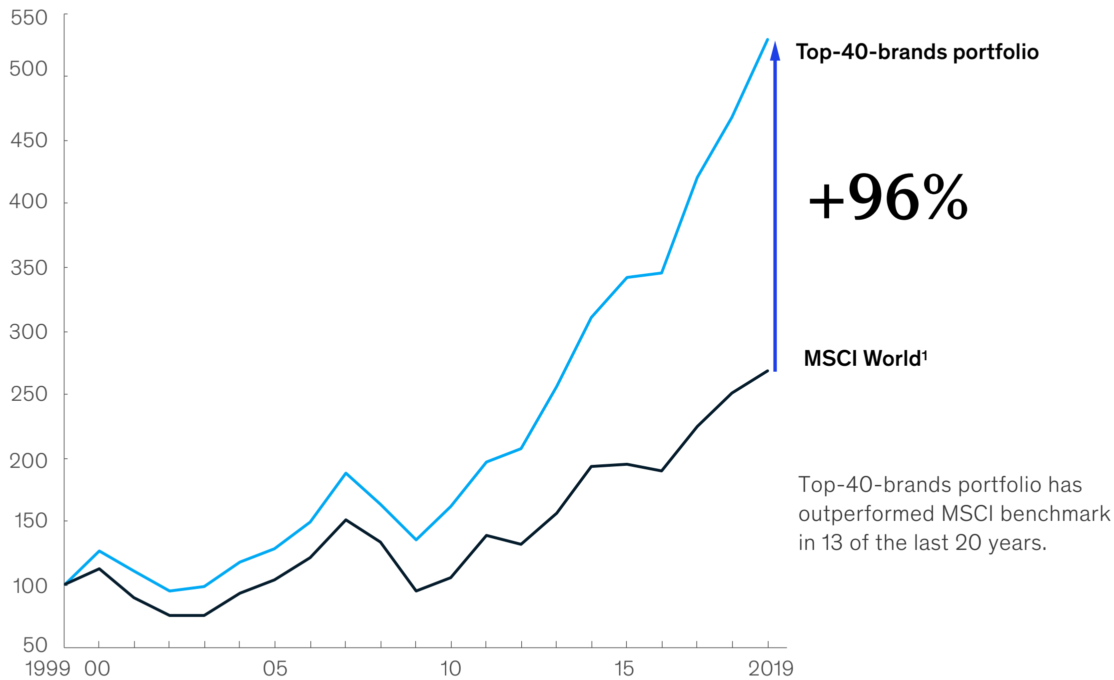
— *Sentiment.* To keep track of how a brand is perceived online, companies must go beyond counting clicks and followers. They must also capture user sentiment, particularly as expressed in social media, and do it quickly. Brand equity built over decades can evaporate in a heartbeat when bad news goes viral. Companies can no longer afford to wait for quarterly brand-tracking results. Waiting even a week can be six days too long. The good news is that state-of-the-art tools allow companies to capture indicators such as buzz volume and user sentiment in real time with up to 90 percent accuracy, provided the right method is used to decode the context of a given statement.[4]

[1] See Jess Righthand, "July 25, 1965: Dylan goes electric at the Newport Folk Festival," *Smithsonian Magazine*, July 23, 2010, smithsonianmag.com.
[2] "Study by McKinsey and Uni Cologne: Online buyers pay particular attention to brands," McKinsey & Company, July 4, 2019, mckinsey.de.
[3] McKinsey predictive consumer growth (based on Capital IQ, Euromonitor, Mintel Global New Products Database, and annual reports), 2013–17. See also Raphael Buck, Alice Harper, Julie Lowrie, and Sara Prince, "Agile in the consumer-goods industry: The transformation of the brand manager," April 2019, McKinsey.com.
[4] Jochen Hartmann, Mark Heitmann, Christina Schamp, and Christian Siebert, "More than a feeling: Benchmarks for sentiment analysis accuracy," January 2020, ssrn.com.

Exhibit

Powerful brands significantly outperform the market.

Total return to shareholders, Index



[1] Stock market index of 1,646 world stocks maintained by Morgan Stanley Capital International.
Source: McKinsey Marketing & Sales Practice

— *Agility.* Qualitative research used to be costly and cumbersome. This is why a lot of researchers focus on observations of consumer behavior at scale and, as a result, often neglect underlying consumer needs. Web-based and mobile applications, such as AI-supported digital diaries and online ethnography, enable brands to connect with consumers' intrinsic motivations at a fraction of the cost and time of traditional focus groups. Now brands can get consumer feedback within a day, for example, on different combinations of packaging and price. As a brand manager for a maker of sweet snacks said, "What used to take weeks now happens in an afternoon. This allows us to keep pace with the high rate of change in our industry."

— *Personalization.* Personalization is a key driver of top-line growth. It enables brands to cultivate better relationships with customers and drive incremental revenue as well as incremental loyalty.[5] In the past, most brand-related activities and KPIs were based on a fictitious "average customer." Now, thanks to advances in data quality and analytics, messages and metrics can be tailored to ever-smaller target groups or micro-need states and occasions.[6] Next-generation MROI modeling and granular growth mapping

[5] Kelsey Robinson, interview with Dynamic Yield CEO Liad Agmom, "What's happening with personalization on the front lines," July 2018, McKinsey.com.

allow marketers to record and optimize brand performance across all touchpoints, often at the level of individual customers.

Art: Creativity with a conscience

Creativity drives brand success. A McKinsey analysis shows that highly creative brands, measured by their performance at the Cannes Lions advertising awards over a period of 15 years, consistently outperform their peers:

— 67 percent achieve above-average organic revenue growth

— 70 percent had above-average TRS

— 74 percent had above-average net enterprise value[7]

More specifically, we find that successful brand campaigns embed their messages in stories that touch, thrill, or amuse their target audience.[8] Increasingly, consumers also expect their favorite brands to create value beyond product benefits. While a compelling story may get the attention of the audience, winning loyalty requires additional efforts from brand leaders: Does the campaign go beyond brand communication? Does it embody the identity and the values of the company? Campaigns that meet these criteria are more successful than those that focus solely on rational benefits. This observation is indicative of a broader trend toward responsibility that extends beyond a brand's customers. Increasingly, consumers hold brands accountable for the impact of their conduct on employees, society, and the planet as a whole. Our research on Generation Z (born 1995–2010) shows that young consumers are particularly mindful of ethical consumption, transparency, authenticity, and equality.

Purpose-driven brands achieve more than twice the brand-value growth of brands that focus purely on profit generation, and purpose clarity is directly correlated with financial performance.[9] The challenge for brand executives is to lead their organizations in the quest for authentic purpose. Says Volvo Cars Head of EMEA Björn Annwall: "If you want to be a purposeful brand, it is not about *coming up* with stories. It is about *conveying* stories about what you already do. If marketing 'comes up' with a 'purpose,' it is by definition not purposeful, not ingrained, not authentic."[10]

Craft: Rallying around purpose

Finding purpose is important, but it's not enough for brands to prosper. As consumer advocates, brand leaders know how important it is to keep a promise at all touchpoints. Break the promise, and you break the brand. Brand strategy based on purpose is too big an opportunity and too comprehensive a challenge for any one function to tackle by itself. To create a consistent narrative and succeed in a purpose-driven transformation, all functions and all members of the top team must cooperate closely. In our experience, this quest for common purpose also often acts as a binding agent. Top teams that go through intense discussions over purpose always emerge from such efforts as a stronger unit.

Purpose needs to be translated into a set of values and goals that guide communications, operations, and people and product development.

To bring purpose and brand activities more generally to life, brand strategists, creative directors, data scientists, designers, and agencies increasingly come together to work in more coordinated and agile ways. Across industries, brand leaders are moving from rigid client-agency relationships to more fluid ecosystems with more

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[6] In this context, a "need state" is defined as the intersection between what customers want and how they want it. Although thinking through need states is demanding, it often suggests new ways for existing brands to satisfy customer needs. See Steven J. Carlotti, Jr., Mary Ellen Coe, and Jesko Perrey, "Making brand portfolios work," *McKinsey Quarterly*, November 2004, McKinsey.com.
[7] Marc Brodherson, Jason Heller, Jesko Perrey, and David Remley, "Creativity's bottom line: How winning companies turn creativity into business value and growth," June 2017, McKinsey.com.
[8] Sascha Lehmann and Nils Liedtke, "*Die wahren Werbetreiber: Kreativität schlägt Krawall,*" November 2018, McKinsey.de.
[9] Afdhel Aziz, "The power of purpose", *Forbes*, November 11, 2019, forbes.com.
[10] Statement made in an interview with McKinsey's Jesko Perrey and Nils Liedtke for the upcoming book *Mega-Macht Marke*, to be published in 2020.

brand entrepreneurship.[11] That requires new approaches as well. Anthony Bradbury, Jaguar Land Rover's marketing director, explained what matters most in making the company's client-agency joint venture, Spark44, work: "Absolute transparency, complete focus, and the breaking down of silos. Campaigns can be planned solely according to the client's needs, not according to agency dynamics or priorities. This removes the natural tension between client priorities and agency profits and allows us to constantly create the best work together."[12] Total revenue has more than doubled since the joint venture was established, and several campaigns won Effie awards, most recently the Land Rover campaign "Dragon challenge," cited in 2019 as the highest-awarded automotive campaign in the US.[13]

In an ever-changing environment, where there's unlimited choice and a rapid evolution of consumer needs, brands matter more than ever. Strong ones take full advantage of data science and agile ways of working to refine targeting, send more compelling messages, and ensure consistent brand delivery. This is brand strategy raised to a new level. So, let's do what Dylan did: let's plug in.

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[11] "P&G shakes up advertising agency models," Marketing Week, April 10, 2018, marketingweek.com.
[12] Anthony Bradbury, "Spark44—breaking the conventions of global marketing with Jaguar Land Rover," Oystercatchers, August 24, 2018, oystercatchers.com.
[13] "Spark44 wins at 2019 Effie awards," Spark44, December 6, 2019, spark44.com.