How E.U. brands can stay competitive

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The rise of private labels, reduced choice and disruptive business models are giving traditional brands a run for their money.

A lot has changed in Europe since the first trademarks were registered in France in 1856. Trademark registration grew significantly throughout the 20th century, with 1.1 million new brands registered in France alone, making it No. 1 in registered trademarks.

Economists have long demonstrated a strong relationship between competitiveness and brands — that is, between the number and use of product names, denominations, symbols, logos and designs, and the comparative strength between nations, regions, companies and even supply chains in the provision of goods and services to consumers around the world.

Now, things are changing. In Japan, for example, trademark registration fell from 167,900 a year in 1990 to 135,800 in 2006. New economic challenges are putting fierce competitive pressures on many traditional trademarks and brands. IESE Prof. José Luis Nueno analyzes the situation in his report, "International Competitiveness and the Brands of the E.U.," making several recommendations for how Europe, in particular, should face these challenges.

Gains won are being lost

Brands affect competitiveness in several ways. First, the presence of many strong brands influences share price, increasing cash flow for market-listed brand leaders. SMEs that launch a successful brand innovation tend to grow at faster rates. Innovative brands can be used to keep a company afloat during tough times of little or no economic growth. Although studies of the effects of brands on profits vary, the overall results are positive, regardless of whether one is talking about small, medium or large multinational businesses.

However, the realities of the 2010 market are putting many of these claims to the test. No-name brands offering inconsistent quality are fast making inroads in clothing and food categories, for example. Reduced choice is proving a more effective strategy and redefining an understanding of "quality" as "saving time and money." In addition, several disruptive business models — as in the case of low-cost airlines versus flagship carriers — have highlighted the vulnerability of incumbent brands.

Made in Europe: Help or hindrance?

Another issue affecting competitiveness is the brand's hallmark of origin. A brand's identity is a composite of various reputations assembled from various places, which together translate into market power. The shared cultural heritage of many European countries has generally earned European brands a collective reputation as purveyors of high-quality goods.

According to the author, the "Made in E.U." seal of approval has been an added benefit — but not for everyone. Some countries prefer to maintain their national reputations isolated and intact, without any added endorsement. The "Made in E.U." label cuts both ways: for some countries it boosts their reputation and lends greater credibility, while others may feel their own national reputation exceeds the collective perception.

Attacks on many fronts

The report analyzes E.U. brand positioning and finds that European brands show strong growth relative to U.S. and Japanese ones. They are also well distributed across diverse sectors — from manufacturing, technology and mass media, to retail, services and luxury goods. They extend well beyond their domestic markets, and some maintain excellent positions in strategic sectors, enjoying a leading reputation among consumers worldwide.

But there are dark clouds gathering on the horizon. The traditional sources of demand for E.U. brands are weakening, partly due to the emergence of new economic powerhouses with millions of consumers that E.U. brands just don't reach.

First, the protectionism that exists in some emerging markets keeps purchasing activity low. As emerging economies develop their own brands outside of industrialized markets, they can leverage their own local resources to dominate local markets, and then use low pricing to chip away at adjacent markets, all before even becoming a global player themselves. Once they have gained enough power and market share, they can then buy up large global brands, which only further complicates any positive distinctions conferred by the "Made in E.U." label.

In addition, the strategic sectors of the future may arrive in a disruptive way, and European firms may find themselves shut out of certain sectors. The fast-developing brands arising from digitalization and other new media forms are creating new tensions for old brands, which cannot afford to be mere followers of these trends. In fact, the way in which many new brands are being developed today is actually quite hostile to the traditional marketing and promotional methods used by the main European brands.

And hovering over all of this are the ongoing effects of the recession.

Proposals for staying competitive

The report concludes with some recommendations to reinforce brand competitiveness. The author says the integrity of the brand must be protected at all costs — both in terms of its own identity and from the predatory activities of outside competitors, as well as intellectual property concerns.

There needs to be more education about sustainability and quality standards, with individual and sector-wide incentives being offered.

Finally, faced with ever more complex supply chains, E.U. brands need to learn from and adopt horizontal and vertical policies of their own, all so that the geographic protection afforded by the still-meaningful "Made in E.U." label can be strengthened.

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