

## **WHAT IS A BRANDED COMMUNITY...AND WHY SHOULD YOU CARE?**

The idea of creating community within business has become a central focus of discussion over the past couple of years. The term brand community was first born in the 90s out of the intense desire for companies to open a dialogue with their consumers. The “push” mentality of brands was no longer as effective as it had been in the past and with the introduction of more mass technology consumers were beginning to demand conversations rather than transactions with companies.

As the economy continues to evolve, open and transparent communication is becoming necessary to earn consumer, partner and investor trust. The concept of a Branded Community is now no longer an option, but a necessity for a truly thriving business with long-term sustainable growth. At Telocity Group, our definition of a Branded Community has expanded to include much more than a place to have an open dialogue with consumers.

***A Branded Community is a thriving and supportive community of stakeholders who are all focused on and vested in the success of a brand.***

In order to create this kind of community, a brand must accept that the business landscape is changing. People want more from the companies they work for, the products they buy, the things they invest in and the people they surround themselves with. This desire for connection and meaning is drastically affecting the business world and it requires a new model to be successful. This new business model must be people centric versus bottom line focused. It is a stakeholder model versus a shareholder model and it requires the consideration of many more groups of people than just consumers who buy the product.

In a Branded Community, the brand is not only a set of products but also both an actual and virtual place. This community is inclusive of all stakeholders, or anyone who touches the brand in any way and can be a part of its success. A truly well rounded Branded Community includes consumers, as the original one dimensional definition of a brand community did, however it also includes employees, vendors, partners, distributors, manufacturers, shareholders and society at large. A Branded Community is a listening and learning, dialogue based culture with transparent communications. It has a clear vision and goals and a set of shared values that bring people together. Social responsibility and mutual respect have become business terms in this new landscape and cannot be ignored.

What do you think and feel when we mention brands like Whole Foods, Jet Blue, IKEA, Google, Harley-Davidson and REI? You think something definite and feel something strong and positive. Sisodia, Sheth and Wolfe defined these kinds of Branded Communities as Firms of Endearment or companies with a humanistic soul that focus on share of heart versus share of wallet. And we bet there are brands in all of these categories that don't give you nearly the same thoughts or feelings when you come

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across them. Which would you rather be?

Now why should you care about creating this kind of community within your business? Because it works. As marketers, we all love the facts and these facts about Firms of Endearment cannot be disputed. Companies who function with soul and have the characteristics of Branded Communities:

1. Returned 1026% for investors over the 10 years ending June 30, 2006 compared to 122% for the S&P 500
2. Performed even better when viewed over 5 years – 128% vs. the S&P 500 returning only 13% during a deep recession

We all took note when Jim Collins profiled 11 companies in his bestseller *Good To Great*. He defined “great” as more successful than other companies at delivering superior returns to investors over an extended period of time. In many cases, these companies focused on efficiencies, cost cutting and outsourcing to increase margins. Missing from his definition of “great” however is one of the most important sets of assets – an organization’s human systems. And interestingly enough, when you view the companies that created Branded Communities as part of acting with soul and strove to make the world a better place you will see that they outperformed the *Good To Great* companies significantly:

1. Over a 10 year horizon, Firms of Endearment outperformed *Good To Great* companies 3 to 1.
2. Over 5 years during a recession the ratio was almost 2 to 1.

The market continues to evolve. And though the *Good To Great* way worked in the past and could still work in the future, there is a new desire for more. Maximizing your potential as a business can only occur if you maximize the potential of the people within that business. People want to be connected and to feel a part of where they work. They want to trust and respect the companies they buy from. And they are very careful to align their values with the companies that they spend their money on or partner with. *Good To Great* types of companies are efficient and good at what they do, but do they command love and respect from their stakeholder groups? And do they perform at their highest levels?

Let’s consider a direct example. Wal-Mart is the leading player in the world of low cost goods. They are mammoth and can keep their costs low due to the sheer volume of goods running through an immense and solid distribution network. Everyone shops there...even those who don’t like to admit it...because they have everything and it is cheap. They also created Sam’s Club as their warehouse club store. They grew rapidly and have expanded to become a huge national network of stores and clubs – everyone has one somewhere close by. And if you don’t, you occasionally make a pilgrimage to “stock up” at the closest one.

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Wal-Mart has received terrible publicity for their treatment of their workers, their price reductions and cost control measures, their outsourcing of production and their small town takeovers. However, people still shop there because they need and want cheap stuff. But how do they feel? To many it is a necessary evil rather than a great place to shop. "Customers can be loyal in behavior without being loyal in attitude," according to Sisodia, Sheth and Wolfe. Consumers are loyal to Wal-Mart if you measure share of wallet and buying behaviors. However, they are not loyal to Wal-Mart when it comes to share of heart and emotional connections. This emotional connection disconnect has not significantly affected the bottom line today, but may very well in the future.

Now consider Costco. Costco is another discount club store that competes with Sam's Club. It is known for clean warehouses, positive employees and easy interactions. They are smaller by far than Sam's Club but growing rapidly and their awareness is high. They too have received some negative publicity however it has been from Wall Street. They have been criticized for giving terrific benefits to their employees and paying much higher salaries than other club stores. This means less money to the bottom line for investors in the short term.

They pay their employees 65% more than Wal-Mart and 40% more than Sam's Club. They believe that happier and better paid employees are more motivated, more productive and more creative on the job. And it pays off. They generate more profit per employee by spending only 9.8% of sales on SG&A expenses and they have only a 6% turnover rate in their staff. Sam's Club has a 21% turnover rate and Wal-Mart has a 50% turnover rate. Consider the recruiting, training costs and loss of knowledge and experience associated with those levels of turnover and you can add even higher losses at the end of the day.

There are some other interesting things to note about how Costco does business. They have built a community of trust and respect by having clear goals and values. They are focused and dedicated to keeping overhead down and running a tight and efficient shop so they can pass on savings to their employees. They have a CEO whose salary is less than extravagant – in 2005 he took a \$350,000 salary and a potential \$200,000 bonus for running a successful \$57 billion company. Other CEOs of companies this size average \$11.75 million packages. They have very small marketing budgets. They believe that the momentum behind the brand comes from happy customers, employees and suppliers helping them build awareness. And they are against off shore outsourcing because they believe it sends a negative message to their employees and customers.

Doing the right thing, having open and transparent communications, caring about your employees, suppliers and local towns and focusing on delivering for the people involved with your brand has allowed Costco to see a 40% increase in its stock value during a 5 year time period leading up to recession when Wal-Mart was stagnant. And customer satisfaction is almost 10% higher for Costco than for Wal-Mart...people like to shop there and have a positive feeling about the brand.

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So let's think about the kind of brand you want to run. Do you want to be an efficient necessary evil? Or do you want to be a friend and supporter of your stakeholders? Do you want to be where people have to go to work? Or do you want to be the community that they work and thrive within? Do you want to be a dictator to your vendors? Or do you want to be a partner to your partners?

Building a Branded Community cannot happen overnight. The price to earnings ratio for Costco has increased very slowly over time as have their size and awareness levels. Patience is necessary to see long term results. However, shifting to a stakeholder model and beginning to change focus can happen immediately. Here are 5 things that you can do today that will point you in the right direction.

1. **Educate yourself** about some of the ideas behind Branded Communities by acquainting yourself with *Firms of Endearment*. Read *Firms of Endearment* by Raj Sisodia, Jag Sheth and David Wolfe and begin to define your values and goals.
2. **Build your stakeholder list and start a cycle of interaction that creates alignment.** Who are the people that touch your brand? How do they feel about your company? What do they need from you? How can you help them succeed at their business so they can help you with yours?
3. **Define your Brand Identity.** Map your Brand DNA and clarify your brand meaning and values.
4. **Build your Communication Architecture.** Clearly determine how you will talk to all of your stakeholders and what you will say. Plan for how to engage and learn from them on an on-going basis.
5. **Plan for how your brand will make the world a better place.** How can your brand enrich lives? What place does it have in society now and in the long term? What kind of contributions can you make to the world at large?

At Telocity Group we owe a great debt to Sisodia, Sheth and Wolfe for researching what we have experienced in the marketplace and putting facts on paper in support of the premise of companies with soul. Our mission is to help companies break through barriers to reach long-term sustainable growth. In this new age of need, companies must take responsibility for their effects on society and culture. Building a Branded Community insures that a brand is respecting the people that make the business go every day. It also insures that momentum and velocity are built around shared values and goals. A brand has a legacy to leave...what do you want yours to be?

Contact Telocity Group to start building your Branded Community today.  
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All facts taken from R. Sisodia, J. Sheth and D.Wolfe, *Firms of Endearment: How World Class Companies Profit from Passion and Purpose* Wharton School of Publishing, 2007), p. 16-17, 33, 117, 122.

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