20% revenue growth, 20% profits growth, and over time, the ability to get a 20% return on equity. So within the 20% revenue growth, the consolidator normally is a slightly larger, slightly more mature business in a more mature industry—very often a fragmented industry. And they may be growing 7 or 8% internally, but they can probably double that through acquisition. That's a very large part of their growth.

→ MEGATREND 7: BRANDS— THE GIFT THAT KEEPS ON GIVING

"A brand for a company is like a reputation for a person. You earn reputation by trying to do hard things well." —JEFF BEZOS

Raymond Babbitt was right—Kmart sucks. Fourteen years after Dustin Hoffman's autistic savant character muttered those lines in 1988's Oscar-winning *Rain Man*, Kmart filed for bankruptcy.

If Raymond had said, "Wal-Mart sucks," or "Target sucks," the line would have fallen like a lead balloon. It resonated with audiences in a perverse way because most people hated shopping at Kmart. The Kmart brand meant low-quality products, nonexistent service, and a horribly bad shopping experience. Kmart sucks!

Starbucks started with a promise of delivering exceptional-quality coffee and friendly service. The brand equity the company created through its performance against expectations allowed Starbucks to expand its offering to everything from alternative drinks to music. Because Starbucks has established this connection with its patrons, it has been able to expand the relationship. In fact, investors anxiously await the introduction of Starbucks' next product or service because they expect the customer to like it.

Apple has always been a cult brand, but has now been able to expand into the masses. Macintoshes, iPods, Video, iTunes, Shuffle, iSight—

everything Apple makes, we want. It's a badge of coolness to have your Apple Notebook out on the plane. The Apple stores, which didn't exist five years ago, do more than $2 billion in revenue, or more than $20 million per store. For comparison, the gigantic Best Buy superstores do around $30 million per store! Not bad for a new boutique.

We have become a culture where one arm extends to hold a Starbucks cup, and our ears reveal neon-white iPod earphones.

Intel Inside is a brilliant brand. It gives consumers confidence in the technology and gives Intel a higher margin. Is AMD's chip as good as Intel's or better? Perhaps, but Intel has the brand.

Ralph Lauren's Polo is another incredible brand. For two or three times what a consumer would pay for a comparable product, he or she can get the pony as an outsourced endorsement of good taste and fine lifestyle.

Google is the brand for Internet searches. While there are numerous other search engines and sites, when you need to know, you go to Google. It stands for being powerful, accurate, efficient, and simple.

Most of Dell's components and services are provided by somebody else, but because Dell's products have the Dell name attached, consumers have confidence in buying.

Harvard, Stanford, and Princeton are educational brands. It is presumed that people who graduate from these schools are smart because of it. Goldman Sachs is *the* brand in investment banking. You could probably find equally smart people at other places and have your transactions done more cheaply, but if you are going to sell your business or take it public, you want the Goldman stamp of approval.

On the flip side, ill-will brands like Kmart seldom overcome the negative stigma associated with them.

A brand is a promise between the company and the consumer about what to expect from the relationship. It takes years to build brand goodwill, but once it's achieved, it gives the company permission to introduce other products and services consistent with that promise.

General Motors has a huge upside battle ahead of it. Radio Shack is a bad brand. In a global marketplace and Internet economy, having a powerful brand is more important than ever before because a brand provides the shortcut that time-pressed consumers and executives need to make decisions. Brands provide assurances. Brands provide comfort and confidence. Successful businesses of the future need their brands to create a relationship with the customer and sustain integrity behind the promise.

The volume of global advertising continues its steady increase, consistent with nominal GDP growth, but an increasing share of advertising continues to move online. Within the global context, advertising growth in developing economies continues to outpace global growth, as consumers in developing economies move up the purchasing power curve and companies move aggressively to maximize the lifetime value of their brands with emerging market consumers.

I see many factors combining to create a more dynamic environment for establishing, promoting, and protecting brand equity: increasing competition from low-cost foreign markets, growing purchasing power in developing global markets, dynamically changing distribution channels, growth in Internet retailing, changing demographic needs (aging baby boomers, rising spending power of Gen Y, and multiple ethnic markets), niche-market segmentation, and an explosion in the number of competitive products.

In more mature economies, consumers are confronted with an escalating number of advertisements each day across a growing number of mediums for a growing number of available products and services.

Media, marketing, and advertising companies are now coping with their clients' extensions into new global markets, a proliferation of mediums, and emerging technologies, which in some cases augment traditional advertising channels, while in many other cases, they displace them.

At the core of branding are the developing challenges for businesses in terms of how to promote their brands, how consumers perceive advertising, and how brands influence purchasing decisions.

For businesses, the multimedium aspect brings new challenges of balancing the potential for more targeted advertising with some risk of brand dilution. The Internet in particular epitomizes this opportunity and challenge, as it enables niche-customer advertising, though also results in a larger number of varying messages. For mass-market products, this is arguably less of a problem. But for products where differentiation

plays a critical competitive component, this is a potential risk—being all things to all people results in product "premiums" being commoditized.

Fortunately, along with new advertising channels have come improved methods for matching advertising content with target markets, ranging from analytical techniques being applied to market identification and segmentation, to increasingly rapid feedback on customer responses to both tangible and intangible brand attributes.

From the consumer perspective, the number of touch points (places a consumer encounters advertisements for products and information about products) continues to grow rapidly. By all appearances, these touch points extend outside of the traditional means where companies

HOTTEST BRANDS

TOP 10 GLOBAL BRANDS		TOP 10 HOTTEST BRANDS
1. Coca-Cola		1. Google
2. Microsoft		2. Apple
3. IBM		3. Starbucks
4. GE	vs.	4. IKEA
5. Intel		5. BlackBerry
6. Nokia		6. Motorola
7. Disney		7. eBay

TOP 10 GLOBAL BRANDS		TOP 10 HOTTEST BRANDS
8. McDonald's		8. Red Bull
9. Toyota	vs.	9. Manchester United
10. Marlboro		10. Virgin Mobile
Source: BusinessWeek, Interbrand.		*Source:* ThinkEquity Partners.

have a direct influence on product positioning and their brands through means such as product experience.

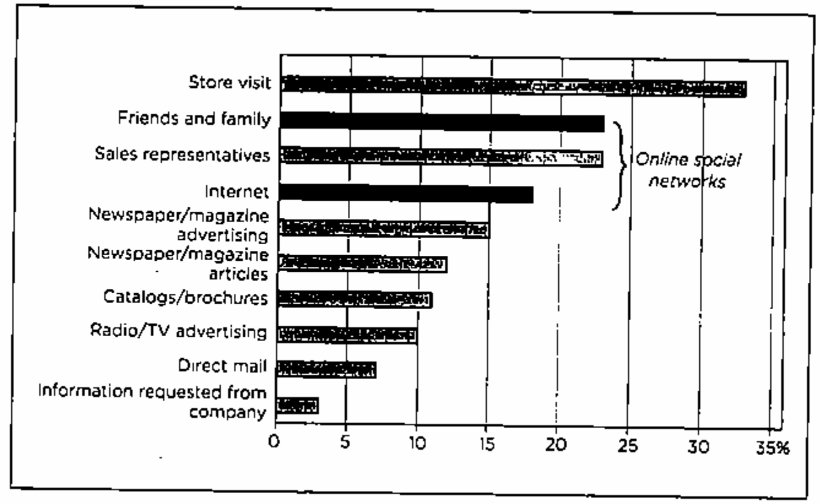
During the Internet's short history of online retailing, it has had two clear impacts aside from driving online sales: (1) providing a means for consumers to conduct their own research on products and (2) increasing the accessibility of peer recommendations through such simple methods as online product reviews. With peer recommendation second only in importance to the touch-and-feel experience available through store visits, online customer reviews have become a powerful trend in retailing (online and offline) as well as a significant factor affecting brand value.

A dynamic emerging facet of creating and sustaining brand value is interactive peer assessment. Through online social networks, consumers are now able to ask peers which product is best, gaining information through grassroots recommendations. This in turn enables the consumers to discover a product's value through what peers determine its quality and value to be, rather than by what the quality and value are advertised to be. As these communities grow in relevance, peer evaluation is likely to be an increasingly important factor behind brand equity and therefore an important component for companies and advertisers to understand, lest they risk losing credibility with real-world customer experience.

This said, what continues to trump all other aspects in determining brand value is a desirable shopping experience, consistent delivery of an

Preferred Shopping Information Resource

Consumers reporting which was the most useful information source in making a major household purchase



Source: Institute for the Future, Household Survey.

array of products and services that match consumer preferences, and a reputation for quality. Companies that recognize the challenges of low-cost sourcing, increasing numbers of distribution channels, and shifting preferences (demographic, cultural, etc.) as opportunities to improve quality, access, assortment, and price points, are those that will best serve their customers and ultimately benefit from the development and sustained value of their "brand."

Companies that ignore the importance of the brand megatrend will be swept away in an onslaught of information, as will the investors who do the same. A strong and visible brand is a key ingredient in the formula for strong products.

STAR GAZER

DAN LEVITAN

co-founder of Maveron

Dan Levitan co-founded Maveron, a venture capital firm, in 1998 with Starbucks chief executive Howard Schultz. They hit the jackpot with their early investments in eBay and drugstore.com. Dan was previously a managing director at Schroders, where he headed consumer investment banking. I asked Dan for his advice to investors. (To read my full interview with Dan Levitan visit www.findingthenextstarbucks.com.)

The way to be successful in investing in tomorrow's stars is having some combination of curiosity, looking at a lot of things, being incredibly open minded and, last, giving yourself a glass of cold water and applying a healthy set of discipline in terms of understanding where the weaknesses are that could prevent the execution of an otherwise good idea. If you blend that curiosity, passion, and discipline and spend the time to really look at a company from not just your own perspective, not just management's perspective, but from the customer's perspective and the marketplace's perspective, I think you have an interesting opportunity to find some things that can be really big.

→ MEGATREND 8: OUTSOURCING

"Don't focus on how to spend less money. Focus on how to make more money."

—Lyndon Forman

After Lou Dobbs aborted Space.com to return to his earth-based chair on CNN's *Moneyline*, he took on the crusade against offshore outsourcing. His 2004 book *Exporting America* advocates balanced trade over globalization.

Dobbs created an "Exporting America" list that calls about every company I can think of traitors to America: 3M, Accenture, Albertson's, AMD, Agilent, American Express, Apple, AT&T, AOL, Applied Materials—and that's just through the As!

The reality is that in an ever-increasing global marketplace and in a world where time and distance have collapsed due to the Internet, the outsourcing toothpaste isn't going to be squeezed back into the tube. While outsourcing isn't a new trend, it is a megatrend that is with us to stay.

Reasons Companies Outsource

Save money and cost
Focus on core business
Improve service
Gain access to experts
Flexibility

To compete and to win, leading companies need to determine what their core competencies are and outsource basically everything else. The origins of outsourcing were in saving a buck, but today it's about comparative advantage and optimizing time and resources.

IT technology is the most prevalent area for jobs to be outsourced, with 28% of all outsourced jobs in the IT areas, and the global IT service market being an estimated $1.2 trillion in 2006. Global investment banks are expected to invest $356 billion in India for outsourcing proj-