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Industrials Practice

The rising value of industrial brands

New research highlights how brand visibility drives industrial companies' performance. Here's what they can do about it.

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In crowded and noisy marketplaces, consumers shopping for everything from antacids to airline tickets turn to the brands they trust again and again. Our new research shows that buyers in industrial sectors tend to behave in similar ways. Of the more than 5,300 industrial brands we studied, the top 5 percent capture 95 percent of share of voice—that is, mentions in publications and consumer media—in their sectors. As with consumer products, the top industrial brands that get more public attention can charge price premiums of 5 to 10 percent,[1] helping the companies that own them generate significantly higher ROIC.

The trend in purchasing is accelerating. Digital tools give purchasers access to more information about the full array of products available in the global market along with prices, performance specifications, and customer reviews. As product options multiply, a strong brand presence gives shoppers more confidence that they're making the right choice—an advantage for households and procurement departments alike.

Powerful brands also make customers more loyal, more willing to tolerate small missteps, and more likely to promote products and services to colleagues, friends, and family.

Across industries, many senior procurement executives tell us that they rely on just a handful of brands for critical services, equipment, spare parts, and so on. They believe these brands offer high quality and reliability to help users avoid downtime, delays, and accidents; many also cite the brands' first-rate sales and service.

In this article, we share our findings about the brands of more than 900 companies in ten industrial sectors, from home building to electronic equipment (Exhibit 1). We explain how brand visibility translates into ROIC, and we conclude with proven recipes and successful case examples for improving brand strength and raising performance in an increasingly competitive marketplace.

Six main insights emerged from our research:

— *Industrials include a great abundance of microverticals and brands.* We found ten main segments, 40 subsegments, and more than a thousand microverticals. The highest brand concentrations are in the industrial machinery, electronic components and equipment, and home and building products and technology segments.

— *Portfolio size varies widely.* Most industrials own five to ten brands, but some own more than 100, with most of the outliers in electronic components and equipment, industrial machinery, and industrial materials.

— *Industrial brands are highly specialized.* Approximately 80 percent of industrial companies participate in just one or two microverticals, and only about 5 percent participate in more than six. The overall average is 2.5 microverticals per brand.

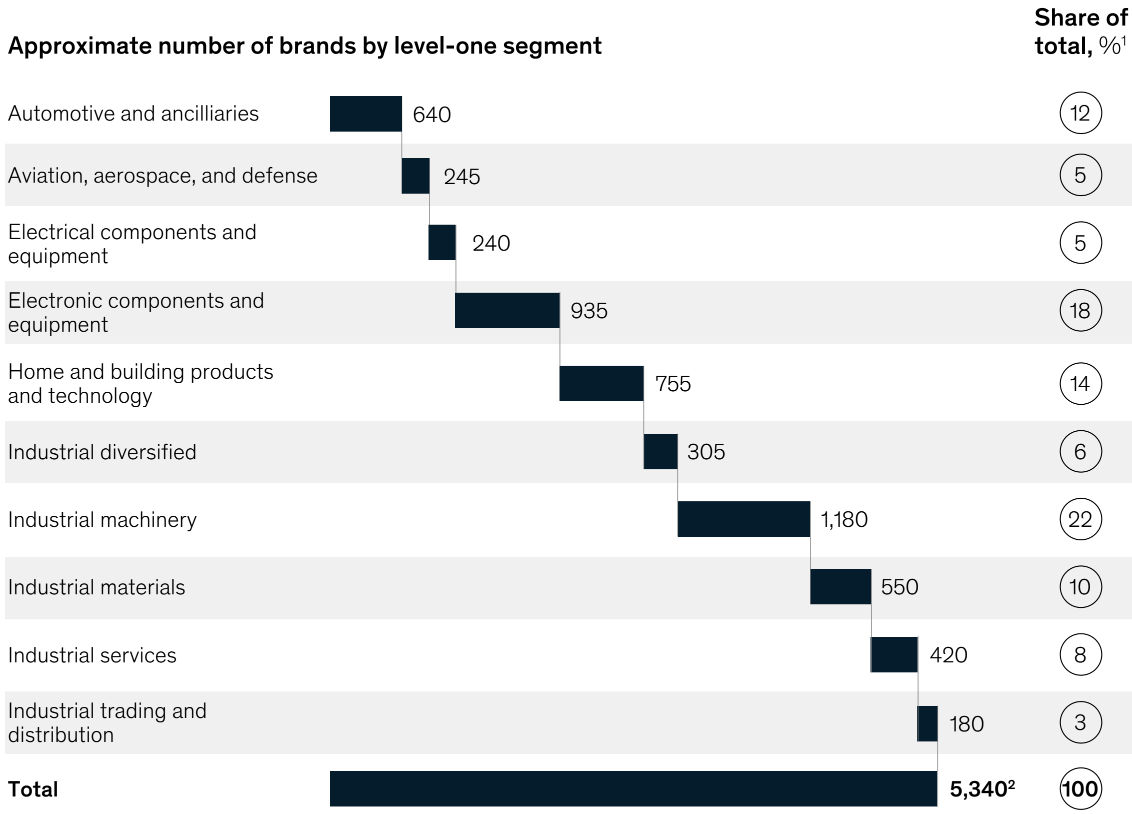
— *Visibility drives performance—but only for a few players.* The top three brands in each segment average a total 60 percent of visibility, and the top brand typically has four times more visibility than the third-place competitor. Overall, 5 percent of companies capture 95 percent of total visibility. And top-quartile companies enjoy about 30 percent higher ROIC than those in the bottom quartile.

— *Visibility declines for most brands over time.* About 60 percent of industrial brands have become less visible over the past five years, but

[1] For more on the value of brands, see Ying Chen, Hugo Hickson, Tobias Silberzahn, and Thomas Sutherland, "How much is your company worth to its customers?," May 22, 2019, McKinsey.com; and Sascha Lehmann, Nils Liedtke, Phyllis Rothschild, and Eloy Trevino, "The future of brand strategy: It's time to 'go electric,'" May 27, 2020, McKinsey.com.

Exhibit 1

We studied about 900 companies and 5,300 brands across ten industrial sectors.



[1] Figures may not sum to 100%, because of rounding.
[2] Number of brands does not add to the total because some operate in multiple segments (counted only once in the total).

Source: Company websites; annual reports; S&P Capital IQ; SICCODE.com; EDGAR; McKinsey Corporate Performance Analytics; expert interviews; McKinsey analysis

10 percent of brands improved their visibility by more than 50 percent, and the brands of larger companies improved visibility about 20 percentage points faster than those of smaller companies.

— *Those that improve are rewarded.* The top quartile of companies that improved visibility the most increased five-year ROIC by about three percentage points more than the bottom quartile—those whose visibility declined the most.

Now is the time to act. In this article, we further explore these insights and offer guidance on how a company can use analytics to assess the positioning of each brand and create a road map to relevance that includes strategic moves and visibility levers. The most successful companies pull multiple levers to improve brand visibility and performance.

Brand visibility drives returns

At many industrial companies, traditional marketing takes a back seat to engineering and other technical expertise. The good news is that industrial firms have far fewer potential customers than consumer-facing companies, so they rarely need vast marketing departments or costly multimedia advertising. According to our research, nearly 80 percent of industrial brands operate in just one or two microverticals each (Exhibit 2).

To determine the visibility of the more than 5,300 industrial brands we studied, we tallied their mentions in the media, including industry publications that customers read to learn about new products, systems, and technologies. Because B2B sales are increasingly held to the same standards as B2C sales channels, including the option to purchase online, we also tracked the growth of searches for the brands on major online search engines (see sidebar, "New insights into the industrial branding landscape").

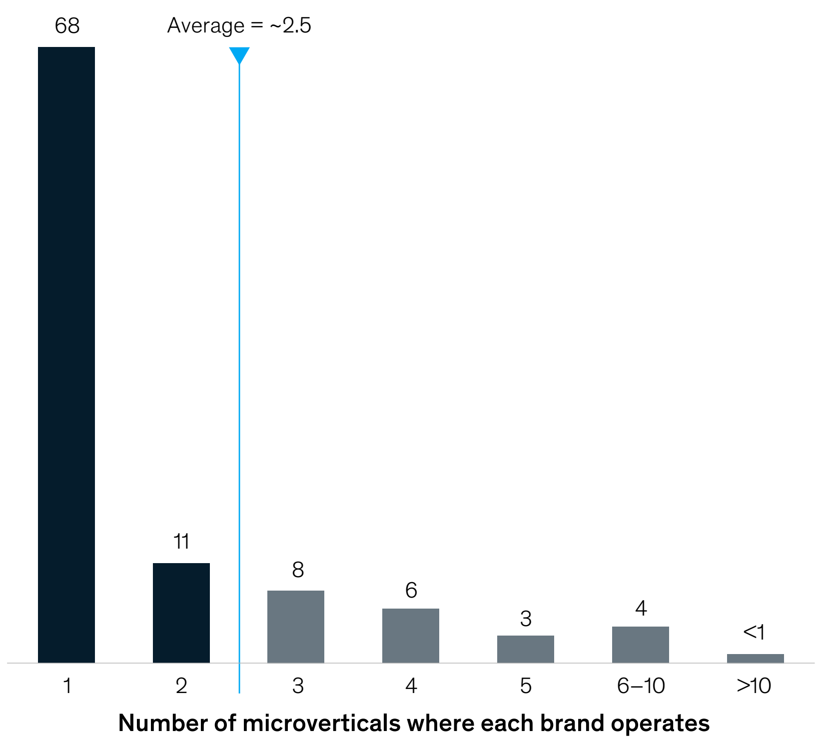
We found that a strong voice resonates: journalists, editors, and readers tend to focus their attention on just a handful of brands in any segment. On average, the top 5 percent of brands capture 95 percent of share of voice (Exhibit 3).

In each of the ten industry segments, the top three brands capture an average of about 60 percent of share of voice in relevant publications. Companies in the top quartile averaged ROIC of about 16 percent

Exhibit 2

Most brands participate in just one or two microverticals.

Share of all industrial brands,[1] %[2] (n = 2,329)



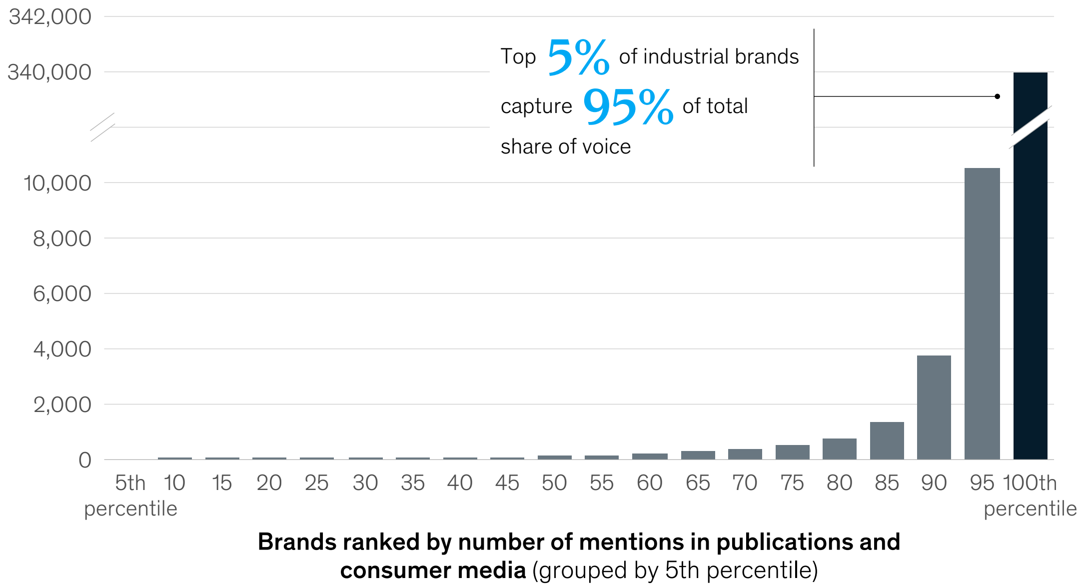
[1] Interim results based on 4 L1 segments: automotive and ancillaries; building technologies; electronic equipment and instruments; and industrial machinery (flow control, food processing, packaging).
[2] Figures may not sum to 100%, because of rounding.

Source: Company websites; annual reports; S&P Capital IQ; SICCODE.com; EDGAR; McKinsey Corporate Performance Analytics; expert interviews; McKinsey analysis

Exhibit 3

Top industrial brands capture the vast majority of public attention.

Brand mentions in publications and consumer media, total as of 2020 (n = 2,329)



Source: Factiva

over five years, outperforming those in the bottom quartile by about 30 percent (Exhibit 4).

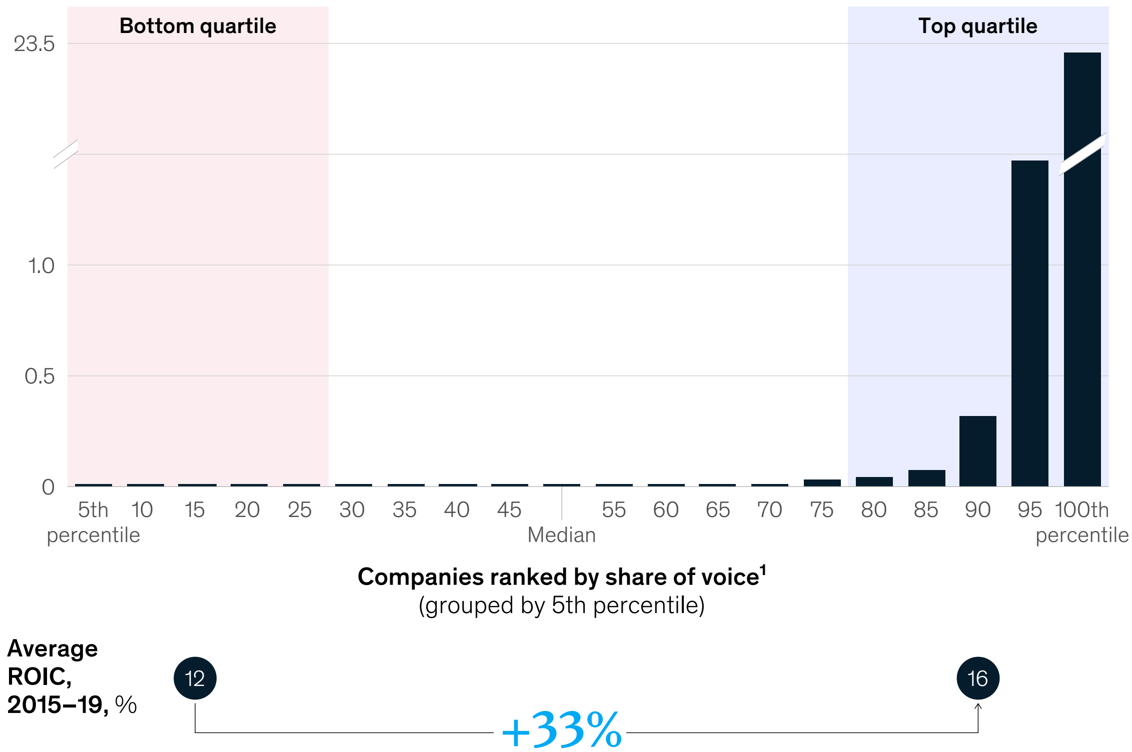
Visibility tends to decline over time, however, in part because new products and services catch the attention of customers and journalists. Our research shows that about 60 percent of industrial brands have become less visible in the past five years. Yet 10 percent of the brands we studied grew their visibility by at least 50 percent during the same period. In addition, the brands of the largest companies grew visibility 20 percentage points faster, delivering an average of 14 percent growth—compared with a 4 percent *decline* for small and medium-size companies. Indeed, companies in the top quartile of visibility growth averaged more than

Companies in the top quartile averaged ROIC of about 16 percent over five years, outperforming those in the bottom quartile by about 30 percent.

Exhibit 4

Industrial companies with the largest share of voice deliver ROIC about one-third higher than those with the least.

Mentions in publications and consumer media at company level, millions, total as of 2020 (n = 332)



[1]Percent of total mentions in publications and consumer media.

Source: S&P Capital IQ; Factiva; McKinsey Corporate Performance Analytics

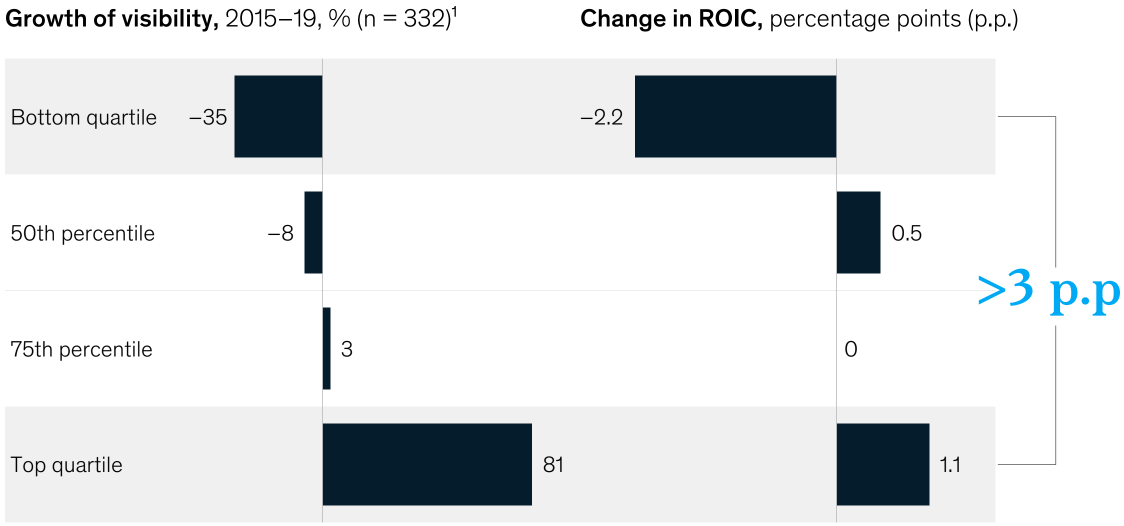
three percentage points of ROIC growth above those in the bottom quartile (Exhibit 5).

How to boost brand strength and performance

Each industrial company serves its distinct customers in a specific marketplace. Buyers of lumber, front loaders, and electronic components have different needs, backgrounds, and reading habits. An effective brand-building program begins with a deep, clear-eyed analysis of each brand in the portfolio, including its visibility in the marketplace and strategic positioning compared with competing brands in each microvertical. In our experience, a tailored combination of nine actions across the following two areas can guide the effort:

Exhibit 5

Companies that significantly raised visibility were rewarded.



[1] Evolution of average monthly searches on Google. We provide averages by percentiles to reduce variability, excluding outliers in the top and bottom 2% of distribution.

Source: Google Trends; S&P Capital IQ; McKinsey Corporate Performance Analytics

Strengthening the brand portfolio

Companies can take a range of strategic actions to group brands into segments and quickly grow their customer base, reduce competitive threats, and capture market share:

— *Consolidate the portfolio.* After identifying their strongest brands, companies can consolidate their market positions by focusing on microverticals where they already win.

— *Adjust pricing.* Companies may consider value-based pricing,[2] in which a brand's price aligns with its ability to generate value for customers. This can differentiate the brand's performance from lower-quality competitors.

— *Invest in growth.* Many companies can wield investment in R&D, product development, or M&A to expand their offerings and meet more customers' needs.

— *Consider divestiture.* Where visibility and sentiment analyses show that a brand is faltering, senior leaders can conduct an impartial cost analysis of turning the trend around and decide whether to invest or divest.

Raising brand visibility

Since their audiences are relatively small, many industrial marketing teams can raise visibility quickly by taking a range of actions:

— *Embrace omnichannel marketing and sales.* Investing in new online and digital sales channels can expand brand visibility and drive growth while improving margins over those achieved using only traditional channels, such as in-person sales.

[2] For more on how industrial companies can reset their pricing architecture, see Rock Khanna, Harsha Krishnamurthy, Andrea Queirolo, and Nick Santhanam, "Creating value at industrial companies through advanced pricing techniques," August 24, 2018, McKinsey.com.

New insights into the industrial branding landscape

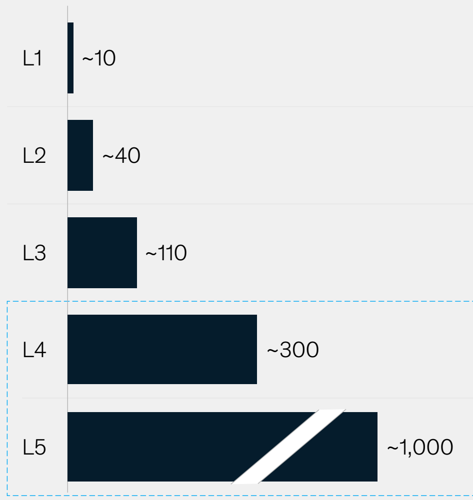
To gain a deeper understanding of industrial brands, we studied more than 5,300 brands in about 900 companies around the world in ten industrial segments. About 700 of the firms are public companies with operations in the United States and no foreign listings; the remainder are private US companies or international firms with a large US presence.

For apples-to-apples comparisons, we grouped similar brands in more than a thousand microverticals. We divided level-one (L1) automotive equipment brands, for example, into L2 categories, from heavy trucks to farm equipment (Exhibit 1). We then grouped those brands into L3 classifications such as agricultural machinery, and divided them into additional subordinate categories—in this case, down to rectangular balers, where about a dozen companies compete for customers' attention.

Exhibit 1

Our analysis grouped industrial brands by product portfolio and end-market focus.

Number of segments
(increasing granularity)



Microverticals (L4–L5)

Selected examples

L1	Automotive and ancillaries	Home and building products and tech	Industrial machinery
L2	Heavy trucks, construction, and farm machinery	Finishing materials	Flow control equipment
L3	Agricultural and farm machinery	Building interior	Fluid handling (pumps, compressors)
L4	Haying equipment	Flooring	Dynamic/ centrifugal pumps
L5	Rectangular baler	Carpet and rugs	Axial

Source: Company websites; annual reports; S&P Capital IQ; SICCODE.com; EDGAR; expert interviews

The typical industrial company owns about six brands, but many own dozens and a few own more than 100 (Exhibit 2), which likely presents challenges to brand managers and sales and marketing teams. We also found that medium-size companies (those with annual revenues of $2.5 billion to $10 billion) tend to have nine or ten brands each, more than small or large companies. Furthermore, more than 80 percent of the brands we studied operate in just one or two microverticals; fewer than 5 percent compete in more than six. This may suggest growth opportunities for companies willing to explore new microverticals and reach a broader audience.

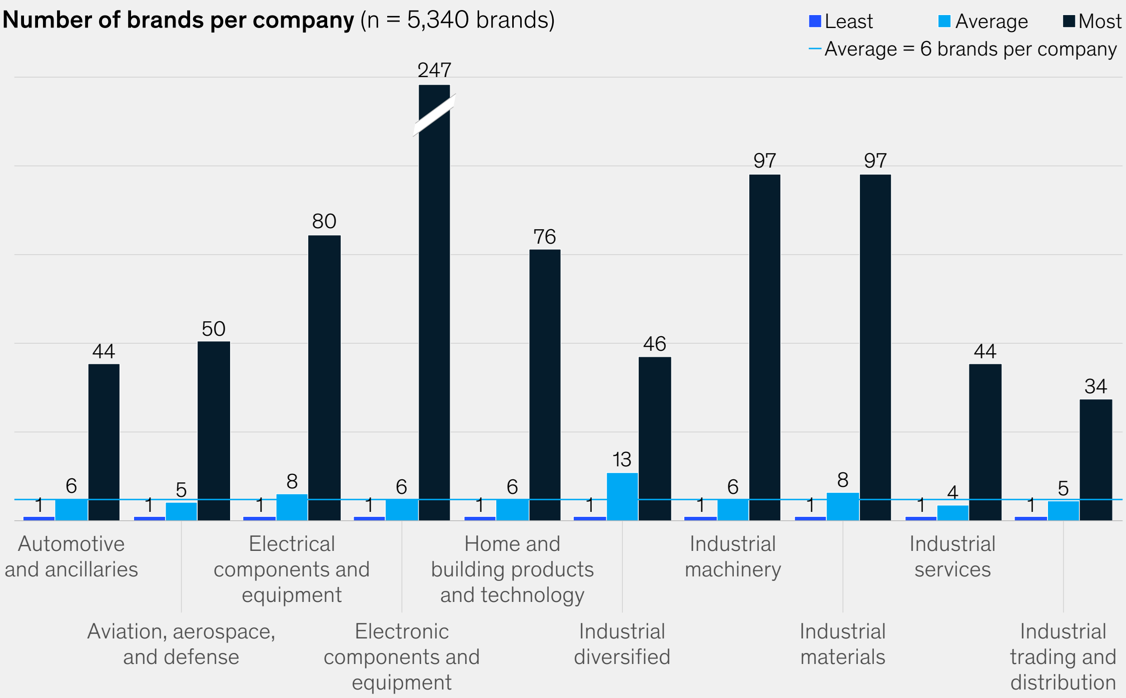
To gauge brand visibility, we compared each brand's online searches and mentions in publications with those of direct peers in the microverticals where they compete. We also evaluated each one's presence in social media, including growth in mentions, views, posts, and followers, particularly among key executives.

New insights into the industrial branding landscape (continued)

Exhibit 2

Companies' brand portfolios can vary in size, though most average six.

Number of brands per company (n = 5,340 brands)



Source: Company websites; annual reports; S&P Capital IQ; SICCODE.com; EDGAR; expert interviews

— *Update messaging.* Companies can create momentum for their brands by incorporating upgrades and digital offerings into their core messaging to set themselves apart from less innovative competitors.

— *Launch bold marketing campaigns.* To generate interest in their brands, some companies are mounting new marketing campaigns that borrow from B2C best practices. Others are gaining traction by playing larger roles in industry events.

— *Partner with the best customers.* Closer relationships can involve sharing success stories and raising awareness about the value generated by new products.

— *Invest in digital and analytics.* Investments in digital and analytics capabilities can enable industrial companies to reset the perception of their brands and expand their product offerings in the long term. Many are now forging partnerships with tech companies to close skill gaps faster, given the challenges of hiring and retaining top tech talent.[3]

[3] For more on overcoming talent challenges, see Reed Doucette and John Parsons, "The importance of talent and culture in tech-enabled transformations," February 20, 2020, McKinsey.com.

Taking strategic and brand-visibility actions: Case examples

A look at how some companies have handled their brand development offers insights into how these strategic and brand-visibility actions play out in real life.

A global HVAC manufacturer increased its brand visibility by focusing on three initiatives: optimizing its channel strategy, investing in digital and analytics, and consolidating its messaging to improve its market position.

The channel-strategy optimization effort began with the launch of a new e-commerce platform for HVAC professionals. Customers were delighted to be able to order equipment and spare parts and request service and training through the new industry-leading online platform. To meet the needs of highly mobile HVAC installation teams, the company also adapted its website for mobile use.

The manufacturer also partnered with an advertising agency to develop its first mobile marketing campaign. These efforts together raised brand visibility, improved conversion rates, and lowered the cost of each conversion to almost zero.

The company's investment in digital and analytics involved introducing an entire ecosystem of digital solutions to help dealers and contractors connect with potential end customers. This effort significantly increased productivity and effectiveness in lead generation, data collection, building inspection, equipment selection, and deal closing.

Finally, the firm consolidated several businesses under a single umbrella brand to improve the coordination of marketing teams and boost visibility where its position was weaker. Since making these changes and in combination with other performance drivers, the company has expanded into a new major regional market and increased its ROIC by about 15 percentage points.

A North American food-service equipment manufacturer has taken a number of steps to increase its visibility. In the past 36 months, actions have included expanding its offering of new connectivity services to customers, partnering more closely with its best customers, optimizing its channel strategy, and updating its messaging to achieve increased momentum.

To gain a leadership position in the digital age, the company created a free cloud-based solution that allows food-service managers to oversee and manage kitchen operations. It offers large-scale users highly sophisticated premium versions that help them anticipate and manage surges in demand and significantly improve on-time food delivery. Customers were also pleased to tap into additional resources on the online platform, including a user community that built engagement and reinforced brand loyalty.

The company partnered with a major customer to share success stories about the rollout of a new large-scale solution. It widely promoted the customer's testimonials and distributed materials highlighting its central role in their success.

To increase brand visibility in new channels, the manufacturer often appeared in publications for food professionals sharing the latest news and technical and product recommendations. And in an effort to update messaging and create momentum, at recent webinars and online industry events it provided attendees with an immersive experience using virtual reality—customers could see new products and explore specs and details remotely.

The striking results of these efforts include an increase in visibility of about 40 percent and an ROIC improvement of roughly five percentage points.

Amid an increasingly complex global marketplace, and given clear evidence that brand visibility drives ROIC, the strongest industrial brands will only become more valuable as they inspire confidence—therefore simplifying customers' decision making.

Companies with a deeper understanding of each customer and brand in the microverticals they serve will gain valuable insights into how to strengthen their brands and expand their customer bases. They will also recognize threats and opportunities earlier, accelerate innovation, and win more attention from customers to drive profitable growth across verticals and geographies, leaving the laggards further behind.

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