

The Death of (Many) Brands, Part II

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In August of last year we published a piece titled [The Death of \(Many\) Brands](#) in which we argued that there were two main types of brands in the world and that one of these types was collapsing as a source of competitive advantage.

“Brands created value by lowering [search costs](#) for consumers. Search costs are the costs incurred by a prospective buyer in trying to determine what to buy... It is important not to underestimate how powerful search cost brands have been in economic value creation in the past. Over the past 50 years, the *top performing sector of the stock market* has been consumer staples.

Now, however, the era of search cost brands is coming to an end. The moats are being breached. Over the long term, we do not believe that these types of brands will provide a significant competitive advantage to their owners...”

A [recent Wall Street Journal article](#) explored some of these same concepts through the lens of the role of Amazon’s Alexa virtual assistant and the risk it poses to consumer brands.

“Unlike in stores or online, where an array of brands get plenty of exposure, voice-search assistants like Amazon.com Inc.’s Alexa often steer shoppers to a single product, usually selected by an algorithm with no input from the sellers... In a test conducted in October, Bain & Co. found that for customers making a first-time purchase without specifying a brand, over half of the time Alexa’s first recommendation was a product from the “Amazon’s Choice” algorithm, which implies a well-rated, well-priced item that ships with Prime. Bain also found that in categories in which Amazon has a private brand, 17% of the time Alexa recommends the private-label product even though such products make up just 2% of volume sold.”

Branded consumer product companies recognize this risk, with the CFO of Unilever telling the Wall Street Journal, “Of all the disruptions that are taking place in all the things technology is bringing into our space, voice [search] is among the most disruptive. When it comes to voice search you go first position or you go home because beyond the first or second place there is no future.”

In other words, voice search means that even for the most powerful consumer product companies in the world, if Alexa doesn’t point consumers to you, *there is no future*.

Consumers’ need to quickly and easily identify products that offer solid quality for good value has not gone away. In our post we described the ways in which Amazon and Uber are in the process of supplanting the role of lowering search costs by substituting their own brand as a source of trust for consumer to make confident purchase decisions. Amazon has become such a trusted source of information for consumers that it is not just an online retailer but the vertical search engine of choice for products. If Amazon lists an item #1, most consumers will trust that it is of high quality and a good value. That’s why the #1 result for “[batteries](#)” on Amazon is not Duracell or Energizer, but a pack of AmazonBasics batteries that sell for less than half the price of the comparable Energizer batteries

listed further down the page. For any consumer who might question if Amazon was just pushing their own product rather than the best option, the 18,975 ratings with an average score of 4.5 stars out of 5 will put their mind at ease.

Similarly, as described in our original article, Uber's brand has become such a trusted symbol to consumers that they will "[literally summon strangers from the internet to get in their car.](#)"

Concierge brands are not new. They have existed in multiple forms in the past. Moody's brand stamped on a bond rating tells investors that a bond on which they have done no due diligence of their own is of a known quality. Consumer Reports has steered consumers to high quality, value priced products for many, many years. When a mutual fund receives a five star Morningstar rating, the fund's employees are ecstatic because they know this stamp of approval is the key to massive fund inflows.

The trusted reviews at TripAdvisor allows travelers to confidently book travel plans to far flung locations knowing that their experience will be great. Believe me, without TripAdvisor, my family never would have had the confidence to [spend the night with a hilltribe](#) in the northern mountains of Thailand. But TripAdvisor's concierge brand provided a seal of approval to a small, family run tour operation that opened up a travel experience that would have been unavailable to us otherwise. And of course it was the highlight of our trip.

But our view that the end is coming for search cost brands does not mean the power has shifted decisively to the Amazons and Ubers of the world. The trust in a concierge brand is only durable if the recommendations made by the brand are good ones. Headlines about Uber drivers assaulting a customer are poisonous to the Uber brand because what they offer is not just logistics but the seal of approval that the random strangers who offers you a lift will deliver you safely to your destination. It only takes a couple of unhappy trips to TripAdvisor recommended hotels to ruin the site's reputation and therefore whole reason for being.

So there is an opening for product companies to capture value as the concierge brands muscle their way into their industry's profit pool: *Make differentiated products that are great and sell them at a fair price.*

The Death of Brands does not imply the death of great products. It implies the death of top brands that do not in fact represent an outstanding product at a fair price. The very worst thing the concierge brands could do is recommend products that serve the concierge's financial interests, but are not in fact in the best interest of the customer. If Amazon's Alexa starts regularly recommending Amazon's own products despite superior, better priced products on the market, Amazon's concierge brand will go down in flames.

Concierge brands are valuable because they reduce search costs. This isn't difficult to understand. When you are in a city you've never been to and a friend who has been before recommends a great place to eat, you will choose that location confidently without doing extensive research on your own. This is what search cost brands offered in the past. Now we see the rise of concierge brands inserting themselves into the equation, delivering value to consumers and extracting profits from the legacy brands. But their power is not unlimited. There is a real risk that in the pursuit of profit maximization they will overreach, point consumers to products that serve their interests rather than the consumers, lose trust and lose out on profits.

There is only one path forward for product companies: Ship great products and force the concierges brands to point everyone your way.

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