

MASTERING BUSINESS BRAND EVOLUTION

The competitive power of branding in business markets.

A key points summary from the initial meeting of the
ISBM Business Marketing Brand Consortium

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by

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Contents: (in order of the conference agenda)

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Presentation summaries:

- *Featured research summary:* [Rajendra K. Srivastava, Emory University. Linking Branding to Shareholder Value.](#)
- *Member case history:* [Patrick J. Kenny, PPG Industries. PPG Glass Branding: Developing Competitive Advantage.](#)
- *Member-based insight:* [George F. Brown, Jr. and Atlee Valentine Pope, Blue Canyon Partners, Inc. Brand Strategy in Complex Customer Chains.](#)

“OPEN MIKE” ON MEMBER ISSUES:

A summary of business brand and brand management observations and challenges meeting participants discussed in an open forum moderated by Ralph Oliva, ISBM executive director.

Definitions of “brand”:

- Industrial companies typically have a poor understanding of brands.
 - According to Prof. Don Schultz of Northwestern, brands are a relationship in the market triggered by one’s trademarks.
 - Most business-to-business companies have few brands but lots of trademarks.
 - A trademark is not a brand until a relationship develops that has economic consequences.
- A brand is a *differentiating promise* to the market.
- Brand are the way to grab what author Kevin Kelly (in “New Rules for the New Economy”) calls the most valuable commodity: human attention.
- Brand identity is based on the consistency of meeting customer expectations.

- Brand strength depends on its ability to earn premium prices and shares, and to become the preferred supplier.
- When should you *not* brand?
- How do brand values change as products move down the value chain?

Creating new brand identities and positioning:

- We need brand identities to differentiate our products from commodities.
- How do we create a new umbrella brand to reduce buyer confusion over multiple industrial product brands acquired and sold through mergers and now used in co-branding programs? Culture clashes among companies we now own, which participate fitfully in co-branding ad programs.
- We learned there is a limit on how far you can extend a brand to other products (e.g. a food supplement) in fields removed from our core business (petroleum).
- How do we switch a performance promise linked to a generic product category to our brand name? Other manufacturers are now making the product and benefiting from the promise we developed around it.
- We want to develop different brands at different prices for different segments, but can we use our most economical medium, trade shows, if buyers from each segment could see the brands aimed at others' applications?
- The psychology of branding is tricky. The market might not believe a brand promise stressing company vision and passion. Brands are about business performance promises.
- We need to look beyond our industry for benchmarks on handling our branding challenge:
 - Bulk commodity sales to many different market segments, some of which buy on a commodity basis, while larger customers each look for different mixes of value-added services.
 - Our product is not a packaged product with a wrapper or an affixed label.
 - Many suppliers large and small compete in the market.

Global branding:

- Without strong brand recognition overseas, we are relying on North American marketing momentum rather than global understanding.

Corporate identity and branding:

- In a multi-business company, every SBU wants a brand and a logo. How strong should corporate identity promotion be?
- Should we apply our corporate name to the brands of companies we've recently acquired?
- Conflicting product brand names within our company cloud our corporate identity. It's unclear to the market what we stand for.
- We must maintain central control of the corporate brand and not let business units use it however they please.
- Acquisitions have brought us four core technologies, which give us unique capabilities to meld the technologies in ways customers want to buy them. Our challenge

is branding those capabilities, and managing the complexity internally. In addition, we have to train salespeople who don't yet get it.

- Our corporate relationship to our products is changing, as a new parent company manages our business units as a portfolio. Previously, we positioned ourselves as units integrated around our core technologies.
- We have a misleading corporate name, identical to the name of the company's first product, which is now outdated and only a small part of the company's current business. Our privately held company's founder is committed to the current name.

Ingredient and co-branding:

- How do you ingredient brand a product that loses its *identity* in your customer's product even as its *attributes* continue in the customer's product?
- What are the prerequisites for an ingredient branding strategy?.
- Our customers brand their own products when they sell to industry OEMs and will not promote us as an ingredient brand.
- How to transfer our knowledge into a brand identity that travels down the value chain?
- We are learning how an industrial company can build a brand name with consumer end-users.
- Many of our customers want to use our name as an ingredient brand, but research finds that our name is not important to the end customer.
- We have an ingredient brand breaking into a market of entrenched brands. Our customers using our ingredient brand generally are weak marketers and do a poor job of branding their downstream products.
- Our customers use our brand as an ingredient brand. Will consumers recognize our brand if we run pull-through advertising?
- Should we co-exhibit at trade shows with our customers who use our ingredient brand? Will that create a conflict for us? Conflicts among our customers?
- Your strong ingredient brand can add lots of credibility to your customer's presence at a trade show.
- We have found that when a company has less brand equity than we do, they ask to co-brand, then drop us once their brand gets established. Meanwhile, we've asked to co-brand with strong consumer brands, and the answer is always no.
- Does an ad campaign like that of BASF—touting its role as a supplier to consumer product manufacturers—actually help BASF salespeople be more effective? When does investor promotion also pay off with customers?

Effects of e-business:

- The Web forces many firms to address identity problems for the first time, as e-business accelerates the role and importance of brands.
- How to sustain the power of the brand as interlopers, such as e-business portals, restructure an industry's channels?

Brand accountability:

- In a company fixated on sales growth, how do we prove the investment value of branding our products?
- You need a “mole” in the chief financial officer’s office, to plant the notion of brand investment values.
 - Marketers talking about brand value don’t seem to have as much credibility with senior management as a CFO who talks about brand value.
 - Don’t present brand programs to topmanagement yourself. Get your CFO to do it. CFOs have more credibility when talking numbers.
 - Give the financial types a spreadsheet to play with. Even if they discount your numbers, you will still have a branding story for management.
- If you have trouble convincing your management about the value of brands, use our community of practice, represented by this group, to find other industrial branding examples to show to your management. Don’t show consumer branding examples, where brand identities and product concepts are substantially different from business markets.
- The issue is not just quantifying brand benefits, but tying brand decisions into corporate strategy.

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Featured Research Overview:

Driving the Future via Market-based Assets

Rajendra K. Srivastava

Senior Associate Dean—Emory University

Brands add value to the business process:

- “The job of a marketing person is to make markets imperfect. Branding is one of the prime ways to do it.”
 - With branding, a commodity product can extract price and/or share premiums from the market.
 - Often branding depends on the services surrounding the product.
- Dell Computer delivers the best shareholder value, 3000% growth since 1995, compared to Microsoft, Intel, or Cisco, each with about 300% growth.
- Why does Microsoft deliver more shareholder value than Intel?
 - Intel has a near monopoly, commanding an increasing share of the total price of a personal computer—from 2% in the original PC to about 30% in a Pentium machine.
 - But even though its growth is roughly comparable with Microsoft’s, Intel gets a price/earnings ratio of 18 in the stock market vs. 43 for Microsoft. Intel’s ratio of share price to book value per share is less than half Microsoft’s.

- The reason: The market sees more growth prospects, and less risk, in Microsoft than with Intel.
 - Microsoft's branding has created greater brand loyalty than Intel, doing a better job creating an imperfect market that reduces the risk in Microsoft's projected growth.
 - Microsoft brand loyalty raises the customer's cost of switching from its operating systems—a higher switching cost than those associated with processors, computer assembler brands, and other components of the PC system.
 - Companies typically measure marketing performance in terms of sales and share. Few credit branding with reducing corporate risk, by creating imperfect markets that protect a firm from competition.

Combining customer and shareholder value drivers:

- The drivers of *customer* value are:
 - Innovation management: new product development and design.
 - Supply-chain management: operational excellence in order-delivery processes.
 - Customer relationship management: Managing market-based assets and value networks.
- From the investor perspective, the drivers of *shareholder* value are:
 - More cash flow.
 - Accelerated cash flow.
 - Less risk: decrease vulnerability & volatility of cash flows).
 - Building the long-term value of the business.
- The drivers of customer and shareholder value intersect on a 4 x 3 matrix, shown in Figure 1 with the names of exemplary companies in each cell.

Figure 1

Driving Customer and Shareholder Value

Components of Value	Innovation Management	Supply Chain Management	Customer Relationship Management
Enhance Cash Flows	Intel, HP	Dell	Du Pont, Xerox
Accelerate Cash Flows	Intel	Intel, Dell	Microsoft, P&G
Reduce Volatility and Vulnerability of Cash Flows	Pfizer, Gillette	Sabre(ex-AA)	USAA, AA
Invest to Enhance Long-Term Value of Business	Glaxo, Merck	Baxter	Microsoft

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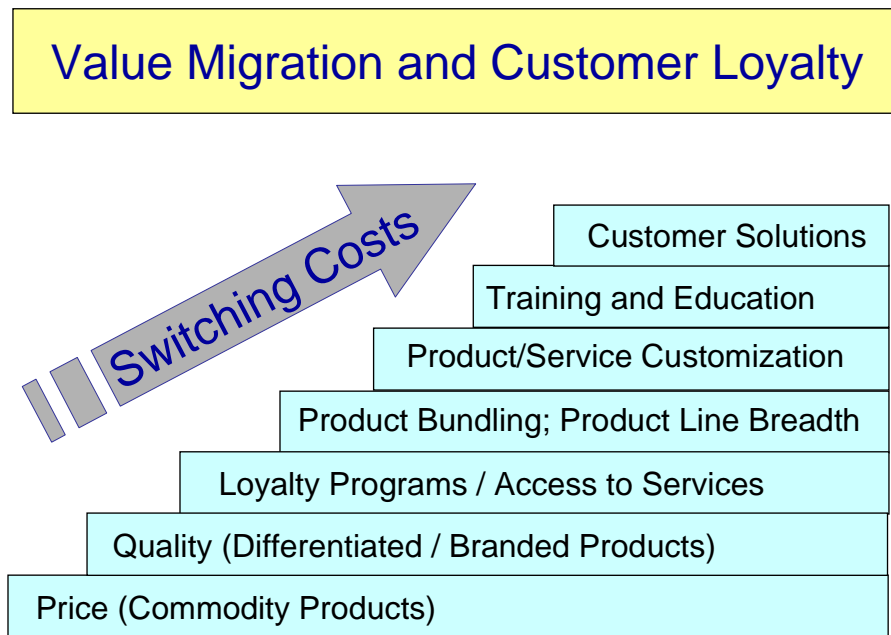
- Dell practices superior supply-chain management.
 - Although computer “boxes” are often considered commodities (Dell and other PC makers spend relatively little on R&D), Dell earns a 21% gross margin, hardly a commodity margin!
 - The reason: Dell’s business model.
 - Build computers to order.
 - Minimize working capital and fixed investment.
 - Dell collects from its customers before it pays its suppliers. “They use other people’s money to run their business.”
 - Dell cuts fixed investment by outsourcing components, buying as needed to fill orders.
 - Dell’s slim inventories (8 days supply) create high inventory turnover.
 - Eliminate dealer margins.
 - Differentiate via service and support, on a good product at a reasonable price.
 - Maintain field reps to provide support.
 - Online help desk and self-help options.
 - Online ordering eliminates errors.
 - About 30% of sales come from countries where Dell does not have a support presence. Information, the brand name, drives sales.
 - Cisco Systems, selling online direct to customers, achieves cost reductions. More important, it enhances the value of its market structure and bargaining power.
 - Cisco is the hub of market activity.
 - Collects profiles of smaller customers.

- Direct relationship with customers for information and service.
- Increased bargaining power over VARs, because Cisco owns the customer relationship.
- Intel Corp. drives shareholder value by reducing risk.
 - Building OEM customer loyalty.
 - Strong end customer upgrade potential.
 - Risk of losing customers if they drop Intel processors.
 - “Intel Inside” campaign and standardized chip sets and boards reduce OEM market-entry costs.
- Microsoft builds shareholder value with multiple market-based assets.
 - Huge customer installed base in operating systems and applications.
 - Installation agreements with OEMs.
 - Dominant platform for software developers.
 - Dominant market share for distributors.

Value migration and customer loyalty:

- Build customer loyalty around the brand by increasingly tying the customer to the solution and increasing the customer’s switching costs (Figure 2).

Figure 2



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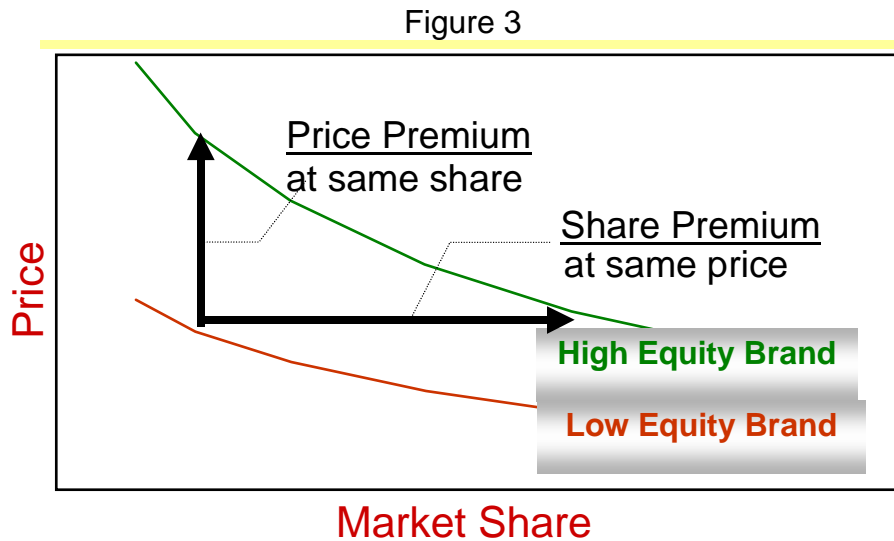
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- Your customer’s solution might require integrating complementary products—maybe even competitive products—into your offering mix. A co-branding opportunity.

Price and share premiums:

- Building brand equity through marketing and advertising raises the demand curve for a product; the marketplace confers price and/or share premiums (Figure 3).



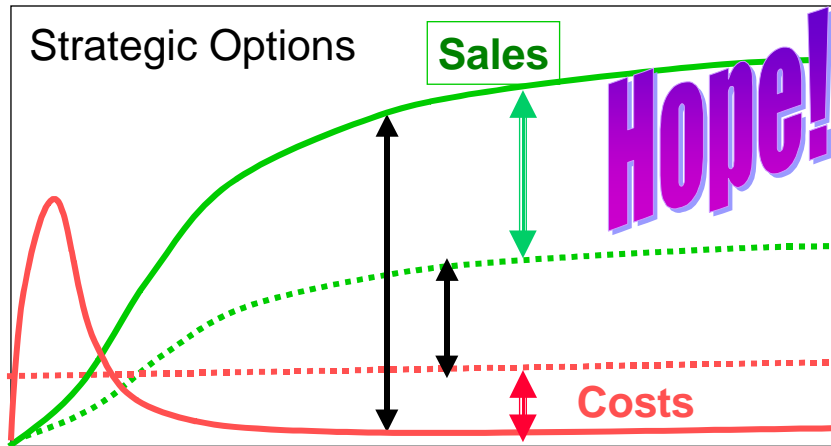
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- If you cannot charge more for your product or increase its share, do not waste money on marketing and advertising
- If you have more control over the consumer, you have more control of the value chain.
 - Marketing and advertising directly to consumers, bypassing carpet and rug value chains respectively, builds price premiums for DuPont's Stainmaster and Lycra ingredient brands. In Lycra's case, a nearly 100% price premium. DuPont recognizes the value added it could earn downstream with brand equity.
 - Launching an ingredient brand, simultaneously promote to downstream channel members (push marketing) and to consumers (pull marketing).
 - Small manufacturers downstream will be more receptive. Give them competitive capability and they can become the base on which you build demand and eventually win the interest of market-leading manufacturers.
- Timing is critical.
 - Companies worry about time to market and speed the R&D.
 - The critical issue is really time to market penetration.
 - In a capital-intensive business where volume is the key to profit, you have to ramp up customer acceptance quickly. Slow penetration of the market will not work (Figure 4).

Figure 4



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- Heavy up-front marketing and advertising investment (red solid line), compared to steady marketing spending (red dotted line), produces more sales earlier (green solid line) than would otherwise be achieved (green dotted line). Building brand strength earlier produces wider margins downstream.
 - For example, pharmaceutical makers used to promote brands only when drugs went off patent. Now they promote heavily in brands up front, building brand strength early and producing more overall profit.
- Managers must learn how to build value. Then they can worry about managing cash flow.
- Successful branding requires assuming the risk of investment in the brand, with the potential reward of “hope,” actually buying a real option on future profit.

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Member Case History:

PPG Glass Branding: Developing Competitive Advantage

Patrick J. Kenny

Director of Marketing—PPG Flat Glass Products



Glass Technology
S I N C E 1 8 8 3

Objectives of the “Brand Builder” program:

- Avoid being trapped in a commodity marketing environment for residential flat glass products.
 - Market consists of about 500 window and door manufacturers.
 - Key segments for window and door manufacturers are the channels selling to the price sensitive remodeling and new construction markets, including:
 - window distributors
 - trade-oriented dealers, e.g. building supply, millwork companies, lumber yards
 - retail-oriented merchandisers
 - specialty window dealers and installers
- Create competitive barriers through supplier preference, service, relationship management, etc.
- Create closer links to management levels at customer firms, outside the usual purchasing function.
- Elevate PPG brand awareness through the channel using customer enrollees.
- Establish communication “pipelines” to channel participants.

Strategy and tactics:

- Use “ingredient branding” approach to promote to buyers of window products—the channels that “deliver the window to the consumer’s doorstep.”
- Utilize new PPG Brandmark with specific promises to the residential construction channel, i.e. buyers of window products.
 - PPG logo and leadership image enhance window makers’ reputation.
 - PPG superior performance glass technology drives a quality image for the customer’s window product.
 - PPG market leadership “since 1883” connotes long-term reliability and “warranty strength.”
- Window customers can leverage PPG name in selling to their customers.
- Co-op marketing reimbursements up to 2% of purchases for window manufacturers.
 - Eligibility requires purchase of PPG Low-E glass products
 - Program requires active promotion of PPG in the participant’s marketing program.
 - PPG did not set explicit promotion standards, because channels have many ways to promote, e.g., in one case, PPG helped a company promote on its Web site.
 - Participants must apply PPG logo stickers to windows.

- Participants cannot promote other brands of low-e glass products.
- Dual promotion approach:
 - PPG BrandBuilder program promoted to window manufacturers.
 - PPG BrandPartners promotion to downstream channels.
 - “You have to demonstrate that you will spend downstream yourself. It builds manufacturer commitment.”
 - Create pull-through demand PPG window customers by promoting to residential builders, remodelers, distributors, window specialists, etc.
 - trade publication advertising
 - attention-getting use of celebrities linked to superiority of PPG technology
 - direct mail
 - collateral, POP, etc.

Results:

- BrandBuilder program launched in October 1997.
- “Branding programs are fun, but they do not mean anything until the business performance is realized.”
- BrandBuilder program exceeded some first-year (1998) objectives:
 - Over 50 customers enrolled.
 - Achieved an excellent blend of customer enrollees, by region, sash type, distribution channels, and end-user focus.
 - Achieved high supplier share positions with most enrollees.
 - Seven-figure incremental 1998 sales due to program.
 - Estimate of over 3 million windows labeled.
- Overall awareness percentage increased in window distribution channels.
 - But aided and unaided awareness gains uneven across channels.
- Total investment in program less than 1% of sales to residential windows market.

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Member-Based Insight:

Brand Strategy in Complex Customer Chains

George F. Brown, Jr.
Atlee Valentine Pope
 Blue Canyon Partners, Inc.

The business brand strategic process:

- “Create positive brand perceptions” that reside appropriately with both the sales channel partner and the end-customer.
- “Signal concrete associations” that can foster the supplier’s legacy without delivering mixed messages.
- “Build unique attributes and meanings” that can differentiate the supplier’s products and services from its competitors.
- “Achieve breakout opportunities” by endowing the supplier’s products and services with messages that can bring premium prices and preferred positioning among the channel partners.

Create positive brand perceptions in the “customer chain”:

- Customer chains are complex, with many dimensions.
 - Some customers are driven by price, some by value, some by support, etc.
- Systematically examine:
 - Each *customer chain* within the relevant product or service market.
 - The *factors that influence purchase decisions* on the part of the channel partner and end customer on the customer chain.
- Branding environments consist of direct customer purchase decision criteria and end customer criteria (Figure 5). Each direct customer/end customer chain exhibits a unique mix of purchasing criteria.

Figure 5



- Select segment-specific brand strategies:
 - “Brand pull” (upper left quadrant in Figure 5) strategy pulls the end customer, allowing the supplier to capture premium prices from the direct customer.
 - “Brand dominance” (lower left) makes brand the key to both end and direct customers. Differentiated products and systems integration command premium prices.

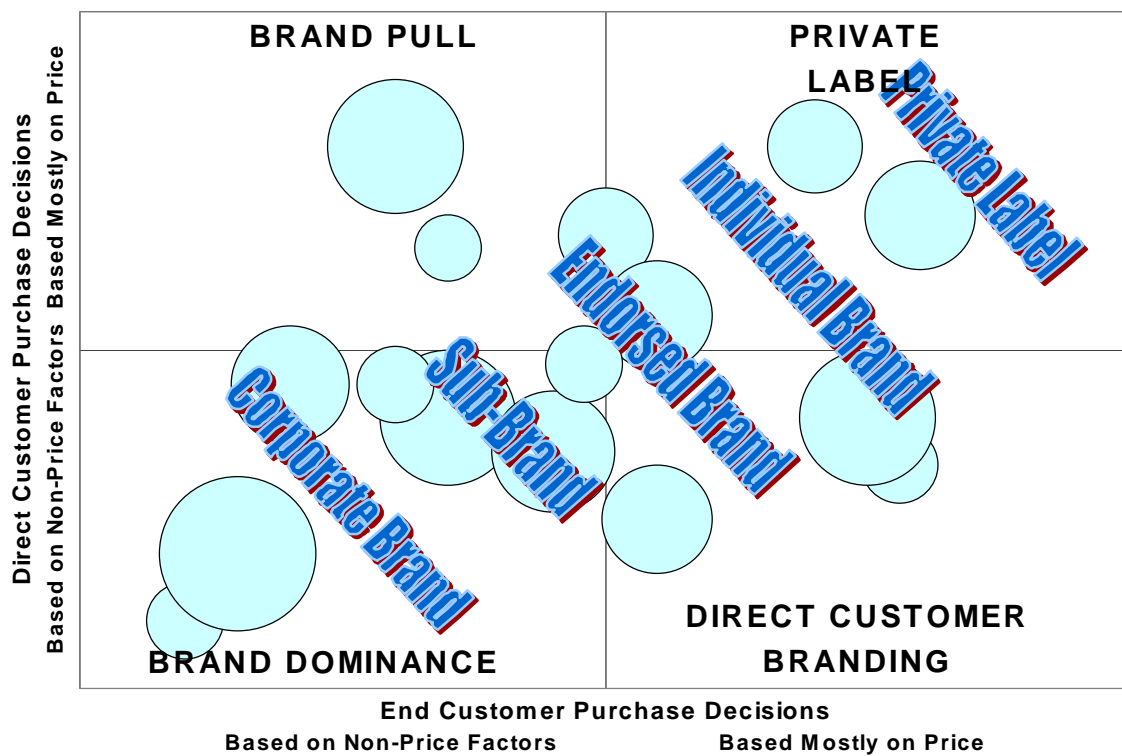
- “Private label” (upper right) strategy recognizes that the environment is anti-brand and oriented toward commodity pricing for both direct and end customers.
- “Direct customer branding” (lower right) finds the supplier’s brand differentiation important only to the direct customer. The direct customer will compete on price for the end customer.
- Buyers do operate in different quadrants, depending on the transaction.
- The upper right and lower left quadrants indicate well-aligned customer chains.
 - In upper right, the channel(s) and end customer emphasize price.
 - In lower left, the channel(s) and end customer emphasize non-price factors.
 - Non-price factors could be aligned (e.g., both want support).
 - Non-price factors could be misaligned (e.g., one wants support, the other performance).
- Take a process approach to brand perceptions:
 - Define the customer chains within the relevant product or service market.
 - Map and assess each customer chain segment on the basis of the factors that influence channel partner and end customer purchase decisions.
 - Understand where patterns are emerging and which of the four branding environments represent the supplier’s best opportunities.
 - Develop clear, sharp messages.
 - Create the right value proposition.
 - Integrate product, service, price, and channel considerations.
 - Develop conceptual brand message(s).
 - Create advantages for the supplier throughout the customer chain.
 - Leverage sales channel relationships.
 - Build “win-win-win” with the sales channel and end customer.
 - Develop clear and possibly distinct brand messages for the channel partner and for the end customer.

Signal concrete brand associations:

- The supplier must determine which identity and image can be used with its products and services.
- Brand(s) selected for the various products and services must “fit” into the supplier’s overall brand architecture by complementing, strengthening, and contributing to the supplier’s optimal brand portfolio. Brand classifications across a full spectrum of categories include:
 - Corporate brand: Corporate name used exclusively, with no other modifiers.
 - House brand.
 - Sub-brand: The brand is linked, endorsed, or modified by the corporate name.
 - Dual brand.
 - Endorsed brand: A looser association between the individual brand, which is dominant, and the corporate name. This minimizes the likelihood of negative effects between them, such as when a corporation offers a widely diversified portfolio of products and businesses.

- Individual brand: A newly created name/identifier is used exclusively and no other brand associations will be employed. Service branding, a growing practice, fits in this category.
- Private label.
- Define the corporate/individual relationship, and determine the relative prominence of the various brand elements (e.g., name, logo, symbols, slogans, etc.).
- Brand categories map to branding environments as in Figure 6.
- The same physical product can assume different brand positionings.

Figure 6



Build unique attributes and meanings:

- To be effective, the brand must promise different and separate benefits from the supplier's competitors.
- Develop, where appropriate, brand messages:
 - To the direct sales channel partner.
 - To the end customer.

Achieve breakout opportunities:

- Brand architecture can facilitate migration of the customer up the "good-better-best" product or service spectrum (Figure 7).
- "Good-better-best" positioning aligns direct and end customer buying criteria.

Figure 7



- Map the brand position in the context of the “good-better-best” spectrum.
- Assign differentiating prices and brand affiliations that link closely to the positioning of the brand within the supplier’s overall brand portfolio.
- Develop specific action plans to introduce the “good-better-best” spectrum and establish metrics to evaluate the success of increased customer loyalty.

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End of report