The Power Of Industrial Brands

By Paul Hague

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PREFACE

There have been millions of words written on the subject of branding, but they nearly all relate to consumer products and markets. This is hardly surprising in the light of the megabucks spent on brands by firms like Coca-Cola, Intel, McDonald's and Levi's. However, for most managers of businesses, the strategies of the branding gurus are as remote as the sums of money which the big brands spend on advertising. A manufacturer of printing presses in Manchester, a foundry in Birmingham or an office equipment supplier in London will find little relevance in the branding theories because they are not written with them in mind.

This book is written for managers whose customers are other businesses. Their products (or services) are not consumed in the High Street but are bought by other companies to help in their own output. This is the field of industrial and business-to-business marketing.

Companies start small and grow big. They are created because someone had a good idea for a service or a product. Companies are built up by people who know how to make good products or services but who may not give much thought to the longer term implications of their branding. The term branding and its links with consumer marketing may be thought by some industrial managers to be a frivolous subject concerned with creating the illusion that a product is better than it really is. There is some truth in this - branding can make customers think better of a good product or service but it does not compensate for deficiencies in quality or design.

This book has been written to show that branding is as appropriate for a company pressing metal pieces as it is for Pepsi Cola. It will work for a manufacturer of industrial hose just as it does for Honda. In fact, branding is working already for industrial companies but not with the efficiency it could. Many industrial companies have customers they have supplied for years. These loyal customers buy more than products; they buy trust, friendship, reliability and any number of other intangibles which have a value. Few buyers would change their supplier just because someone knocks on their door offering the same goods for 10 per cent less. The premium which a product enjoys over and above its commodity price, is directly attributable to the benefits the customer believes they obtain as a result of buying from that company. That difference lies in branding.

Where industrial companies are already benefiting from branding, it is often by accident rather than design. However, with a little extra effort and cost, the effect could be much improved. With better branding will come increased business, improved loyalty and greater profitability.

I have no intention of over-claiming. Branding is certainly not everything which underpins a successful business. Branding is not the whole of marketing - in fact branding is just one aspect of marketing, but if a company gets its branding right, the likelihood is that all the other parts of the marketing mix will fall into place. Branding is the thread which runs through the book and marketing is the subject which surrounds it. Also many other

business functions determine success; efficient production, innovation, training, financial control and other aspects of good management are all vital. But above all, there is a need for a commitment to quality; both product and service quality. Everyone engaged in a business must have this commitment but for the marketing director or manager it needs to be a passion. Some believe that quality issues ought to account for a third of a marketer's time. Branding may increase the success of a product but without continual maintenance of quality standards and a continuous search for improvement, the foundations rest in sand and long term failure is assured.

I have come to this subject as a practitioner in marketing, a market researcher to be precise, where I have worked on industrial subjects for over 30 years. I am not an academic. The theory of marketing has to work in practice and so it is without shame that I have written this book from my experiences. I will have done my job properly if, from time to time, the reader nods and says, "yes, this is only commonsense".

The book is in five parts. I begin by examining the way in which people buy industrial products; this is the starting point for any consideration of branding. Section two then moves on to discuss what branding is and the role it has to play in industrial marketing. In the third part of the book I focus on understanding brands and see how to take them apart and measure what is happening. With this background, in Section four I talk about how brands can be built in industrial markets. The book concludes with three chapters in section five about brand management including how to place a monetary value on them.

Finally, I would like to acknowledge the people who have made this book possible. The first book I wrote on this subject was with my long time colleague, Peter Jackson. Much of the contribution from Peter is retained in this edition because what he said is insightful and as true today as when he first put pen to paper nearly 20 years ago. I would also like to thank Matt Powell, a colleague who works with me today, for enlivening the text with appropriate graphics and diagrams. Finally, I would like to acknowledge the many managers in industry I have worked with over the years who really do try to market their companies and build sustainable brands. If through their inspiration others begin to apply branding in their own companies, the result will be an increased competitiveness and a more cheerful face to industry.

Section 1

INDUSTRIAL BUYING BEHAVIOUR

CHAPTER 1

HOW DO PEOPLE BUY INDUSTRIAL PRODUCTS?

Characteristics of industrial markets

We begin this book with a discussion on how people in businesses buy products and services. This understanding of the buying process is crucial to the main theme of the book which is the role played by branding in the purchasing decision. As we shall see, the purchasing of industrial products is considerably more complicated than that of consumer products and for this reason, a strong brand can simplify the process. Let's face it; if I trust a company either because of its reputation or I have tried it before, it makes the buying decision easier. Industrial products are not sold on the shelves of supermarkets so I have to spend time and effort working out which companies I want to do business with. Branding is going to help me do this, even though I may loathe admitting it.

The starting point for this journey into industrial branding is to understand the wide variety of products that we are talking about. Every time a householder buys a loaf of bread, a bottle of perfume, a new coat or a car, their action sends waves back down the chain creating a demand for flour and grain, chemicals, textiles, steel and a host of other products and services which are used in their manufacture. This chain, with one product deriving its demand from that for another, is responsible for every business being dependent for its livelihood on some other business. It is called the chain of derived demand.

As with all chains, acceleration or deceleration at the end can become magnified as the reaction moves backwards down the line. Consumers can adjust their buying patterns more rapidly than the industrial firms in the chain. Businesses require lengthy lead times to commission new plant in response to an increase in demand and equally they cannot readily shed labour to react to a temporary fall in sales. Similarly, a rise or fall in consumer sales triggers off a chain reaction of stocking or destocking out of all proportion to final demand.

At the end of the chain, consumers buy finished products in the High Street. These products are given memorable brand names, packaged brightly and advertising and promotions build the demand. Back down the chain, the consumer is ignorant of the materials and processes which have gone into the products they have bought. Except for rare examples, consumers leave the selection of the suppliers of the materials to the companies which make the products they buy. There is no insistence from you or me the final consumer that the car we buy should have steel from a certain manufacturer, seats from another, a starter motor from another. Whatever Ford, BMW or SAAB think is what we accept. But if the totality of the car is not to our liking, we will buy somebody else's thank you. Consumers indirectly affect the choice of materials which go into final products through voting with their wallets, not by specifying the materials from which they should be made.

Industrial markets and the wide variety of products

Consider for a moment the products which people buy for themselves and their households. Foodstuffs, leisure products, home and garden, the car and travel, finance. Within each of these areas there are many sub-sets of products and services. In food alone we have a variety of products including confectionary, fresh vegetables, canned foods, drinks and so on. Within canned foods there are vegetables, soups, fish, puddings etc. Companies making consumer products tend to specialise in one of these areas. For example, Campbell's is a food company specialising in tinned foods. Levi is a clothing company specialising in leisure wear. Honda is a vehicle manufacturer specialising in cars and motor bikes. There are a wide variety of consumer products and thousands of manufacturers, but they are nothing compared with their industrial counterparts (see fig. 1.1).

FACTORS CHARACTERIZING A MARKET	Consumers	Industry
Average spend	Pence to thousands of pounds	Pence to millions of pounds
Decision making unit	One or two people	One to numerous people
Range of products purchased	Hundreds	Thousands
Types of products purchased	Processed/finished goods	Raw materials/components Finished goods and services
Number of final customers	Thousands to millions	Tens to hundreds

***Fig1.1** – Characteristics of industrial and consumer markets*

Whereas the householder usually buys a finished product, the industrial buyer often buys a component. The

power station is made up of hundreds of thousands of purchasing decisions before it is completed, some by the manufacturers of the gas plant, the manufacturers of the motors, through to the manufacturers of the screws which hold things together. How different these products are. Commodities such as fuel, metals, chemicals, timber, sugar, cement. Components range from bricks and tiles to plastic parts, cable, steel pressings, filters and sub-assemblies such as motors, switch-gear, and pumps. Capital goods including office machinery, earth moving equipment, trucks, cranes and process plant. Industrial services include plumbing, legal, financial, transport and distribution.

Pick up a directory of industrial products and you will find thousands and thousands of different types of products listed. The Government classifies industrial products and services in a special listing known as the Standard Industrial Classification (SIC). This has headings for engineering, packaging, construction, transport, business and financial services and so on. Every type of product and business is included with detailed subdivisions within each heading. Mechanical engineering, for example, is broken down into industrial plant and steelwork, tools, engines, compressors, heating and ventilating, pumps and valves etc.

It is this large range of products and services that give industrial markets their complexity so that the marketing approach for a steel works is likely to be different to that of an office equipment supplier selling copiers, faxes and computers. Their approach will certainly be different to a company marketing goods and services to high street consumers.

The complexity of the industrial buying decision

There is another dimension which distinguishes industrial and consumer markets. Most grocery purchases are made by one person and two may get involved when there are major items of expenditure on furniture, cars and houses. In industrial markets the buying decision is much more complicated. An engineer may specify a certain component required for a process, a production manager may have to ratify the decision and a buyer may have the authority to choose an appropriate supplier. Other people could have some sway including the finance director who controls the budget and the person on the shop floor who has to use the product. The interaction of the different personalities in the buying team will mean that the buying decisions vary considerably from company to company. In the smallest of firms run by the proprietor, all these decisions are rolled into one person while in large companies there could be numerous layers in the buying process.

The rational industrial buyer

There have been several studies which have shown that consumers in the High Street choose a brand not only for its functional benefits but also to reflect their own self-image. As an extreme example, consumers use brands as symbolic devices which in part express their personality. Gucci handbags and Rolex watches are easily understood examples of this phenomenon. The functional qualities of the Gucci handbag or the Rolex are almost certainly relatively low although the consumer may not admit to this. The customers of each of these products already have other handbags and watches but this does not stop them making another expensive purchase. These products are bought by people so that they can benefit from the statements they believe they will confer upon them. Functionality is second place.

Tipp-Ex correcting fluid on the other hand is a strongly branded industrial product and yet it would only be bought by someone who required it for its functional use. Tipp-Ex would not bestow any secondary benefits on the purchaser such as making a statement about their personality (it might suggest they are a poor typist) though they may feel comfortable in the knowledge that it has been made by a reputable company. In industrial markets products are purchased because people need them and not because they want them. This leads people to assume that industrial buyers would buy any product as long as it is functional. It also implies that whatever is purchased is likely to be based on more objectivity than consumer purchases which are full of emotive appeal. Intuitively it seems to make sense that the business to business buyer is more rational than the consumer counterpart. As we shall see this is true but only up to a point.

Business to business buyers do have a greater propensity to rationalise their purchasing decisions and this is to be expected as they are employed to obtain the best deals for their companies. It would be an admission of failure, incompetence and sheer idleness to say that they are less than perfectly informed about all the sources available to them.

To be fair, buyers are likely to know a lot about their main supplier. They may know a good deal about their secondary and tertiary suppliers, but they cannot be assumed to know anywhere near as much about the huge array of other companies that could supply their products. And, if they don't know everything about all the suppliers, it cannot be a perfect market and it cannot be assumed that the choice of suppliers is the best.

Nor should we forget that emotional influences play a part in industrial buying decisions just as they do in purchases for the home. People do not become automats as soon as they come to work; they are still influenced by non-rational considerations. Buyers are courted by suppliers. They are made to feel important. The sales teams are always talking to them and visiting them and a relationship is built up. Small gifts are handed out. Jackets are given way with the supplier's logo discreetly printed on the pocket. At Christmas there is a special lunch or dinner to celebrate the successful partnership. Visits take place to the supplier's works to see the product being made, perhaps with an overnight stay so that the deal can be informally discussed over dinner. It

is inevitable that this wooing has an influence and that it colours the objectivity of any decision. Also, whatever buyers may say they are influenced by how a supplier is presented through advertising, sales brochures and in personal contact.

Multiple sourcing in industrial markets

Buyers of industrial products usually buy from more suppliers than is necessary. Two suppliers may be justified on the grounds that each will keep the other on its toes, but sometimes there are four, five or more used for the same goods. This proliferation in number of suppliers happens over time. There is always someone new tempting the buyer and, in a moment of weakness or as a genuine attempt to buy more efficiently, a new supplier is added.

The opposite of this has occurred in the automotive industry where suppliers are regarded as partners, delivering components of a high quality to a tight timetable. Working with a small number of suppliers has resulted in improved quality control and a reduction in prices as the volumes given to the successful companies allow them to achieve better economies of scale.

This process of vendor rationalisation and `just-in-time' deliveries, is widely adopted in mass manufacturing businesses where there are massive savings to be made in costs and improvements in quality. It is clear that for some businesses, multiple sourcing is not the answer.

And yet, smaller companies use a profusion of suppliers. Electrical contractors continue to buy from half a dozen wholesalers; printers use four or five paper suppliers. Sometimes this taps into the specialisation of the different electrical wholesalers or paper companies but more often it is a legacy which has never been addressed and it reflects inefficiencies in buying.

Three factors which influence most industrial buying decisions

Three factors crop up time and again as critical influences on the industrial buying decision - quality, price, and delivery. Inevitably, this is a gross oversimplification as each of these terms could be unravelled in some detail. Embedded in the term quality are a number of elements. Depending on the industrial sector and the products in question these include reliability, durability, strength, longevity, power, finish, and engineering integrity. Also, the term quality in industrial markets is often used in the sense of fit for purpose. Some products can fail because they are more than fit for purpose; they are over-engineered.

The machine tools produced in the UK have a reputation for longevity. They can easily last 25 years or more.

However, rapid changes in technology may mean that companies buying machine tools don't want them to last more than 10 years because in that time they will be obsolete. There may be no value in paying for something which will never be used in over engineering products. A Taiwanese machine tool could offer perfectly acceptable quality for the period that it will be used at a more attractive price.

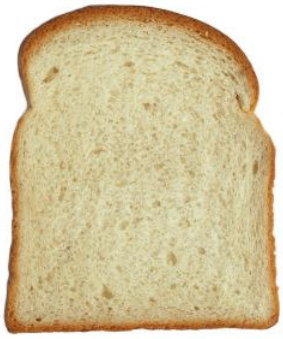
Ask a buyer in the automotive industry what they look for from their suppliers and, inevitably, keen prices will be mentioned. Automotive buyers are masters at shaving fractions of a Euro off the many thousands of components they buy in their efforts to get prices as low as possible. Superficially it appears that the key requirement is price, but this misrepresents the true picture. A buyer at Ford will not buy a component at any price. The supplier has to prove that it has installed rigorous quality control procedures and that his products comply with Ford's exacting quality requirements. Unless the supplier passes the quality screen, and demonstrates that it can meet the just-in-time conditions of delivery, it will not be able to begin discussing price.
A road haulier may weigh the lower price of an Iveco truck against its faster depreciation and a life-time cost which exceeds that of a Volvo or a Scania truck. A company that insists on being paid in 28 days could prove to be more expensive than one that will allow two months credit when everything is balanced out.

The term delivery is also made up of a number of aspects. Delivery to some means off-the-shelf availability and to others it is the speed with which the product or service can be brought to the door. What matters to most buyers is the knowledge that a product will be delivered at the time promised. It does not necessarily mean the ability to deliver at a moments' notice.

It is the understanding of the subtleties that is all important in successful marketing. What exactly is required in terms of quality, price and delivery? Which is most important and which is least important? How do buyers trade these different factors off one against the other when they are selecting a supplier?

There are many other factors, of course. Service is increasingly important in distinguishing companies and it has been estimated by the consultancy firm, McKinsey, that it accounts for between 10% and 20% of all manufactured products. This could be so when you consider that the purchase of a product includes service prior to delivery, technical service and setting up at the time of delivery and after sales service and guarantees.

Essential Ingredients



Quality
Price
Promotion
Delivery

Ingredients Which Enhance The Taste

Sales Service
After-sales
Warranty
Country Of Origin

Fig 1.2 – *The Mixing Of The Product*

This leads us to the all important question, where does branding come into the buying decision? If this book is an advocate of branding, how come branding isn't the pivotal factor in the decision? The problem is that buyers of industrial products seldom admit to branding influencing more than 5% of their decision. In one respect a brand is just a name to signify who made the product. In another respect the brand or name of the manufacturer summarises all the values which are on offer - quality, price, delivery - the lot.

Inertia and trust and their role in the buying decision

Quality, price and service are vital but in practice there is one over-riding issue which is seldom mentioned as a reason for choosing a company - that is *"because we have always bought from that company"*. Just consider the number of years people in industry have used the same companies as their main suppliers. It is not unusual for a supplier to have been used for five, ten or even twenty years.

The buying inertia in industrial markets is still further evidence of the lack of rationality in the buying decision. In pressing home this point we are in danger of making buyers seem unprofessional, failing in their duty to constantly check prices, delivery and quality differences between alternative suppliers. In fact, buyers are only doing what any sane and sensible person does, and that is hanging on to a good thing once they have found it. They have got to know a supplier and all their requirements are being met, so why change? Again this brings us back to branding because it is not just any supplier that is being used again and again, it is that special one - the tried and trusted brand.

All deals are struck at some stage for the first time. On that occasion, negotiations take place on price, delivery

and payment terms, all those aspects which buyers tell us are important. And from time to time prices and terms will be renegotiated as the buyer works to ensure that the deal is acceptable and perhaps also to reassure everyone, including himself, that he is doing his job correctly. But for a company that is happy with a supplier which has been used for many years, these issues which are renegotiated are relatively small because in the larger scheme of things, changing an established supplier for a new one carries a real risk.

The formulators of paints for cars mix a variety of standard chemicals which can be purchased from a number of large chemical companies. The chemical components are relatively inexpensive and, in a recessionary environment, their prices are driven ever downwards. However, to change the supplier of a hydroxyl acrylic monomer, a standard component in the formulation, for a saving of just a few per cent off the price, is not worth it. The new product would have to be tested to ensure that performs as well as the previous monomer, and in any case, the buyer knows that all suppliers have to keep within a sensible pricing band for otherwise they will certainly get left behind.

Buyers in industry learn from experience which products work. They learn to *trust* certain products and their suppliers. Such is the trust that they fear the consequences of dropping one supplier and using another. The other supplier may promise better performance, offer a better financial deal, and say that they can deliver quicker. But they would say that wouldn't they? Will the prices be raised in a few months? What will happen if the quality does not live up to its claimed performance? It is easy to promise delivery dates, even to keep the first few, but can they keep it up? Sceptical that everyone is likely to make such claims just to get their foot in the door, buyers often reject the daily door knockers out of hand.

Consideration sets

A buyer of heavy trucks in the UK can choose from a list of 12 different marques. These include trucks made in Sweden, Germany, France, Italy and Holland. He needn't stop with the list of 12. If he really wanted he could seek out Japanese, American or Spanish trucks which are all available to a limited extent in the British market. In practice the buyer of trucks draws up a short list which may comprise just two or three trucks, the ones which he trusts, the ones which he thinks fit his purchasing criteria. This is his *consideration set* - the products he is prepared to consider. Trucks within the consideration set have to compete strongly to win the sale while those outside are not in the running.

Getting into the consideration set is the first part of the marketing task for industrial companies. The first requirement is to be *known* to the buyer. A company which is unknown has no position in the buyer's mind and, since most buyers have plenty of products available to them with which they are very familiar, there is no incentive to learn more about a new one.

A company wanting to buy a plant to make industrial gases would have a limited choice of suppliers. In Europe there are three major players – the British-German combination of BOC and Linde, Air Products (a British operation with an American parent), and Air Liquide (French). A German company wanting to buy a gas production plant would almost certainly place Linde in the consideration set and would probably enter the final negotiations with one other party, as much as anything to ensure that Linde offered the best deal. Japanese gas separation plant suppliers would not enter the frame and almost certainly, a German buyer would not even know their names. A Russian plant manufacturer may be known by name but a lack of knowledge about their reliability and service support could stop it getting into the consideration set. The predilection for supporting a domestic supplier exists throughout the world in many industrial markets because there is an emotional predisposition favouring the indigenous company.

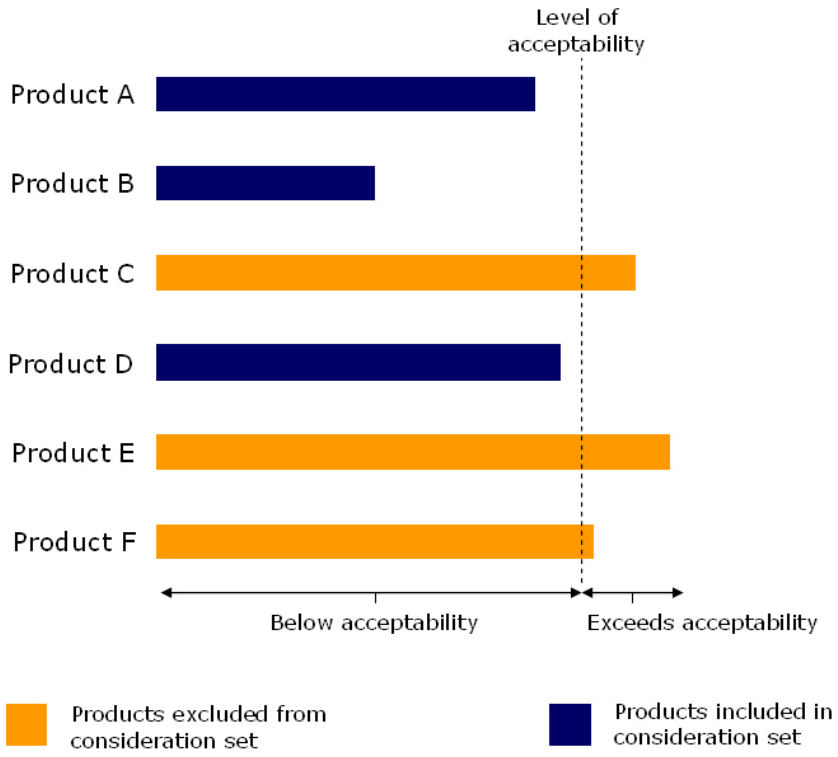


***Fig 1.3** – The Close Positioning Of Products In Consideration Of Sets*

Commodities and differentiated products

In simplifying our understanding of the conglomeration of industrial markets and buying situations, it can be helpful to classify companies into those which sell relatively simple products, made to a standard, from those which sell complex products, each one of which is clearly different.

The products made to a standard are akin to commodities. The product characteristics are always the same within a similar class and it would not matter which company supplied it as the features and performance are similar. In these circumstances, quality is a `given' and the spotlight is thrown onto other variables, the two most important of which are price and delivery. If one such product goes into short supply, so the price will rise and conversely, gluts force prices down. In true commodity exchanges where wheat, iron ore and cocoa are bought and sold, prices dip and rise with changes in supply and demand. A few notches up from these simple raw materials are processed goods such as chemicals, cable, steel and cement. In each case there are standards governing the quality of their manufacture and the chances are that each supplier is able to offer approximately the same delivery. In these circumstances, so very common in industrial markets, the onus falls on price.

At the other end of the spectrum are products which are quite different one from the other. The quality standards and the features which are designed into these differentiated products are determined by the manufacturers and each one targets his offering against certain groups of buyers. The service which supports such products before and after a sale is also likely to vary amongst manufacturers of these differentiated products.

NON DIFFERENTIATED	**DIFFERENTIATED**
Coil of steel	***Fork-lift truck***
	
Raw Materials	Processed products
Price Sensitive	Less price sensitive
Standard	Non-standard
Low Service	High service
Non-branded	Branded

Fig 1.4 – *Non-differentiated and differentiated products*

As the term suggests, differentiations set products apart. Photocopiers within a class may print at the same speed, but the models on offer from the different suppliers could vary in fundamental ways such as in their size, shape and design concept. There could be different features including automatic collation, stapling, double sided copying, programming possibilities and the like. Within the same class these machines purport to do the same thing but buyers can recognise that they achieve it in very different ways. Such differentiation would be even more pronounced if we were to consider printing machines, packaging machines or steel mills.

Branding at work in a commodity market

In commodity markets small differences in price give a buyer a justification to change supplier. Discounts of just one or two per cent can swing the order as small savings per tonne can amount to large sums over a year if thousands of tonnes are purchased. Where products are noticeably different and the standards are entirely those of the manufacturers which make them, buyers have many more reasons for selecting one product in preference to another and so other issues come to the fore, particularly the product's performance, quality and durability.

Let's for a minute think about companies that sell electrical cable - the type that is used for wiring houses. Cable is made to a standard so that it will be roughly the same from each manufacturer. Let's also assume that each manufacturer charges the same price which is 100 units per reel. Assuming that all had the same distribution, we would expect that the law of economics would mean that each would end up with a 10 per cent share.

Now the demand for unbranded electrical cable is price elastic; that is a small drop in price from one supplier would result in a large increase in demand for that cheaper product. Assume that for every 1 per cent drop in price the share of a supplier increases by 2 per cent. Similarly, a 1 per cent increase in price would cause a manufacturer to lose 2 per cent of its market share.

One of the cable suppliers (we shall call it Company A) decides to raise its prices by 10 per cent to 110. As a result Company A's market share falls from 10 per cent to 8 per cent - a fall in demand of 20 per cent. Dissatisfied with the loss of business, Company A decides to return his price to 100 units and try another tack.

Company A searches for some means of offering something extra to customers. The cable pack is redesigned with the reel enclosed in a visually distinctive box. The new pack is strongly promoted with an emphasis on point of sale material and a well thought out marketing programme ensures that the major wholesalers accept the new pack and buy in adequate stocks. The new pack offers some handling benefits to both contractors and wholesalers but the major change is improved communication of the brand. The launch proves to be a success with the market share for "Reel-In-A-Box" climbing steadily to 40 per cent. Business is taken off each competitor in equal amounts.

In an attempt to win back their share, the other cable manufacturers reduce their prices by 10 units, expecting that this will do the trick. In fact this does not happen as wholesalers and contractors have now a strong commitment to the branded cable. Branding and differentiation worked for Reel-In-A-Box.

Summary of chapter 1

Industrial marketing is concerned with goods and services which are bought by businesses for use in their own factories or offices. Demand for all products is pulled through from the consumption of products by consumers resulting in a chain of industries stretching back to raw materials. The variety of industrial products is enormous.

A feature of industrial markets is an often complex buying decision involving many managers within a firm. The order placed by a buyer, may be the culmination of a lengthy and complex process. Compared to consumer markets, the purchasing of industrial products meets largely functional needs and arguably decisions are more rational. However, non-rational and even irrational factors also shape industrial purchasing.

Historically, industrial buyers have multi-sourced their requirements. However, this approach has changed with a greater emphasis on building a partnership with a just one or a smaller number of suppliers. The major motivators in supplier choice are quality, price and delivery, although each of these factors is complex, encompassing various issues which can be critical to the buying decision. Once suppliers gain business there is a strong influence of inertia; buyers tend to buy from suppliers they know and trust. Often just a few suppliers are considered at all - those included in the buyer's consideration set.

Industrial products lie on a spectrum that ranges from undifferentiated commodities at one end through to complex equipment offering unique design features at the other. Products towards the commodity end are typically traded on price with business won through undercutting competitors. Branding offers a different and more profitable marketing approach, and can transform a commodity into a differentiated and customer-requested product.