VOLUME 262 NO.21 CMR DECEMBER 9, 2003

CHEMICAL MARKET REPORTER

REPORTING THE BUSINESS OF CHEMICALS SINCE 1871

Product Range Brands:

A Frequently Overlooked Source Of Value in the Chemical Industry

Steve Butler
Cerebra Consulting

THE MAJORITY of literature about industrial brands—not that there is a vast amount—relates to corporate brands. The average chemical company, particularly the average producer of specialty and performance chemicals, has a reasonable grasp of the role of the corporate brand, accepts that it is of value to the company, and has a fairly well defined "corporate identity," but typically experiences many more problems with and has much greater untapped value in its product range brands.

Product Range Brands Are Different

First, a small point of clarification: referring to "product brands" would be inaccurate—there are very few brands in the chemical industry that apply to just one single product, hence my use of the term "product range brands." Many companies also call them trademarks.

People outside of the communications and marketing departments tend to view branding as a single topic, but corporate and product range brands are fundamentally different as outlined below.

- Responsibility for the corporate brand typically rests with corporate communications, based at the corporate head office. Responsibility for product range brands typically resides with the senior marketing people at the business unit level.
- The ultimate owner of the corporate brand, at least in theory, is the CEO. Product range brands are usually owned by marketing directors in business units or occasionally the business unit head.
- Through the corporate brand, the corporation aims to communicate with all stakeholders—customers, suppliers, shareholders and employees. Product range brands are used in communication with the company's immediate customers and sometimes organizations further down the value chain. Shareholders and the financial community will probably be totally unaware of individual product range brands unless one comes to represent a significant amount of business and/or a significant proportion of the company's revenues or profit. Even employees have no need for more than a passing awareness of product range brands unless they are involved directly with the products that they represent.
- The corporate brand represents a set of values (ideally just one or two) reflecting the way the company operates (e.g. technology leader; most efficient producer/lowest cost supplier; close to customers/service-oriented), and is used as a platform for conveying complex messages—for example, convincing people that the company is a good corporate citizen or that it is committed to green environmental policies. Product range brands carry messages specifically aiming to encourage or prompt a target audience (customers) to purchase a product.

The two types of brands do very different things, are controlled and managed by different people and have very different characteristics; consequently how they should be planned and managed in order to deliver maximum value to the company is totally different.

Every chemical company has a corporate brand, and the majority believe it has considerable value and endeavor to manage it professionally. Conversely many either do not have product range brands or manage them badly and perceive them as having little or no value.

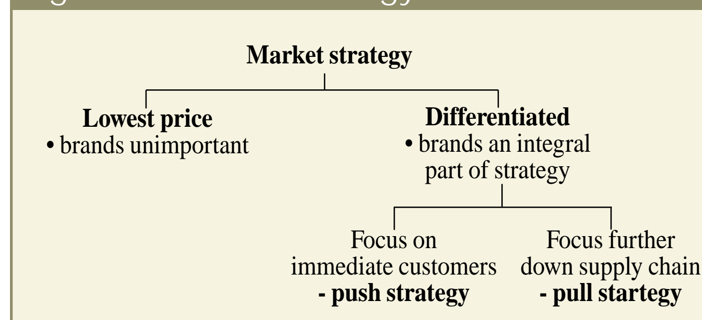
What Do Product Range Brands Do?

Product range brands perform two main functions.

The first function is brand equity. Product range brands in the chemical sector can develop quite significant brand equity. This means that customers buy products from the company rather than similar/virtually identical products from competitors, often at a premium price.

It would be incorrect to suggest that in every product situation in the sector there is scope to build brand equity; but equally, there are a great many situations where considerable value can be created and, more importantly and as a matter of absolute certainty, where chemical companies are failing to exploit brands to the fullest—in effect they are "leaving money on the table."

Figure 1: Brand Strategy



The second function that product range brands perform is coordination of complex international businesses. Many large chemical companies or business units claim to be global, but still fail to reap the rewards of their international reach. This is particularly so in specialties, where often multi-product, multi-site businesses offer customized products (and services) to an array of customer segments.

A fairly common characteristic of such companies is that they have still not developed robust branding and product naming regimes—in effect, they are not taking a genuinely global approach to managing their product portfolios. As a direct result, international coordination and knowledge transfer is greatly hampered, and companies thereby resign themselves to being little more than a network of loosely related operating units.

Both functions are quite complex and merit further expansion. However, the remainder of this article focuses purely on the former function, brand equity.

Brand Equity and Market Strategy

A great deal of hot air is expended on brand equity. Admittedly some promotional campaigns are extremely well planned and highly effective, but

Copyright©2003 Schnell Publishing Company. Reprinted with permission.

a great many have little more substance than eye-catching creative imagery and a snappy tag line.

There is nothing mysterious or magical about product range branding—it isn't marketing hype. Professional buyers are really not swayed by "emotional" messages hooked up to brands (although this should not be confused with the loyalty technical staff often have to brands they have known for years—inertia is an important part of brand equity). Bringing it back to marketing basics, product range brands are all about differentiation. If your company sells commodities, it is unlikely you will be interested in product range branding. If it has the low-cost position, a fairly sound strategy is to emphasize to your potential customers that the product is a commodity, and that competitors' higher price branded products really are no different—i.e. the low-cost producer often seeks to undermine brands (and therefore differentiation) in the industry.

Brands are an integral part of a differentiated market strategy. If the market strategy that underpins a brand is flimsy, the brand will not develop equity—indeed the market strategy is likely to fail. Many of the product range branding projects I work on are in reality market strategy problems. Often, when a brand and creative design have been dropped onto a product range with no real consideration of why customers should purchase the brand. A carefully worked-out differentiated market strategy will utilize a brand to position and maintain the non-commodity status of a range of products and/or services and will create and store long-term value for the company.

Market Strategy

Twenty years ago, Michael Porter concluded that there is a fundamental distinction between a lowest-price market strategy and a differentiated one. From above, branding is an integral component of a differentiated strategy.

Within this, there is a second basic distinction to be made (Figure 1) as outlined below.

- Some companies pursue a differentiated market strategy that is primarily focused on "pushing" products to their immediate customers. They supply products that are easy to use and add value to customers' products and support them by service packages that respond to customers' every small requirement.
- Others follow a strategy of targeting branded product propositions further down the value chain to create "market pull," such that it is in the interest of the immediate transactional customers to purchase the company's products. Indeed in some cases they are actually compelled to do so.

The mechanisms by which product range brands work in these two market strategies are very different, and the strategy and tactics of creating downstream market pull in particular merit an article all to themselves. The remainder of this article concentrates on "push" brand strategy.

Branding and Immediate Customers

Many people remain highly skeptical of the ability of product range brands to really add value with immediate customers. Their thinking goes, "If a product range sells well, this is a function of the technical performance of the products, the standard of the accompanying and supporting service, competitive pricing, and good sales and marketing. Industrial buyers are not swayed by simple marketing gimmicks."

The second approach says, "But if a product sells well, and the same name is applied to it consistently, it becomes known throughout the industry. The result is a strong brand. This brand is an outcome—i.e., it is a result of a successful product range, not a cause of it."

This viewpoint is held by many people in chemical companies, especially outside of marketing departments. Certainly field technical staff and salespeople often think this way, as do many operational mangers with non-marketing backgrounds—and there are even a few marketing departments with this outlook. And as a result, they are disparaging about the brands and treat them simply as "identification labels."

Unfortunately, skepticism about branding is self-fulfilling.Companies that believe either that there is no such thing as brand equity in the chemical sector, or more commonly, that there is only a marginal benefit in branding, will not take the actions necessary to build strong brands, and will permit poor management and misuse of their brands.

When Brands Add Value

This logic simply reflects a lack of understanding of what industrial brands do. Of course, when a company launches a new product, sales are unaffected by whether it is named generically or branded. Customers do not know the brand and evaluate the product technically. Their decisions are based on the performance of the product—and the name on the label is irrelevant although the corporate brand may play a part in "opening the door."

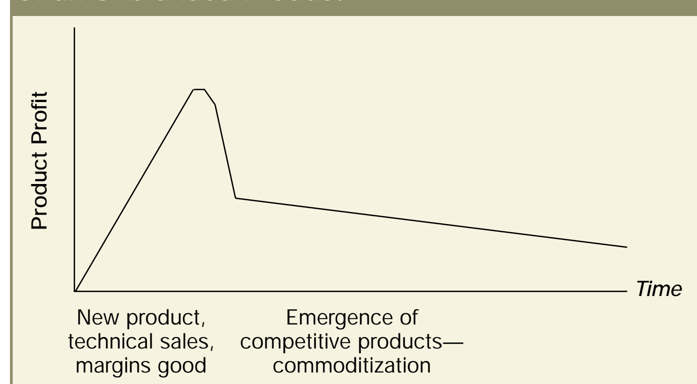
The more established and widely-used the product becomes, the better the brand becomes known. A strong brand really is a reflection (an "outcome") of a good, successful product. The best-known chemical product range brands, such as Teflon, Skydrol, Interpon, Plexiglas, Roundup and Araldite, are all long-established, highly successful products with significant sales volumes.

But this does not mean industrial brands do nothing. Consider what an established brand does with existing customers. It creates a barrier to competitors. Switching from a proven, branded product often entails a program of tests with a competitor's product, involving cost and resources, and even switching may involve considerable risk. The customer will only consider changing if there is a significant potential gain.

Generically naming a product implicitly says that it can easily be substituted by comparable products from another company, perhaps even without trials—i.e. with no risk and little cost. It is largely for this reason there can be considerable loyalty to brands, particularly amongst senior technical staff.

An established brand with existing customers shows that individual internal requisitions reaching the purchasing department from the factory floor (literally or metaphorically) will bear the brand name. The easiest course of action for the buyer is to simply process this as stated, i.e. to buy the named product, but if the product is unbranded, the requisition from the factory floor carries the implicit instruction to the buyer to purchase the cheapest possible product with the same generic description.

Figure 2: Profit Profile in Life-Cycle Of an Unbranded Product



An established brand with existing customers also paves the way for introducing other products under the same brand or for upgrades and new formulations of the current product.

If the company sells a product under a generic name, it has little leverage to introduce related products; and even minor formulation changes may prompt a new round of competitive bidding.

An established brand also can reap benefits with potential customers. As the brand becomes more widely known, through promotion and direct sales effort, through the industry grapevine and through people moving from company to company, the more likely it is that potential customers will know the brand, be aware of the specific benefits, or may have heard good reports. A strong brand improves access to potential customers.

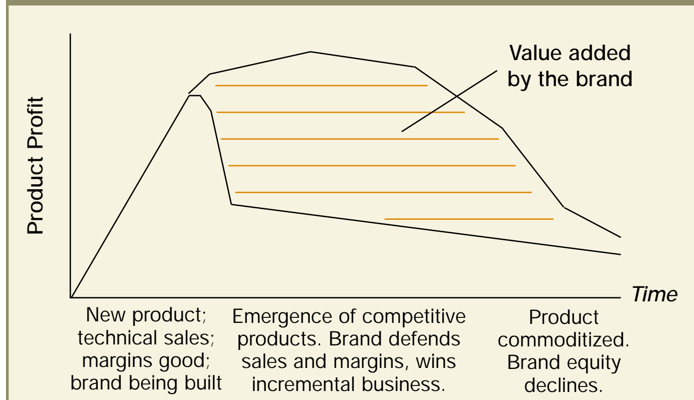
If a product is generically branded, any interest created among non-customers is in the product category rather than in the company's product.

In short, an established product range brand works in a variety of ways to protect and win business.

Developing this, there is a direct relationship between a brand and the product lifecycle of the products, which it represents. To illustrate, consider a new unbranded product. In Figure 2, the x-axis shows time, and the y-axis a measure of the profit being achieved by the product.

At first, the product is innovative and unique. With effective sales and marketing, sales grow, margins are good, and profit increases. Then competitive products are launched. Since the product is generically named, competitors' products can be seen to be directly equivalent to it. Consequently customers now have a choice of products, so they make their purchasing decisions largely on price. Margins fall steeply as the company is forced to reduce prices; subsequently, prices stabilize, but

Figure 3: Profit Profile in Life-Cycle Of a Branded Product



competition is still based on price and margins continue to decline in the medium to long term. Now consider the same product, this time branded and with the brand well-managed (Figure 3):

The early development of profit is identical to that of the unbranded product—the brand is unknown so it performs no function yet. However, awareness of it grows as sales grow, and, by the time competitive products emerge, hopefully the brand is reasonably well-established, so that, for the reasons suggested above, it can then defend the company's sales and margins, and assist in winning further business. Profit growth may slow significantly, but an overnight collapse of prices can often be avoided.

In time, customers become more knowledgeable about the product and its competitors, and the price differential that the brand can support declines. In effect, the product gradually commoditizes, and profits fall.

This description is crude but demonstrates the point that the value contributed by a brand is not when the product and the brand are both new, but considerably later when the brand is established. As stated earlier, good brand strategy creates and stores long-term value.

The description depicts the first company into the market with a new, innovative product—but branding is not only worthwhile for the innovator. Moreover, as the product market matures, those companies stronger in marketing will segment it and launch variants targeted at individual segments. An established, well-managed brand will support the rapid introduction of product permutations, and together the two tactics can slow margin decline dramatically.

Time-scales involved can be surprisingly long. Many market-leading product range brands in the chemical sector represent products and supporting service that are virtually identical to those offered by competitors, yet the brand sustains a modest price premium—and many are over 25 years old, while a few are even over 50 years old.

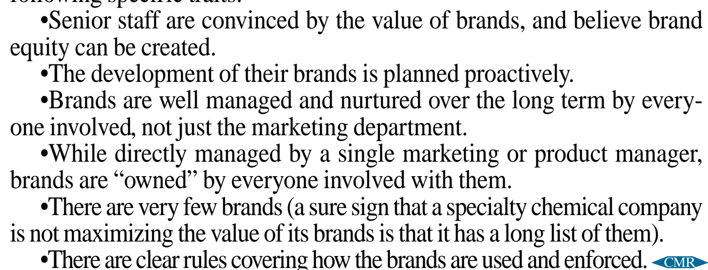
Proving the Value of Brand Equity

The company that does not brand will never recognize the value it failed to create, and the one that does brand cannot see how much value it has added by so doing. Of course, the latter may be achieving a price premium, but there are likely to be other factors that make it hard to argue against the skeptics who claim that the product's success has nothing to do with branding.

Proving the existence of brand equity with immediate customers as a certain fact may be virtually impossible. Nevertheless, there are a great many examples that suggest it does exist in chemical markets, and while each individual example could be debated, the weight of evidence is such that the existence of brand equity must be accepted "beyond reasonable doubt."

Sound Market Thinking Is Key

Strong brands that really bring value to the company rarely happen by accident. Companies with powerful, successful product range brands usually have a sound understanding of their markets and a robust market strategy, and they are reasonably market-led. Moreover, they exhibit the following specific traits:



- Senior staff are convinced by the value of brands, and believe brand equity can be created.
- The development of their brands is planned proactively.
- Brands are well managed and nurtured over the long term by everyone involved, not just the marketing department.
- While directly managed by a single marketing or product manager, brands are "owned" by everyone involved with them.
- There are very few brands (a sure sign that a specialty chemical company is not maximizing the value of its brands is that it has a long list of them).
- There are clear rules covering how the brands are used and enforced. CMR

Steve Butler is a partner in Cerebra Consulting, specializing in assisting chemical companies with complex commercial issues such as branding, new product development and global organization. In 2001, he published a book-length report, "Successful Brand Strategies in Chemicals—Creating Value and Enhancing Profitability," which examined the role of branding in the chemical industry and how powerful brands are built. Email address: stevebutler@cerebraconsulting.com