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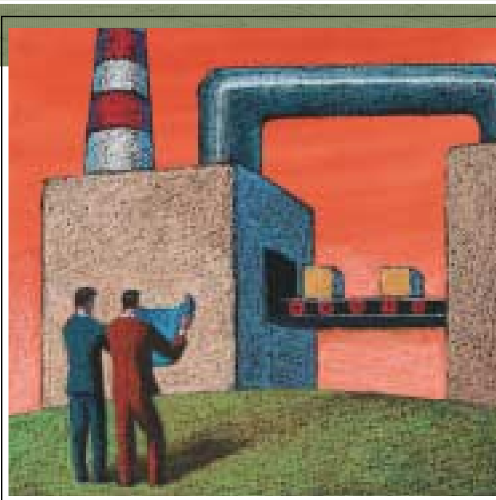
In consumer markets, brand development and brand management are considered vital core competencies. Although branding in industrial markets has grown in relevance, most specialty chemical companies devote minimal resources to defining a branding strategy and building brand equity. These companies need to reevaluate their focus on branding, which has become a prerequisite for developing a presence as a genuinely global specialty chemical company.



SPECIALTY CHEMICALS: WHERE IS YOUR BRANDING STRATEGY?

BY STEPHEN BUTLER

In recent years, appreciation for the relevance and value of branding has grown outside of consumer markets. To date, many companies in the industrial sector have made great progress in building strong brands. These have proven extremely powerful in the business-to-business context, offering significant competitive advantages and internal benefits to those who have a well defined and well managed brand strategy.

However, branding remains a subject that many specialty chemical companies regard as having only limited relevance. As a result, minimal time and resources are allocated for formulating and pursuing a brand strategy. In a few cases, branding is regarded almost with contempt because, “Real industrial managers don’t waste time on brands.”

DO BRANDS HAVE VALUE IN BUSINESS-TO-BUSINESS MARKETS?

Consumer branding is based on two preconceptions. First, consumers often have scant information on which to base their purchasing decisions and therefore place blind faith in brands. Second, they are easily swayed by clever brand imagery. In business-to-business transactions, the view is very different.

The preconception in industrial uses is that business managers are said to make purchasing decisions on hard facts. They are objective and totally rational and therefore impervious to subtle brand messages. While brands are crucial in consumer markets, they are far less so in business-to-business.

Frankly, this is nonsense. In many product categories (i.e., cars and cameras), consumers gather information and make perfectly rational decisions, but this does not invalidate the power of brands, such as Mercedes, Volvo and

Jaguar, Canon, Minolta and Pentax.

Secondly, industrial buyers often have far from perfect product information, even in this age of information overload. Moreover, they simply do not have time to make a fully rationalized decision with every purchase; and, importantly, they are influenced by simple brand messages. A classic example is, "No one ever got fired for buying IBM." Loosely translated, this means take no personal risks; buy the top brand even if you're unconvinced it is the best value for money.

Are we to believe also that cold, calculating commercial buyers become gullible, easily-manipulated consumers as soon as office hours finish? The logical conclusion is that brands should be just as powerful in business-to-business markets, and this has been confirmed by various research exercises.

Why Do Chemical Companies Neglect Branding?

In consumer companies, brand development and brand management are regarded as vital core competencies. So why is this not the case in most specialty chemical companies?

One possible explanation is that chemical companies can learn nothing from their consumer counterparts because the dynamics of their market are so different. The other explanation is that many chemical companies are simply not realizing the importance of branding. There are several key reasons for this.

First, consumer product companies have long led the way in developing the science of branding. However, important differences exist between the purchasing and selling processes in consumer markets and those in business-to-business markets. Consumer-based theories are therefore not always relevant to the industrial sector. We often hear chemical company representatives attending branding seminars comment: "It's all very interesting, but it's all about consumer products. Our markets don't work like that." This does not mean that brands are not relevant in industrial markets; just that their role and the mechanisms by which they work are quite different to consumer-based approaches.

Second, examples of good brand practice in industry, especially chemicals, are harder to find, and are far less well known when they are found. Conversations about branding, even in the most enlightened chemical companies, are inevitably cross-referenced with analogies to McDonald's, Coke, Levi's, Ford and BMW.

Third, since branding is strongly associated with consumer products, where the primary vehicle for reaching the customer is through advertising, there is a strong perceived linkage between branding and advertising. The main thrust of marketing in business-to-business markets is via direct selling, not advertising. This perpetuates the misconception that branding is less relevant.

Challenges to Specialty Chemical Branding

Industrial branding is complex. Specialty chemical branding, however, is particularly difficult for several key reasons as outlined below:

- Most medium-size and large specialty chemical companies are truly global in terms of their sales spread;
- Their customers are often fragmented into numerous international niche markets;
- Their product ranges are large, often with long tails of low-volume variants for specific geographic markets and even individual customers; and
- The service element of their product offering varies dramatically from country to country.

Moreover, the numerous acquisitions and mergers in the sector during the late 1990s has added a major layer of complexity to the existing brand profile of many companies.

This product and market complexity leads to a number of difficult situations, all of which have obvious implications for branding.

First, many find they have different positioning in different geographic territories and different market niches, making defining corporate brand values extremely difficult.

Second, some specialty chemical companies have a great many "brands," in fact too many to really be brands. These in turn dilute the company's progress in building brand equity elsewhere.

Third, at the other extreme, many companies take the view that their only real brand is the company name. They therefore use generic names under their main corporate brand: either chemical names or very basic descriptors of the application of the product. This tends to imply that the products are commodities; this can work against efforts to develop differentiated positioning. Missing out on opportunities to brand in this way really is "leaving money on the table."

Fourth, exploiting the value of branding means coming to terms with complex intangible concepts, such as brand values, brand equity and brand life expectancy. Such consumer marketing-speak can be anathema to strongly product-led or technology-led chemical companies.

What Costs Are Involved In Effective Branding?

Being associated with advertising, there is a wide perception that building brands means high-cost advertising. This is untrue in the chemical sector and indeed, in most industrial markets.

Here, a customer's perception of a company—its products, services and values—are created, in the case of a non-customer, largely by their face-to-face contact with sales staff, perhaps supplemented by seeing the company at exhibitions; reading about the company in the trade press; and seeing trade-press advertisements. An existing customer's perceptions are built almost totally on day-to-day contact with the company's sales, field technical support, order processing, logistics and accounts staff.

Chemical companies carry out these day-to-day activities irrespective of whether they have a sound brand strategy or actively attempt to develop brands. Therefore, the only additional costs of building strong, robust brands are in figuring out the brand strategy in the first place and making sure all staff understand and consistently relay the same messages to the market. Essentially, all companies put in the investment required to develop brands. The distinction is between those who waste this investment through poor or nonexistent brand strategy and management, and those who carefully plan and manage brands, and therefore reap the rewards of their investment.

Good brand management also places limitations on the number of brands the company possesses, and rules in favor of the introduction of new brands and discontinuation of old ones. In companies with many products, large savings can result from good brand practices in terms of reduced trademark costs and fewer variations and changes in literature and packaging. In the majority of cases, a sound, logical brand strategy ultimately is likely to cost less than having either no brand strategy or one that is poorly conceived.

Brands play three main roles in industrial markets as outlined below. These roles are brand equity, internal consistency and control of complex businesses.

Brand Equity

Strong, clear branding delivers real market value, and gives the company a distinct advantage over competitors with less developed brands. Branding helps customers choose your products over competing products when they perceive product performance and price to be identical. Customers will choose a branded product over a basic product because they associate certain values with the brand.

For example, a company might be perceived as being the most committed to applications support; being the most capable of providing reliable, rapid pan-European delivery; placing greater emphasis on overall customer satisfaction than competitors; or as being the supplier most likely to come up with future innovations that can save money.

It may be slightly surprising to find that premium prices are quite often not directly related to the technical strength of the company. In one particular specialty chemicals segment for example, the highest prices are generally achieved by one of the least innovative companies, which works very hard at its brand position. The clear technology leader in the sector, and a far larger company, only occasionally achieves comparable prices.

A "brand" then is far more than just a name or a label stuck on a product—it represents a defined set of values.

Many traditional, technology-based chemical companies struggle with this concept. Even when they appear to have grasped it, these companies still allow their market strategy to remain totally dictated by the drive to operate at larger capacity than competitors to reduce unit manufacturing costs.

Sound, consistent brand values underpin strong brands, which in turn support differentiated market positions. If the company with the strongest market positioning also happens to be the lowest cost producer, it stands to significantly outperform its competitors.

Examples of business-to-business corporate brands with equity include: Caterpillar, Federal Express, Xerox and McKinsey. Others exist in the chemical sector with considerable equity. On a product level, chemical brand names are only known within a particular customer industry and include, Teflon, Perspex, Freon and Klea.

Even when branding reaches the corporate product stage in a chemical company, it usually unleashes a set of questions about how to actually make it work. Some of the key issues are outlined below:

• We have a corporate brand with well-defined values. At what levels should we have other brands: subsidiary, division, SBU, product range, or single product?

• How many brands should a company like us have? Too few means money left on the table, but too many means dilution of equity development and possible customer confusion.

• Should our range and product brands be oriented with technology or chemistry? Or with applications? Or with end market segments?

• Do we need rules surrounding the usage of our brands? For example, who can introduce a new brand and under what circumstances? Are there limitations on operating companies adding new brands or using existing brand names for new products?

• Where does responsibility for our brands rest? How is the brand strategy conveyed and implemented across an organization? Should we have brand managers? Do we need someone with responsibility for policing the usage of our brands? What authority does this person need, and how will they operate?

Internal consistency

The corporate brand is a highly effective centerpiece for building and sustaining a consistent corporate culture, creating unity and allegiance and thereby driving internal cooperation, ultimately increasing business effectiveness.

Companies that have not developed and implanted a strong, clear, consistent set of corporate values often struggle to exploit synergies between business units because they see the world differently and have different cultures, which inhibit cooperation. The result can be excessive internal conflicts, low levels of corporate allegiance and, frequently, low morale. Companies that have grown through acquisitions are most prone to such problems.

For example, one client of ours was the result of a “merger of equals.” The new executive board was drawn from each company, and there was great emphasis on achieving consensus—neither company wished to dictate to the other, nor wished to be seen as taking over the other. Nevertheless, the two had very distinctive cultures and quite different sets of corporate values. With the board so intent on fostering a happy marriage, the two different cultures were permitted to sit alongside each other for many months, and no attempt was made to impose a single set of values. Strangely, this was probably every bit as disruptive as if one side had tried to dominate the other. Everyone below the executive board level felt in competition with and under threat from the other culture. Very predictably, the result was poor cooperation, slow realization of synergies and a reinforcement of the barriers between the two companies.

Control of Complex Businesses

A tightly defined and enforced brand strategy is one of the most effective mechanisms for coordinating a large, complex business. We suggest it is a basic prerequisite for becoming a genuinely global specialty chemicals company.

Chemical companies with many geographically diverse subsidiaries, particularly those added by acquisition, can have unrelated company names and graphic representations, and an array of product and service brands. Many of these may overlap, possibly causing customer confusion and representing unnecessary complexity and cost in terms of packaging, stock holding and distribution.

Such a tangle is still not uncommon in large multinationals. This brings other unwelcomed side effects: poor coordination of worldwide product development, poor knowledge transfer, high trademark costs, and ultimately, poor global coordination.

For example, another client of ours had a business unit with its own "brand," but no particular values or market positioning described for the brand. A new technology that would give high, in-use cost savings to customers was developed, primarily for the European market. A range brand was created for the products that would flow from this technology, which was naturally positioned as innovative, state-of-the-art, and high added-value. Early sales achieved exceptional margins.

Two geographic problems then occurred in quick succession. First, the Far Eastern operation decided to market the products. However, various application differences in the region meant that much of the technology benefit was irrelevant. Therefore, the products added far less value to customers there. Nevertheless, the Far East group decided to go ahead and launch the identical products under the same range brand, but positioned the brand on the basis of just one relatively minor benefit—low odor—and sold the product at considerably lower prices.

Second, the Brazilian operation took a liking to the sub-brand itself—that is, to the name. Although there was no market in Brazil for the new technology, the operation applied the name to a range of low-price commodity products used for a different application.

Like many specialty chemical markets, the industry in question hardly deserves to be called global, but it is served by two main trade shows and one main technical publication. Global it might not be, but news can still travel fast.

Fortunately, these anomalies were spotted and rectified before any major damage had been done to the European business, but clearly there was scope for this to have happened. The company realized it had several basic problems which, if unresolved, would only reoccur. These were:

- The subsidiary brand had no values attached, so some geographic operations positioned themselves as differentiated, "technical solutions" providers, while others adopted positioning more closely aligned with the cheap-and-cheerful end of the spectrum;
- There were no rules governing the use of range brands; and
- Even if there had been rules, no one was specifically responsible for brands, and there was certainly no collective responsibility.

The Lifespan of Brands

Products have a life cycle. They mature, are superseded and ultimately disappear, but brands have values beyond the products they represent and need not die with the product. When a company has invested in a brand over many years—building up customer recognition, understanding of the values implicit in the brand, and often very considerable loyalty—the brand will have a significant worth (equity) to the company beyond simply being a "product identifier."

Many specialty chemical companies make dreadful mistakes by taking a cavalier approach to brands, squandering huge amounts of brand equity. These mistakes include:

- Every new product launched with a new name;
- Established brands discontinued without a thought for their worth;
- Strong brands stretched to encompass new products that conflict with the brand's positioning;
- Other strong brands neglected and their worth never exploited.

Well-managed brands are highly durable and can flourish for decades, spanning generations of products. Many consumer brands are well over 50 years old, although the products represented have changed dramatically. Conversely, a brand can easily be devalued or even destroyed by lack of planning or by simple management mistakes and poor understanding.

Is Your Brand Strategy Satisfactory?

We suggest you ask the following simple checklist of questions to establish whether your company has its brand strategy broadly in order:

- Have we a clear, logical and consistently applied structure for branding—in other words, a brand architecture?
- Are we totally agreed on what our brand values are? This should start at the corporate brand level and cascade down.
- Are the values of our subsidiary, range and product brands consistent with those of our corporate brand?
- Are our brand values clearly articulated, understood by all our staff, and communicated consistently to our customers?
- Do customers perceive our brand values as we wish?
- Do we have lots of names rather than a few real brands?
- Conversely, do we have lots of generic labels and miss chances to brand and develop brand equity?
- Do all our strategies and actions work to build and reinforce our brands—or do we give conflicting messages?
- Are we fully exploiting the brand equity we possess?
- Do we assess, monitor and evaluate our brand positioning and brand equity?
- Is responsibility for brands clearly defined? Do those responsible have appropriate authority?
- Are clear rules in place surrounding the usage of our brands?

Lessons Learned

Industrial brands can be hugely valuable. The harder they are worked, the more valuable they become. However, many chemical companies do not exploit their potential to build strong brands, simply because they fail to understand brands and branding sufficiently well, and so never make the modest investment in developing a brand strategy. Even those who have accumulated brand equity often squander it through neglect or mismanagement, for the same reason.

Good branding in specialty chemicals need not cost much, but it does not just happen. It is complex and requires careful planning. ✧

Stephen Butler specializes in assisting specialty chemical companies to address complex commercial issues. He has worked in the sector for ten years in marketing and general management roles, during which time he set up operations in the Middle East, Far East, Central America and Europe. He has since been a consultant for 14 years and is a partner in UK-based Cerebra Consulting.