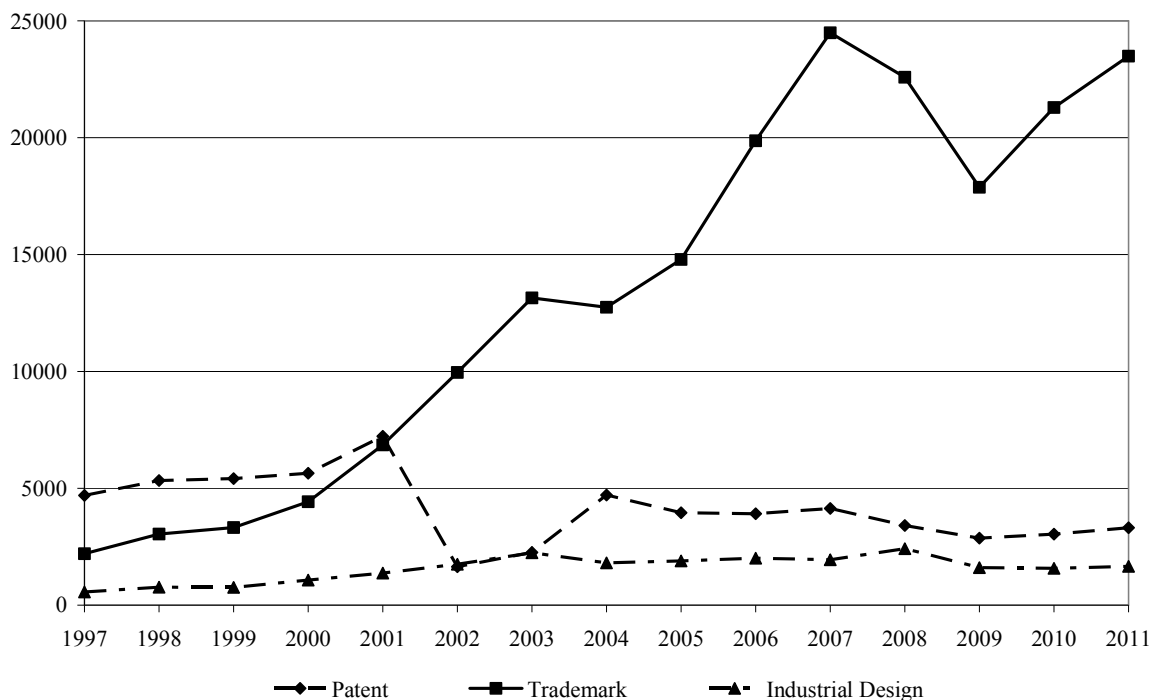


## THEORETICAL APPROACHES TO ESSENCE OF BRAND FOR PRODUCTS OF INDUSTRIAL ENTERPRISES

### 1. Introduction

An intensive development of market economic relations in Ukraine causes significant changes in the practical approaches to doing business in all sectors. The implementation of market values has led to a gradual change in orientation of enterprises, including industrial ones, from their own capabilities and needs to consumers' requirements. Industrial enterprises

have begun to seek the formation of their stable perception as a reliable partner, a supplier of high quality products, etc. More and more managers have begun to think about the formation of a favorable image of their companies. An intensive introduction of such economic categories as brand, brand image, etc. into the domestic business practices has been started (Fig. 1).



Source: based on the statistical data [1]

Figure 1. Dynamics of the number of patents, trademarks and industrial designs in Ukraine:  
 IP Filings by years

However, managers and business owners have faced with the problem of lack of practical skills to build an effective policy for development of brands, and with the large number of

existing approaches to the development of brands for different markets in foreign literature and practice. Moreover, if brands in the B2C market have been consistently included into the

practice of brand-management, the methods and tools of brand-management in the market of products for industrial use (B2B) is still relatively undeveloped. Despite the fact that since 2005 the rating of corporate brands in Ukraine has been formed annually [2], the practice of brand management at the level of individual products is at an early stage of development. However, the need and the urgency of creation of the scientifically based theoretical approaches and practical tools to the brand management in B2B market are obvious. For industrial enterprises development of brands is a crucial issue because of opportunities for intensive development due to obtaining the unique competitive advantages on the B2B market. In this case harmonization of approaches to the brand essence in market of industrial products is an important problem to be solved.

Critical analysis of the recent researches showed that the issue of brand management and the study of the essence of brands both in B2C and B2B market have been considered by numerous scientists and business practitioners. The analysis of the content of the term "brand" as an economic and management category showed that in the development of the theory and practice of management, not only the content of the branding concept has been transformed, but also its economic and management semantic essence has been changed significantly. Approaches of managers at various levels to understanding the meaning and importance of establishing an effective viable brand, its impact on the value of the company, and its role in the creation of relevant competitive advantage in the market have been revolutionary changed as well. Even in the researches of such a prominent scientist and practitioner in marketing and brand management as Phillip Kotler interpretation of this term in the period from 1984 to 2012 had been transforming from identification of the brand with a trademark [3] to the perception of the brand as a certain mental and emotional phenomena, which can be formed only in the minds of consumers, and the company as a brand owner is able to only heighten or diminish this perception [4].

It should be mentioned that the analysis of the national legislation [5, 6] showed that the terms "brand" and "brand name" (which by the way are the only attributes of brand identity) are

treated as general marketing terms that unite brands in "group of combined assets" and are associated with the product name, formulas, recipes, technological expertise, and so on. On the other hand, internally generated brands are not recognized as intangible assets and are not included in a balance sheet. Thus, it can be concluded that there is no organized approach to understanding the essence of the brand either on the legislation level or in the scientific researches. Moreover, existing studies are mainly devoted to the investigation of brands in the B2C market. It should be taking into account that the largest share in GDP is obtained by industrial production. In this case the absence of common theoretical and practical approaches to understanding the essence of the brand for the industrial products is the scientific and practical problem that should be solved.

So the goal of the presented article is to determine the stages of development of the theory of brand on the basis of the critical retrospective analysis, to define the basic stakeholders of the brand, and to consider their interaction in the branding process under the influence of the internal and external factors.

## ***2. Theoretical approaches to the essence of brand: retrospective analysis***

As mentioned above the original meaning of the term "brand" was identified with a particular sign (symbol). However, interpretation of a brand has been gradually expanded and clarified. Striking examples of meaning transformation of the term "brand" are the results of critical analysis of the researches of Ph. Kotler [3], in which the term "brand" initially wasn't used (1984), then it had been identifying with a trademark (1988 - 2000). After that the emphasis had been gradually shifting from material components of brand (2003) to psychological ones (2005 - 2007). In recent studies Ph. Kotler has already stressed that the brand "is more than just a product, name, logo, symbol, slogan, ...: all these are just parts of the brand, but not the brand itself" [4, p. 34]. In recent studies has been observed that the brand should be considered as a certain composition of tangible and intangible attributes that collectively represent not only a product or a company but also the psychological aspects of consumers' perceptions

of the satisfaction degree of their own particular needs. For example, J.-J.Lambin notes [5, p.101] that marketing activities of the company should be focused not only on selling a product or a service, but also on solving the problem of buyers by consuming certain goods or services.

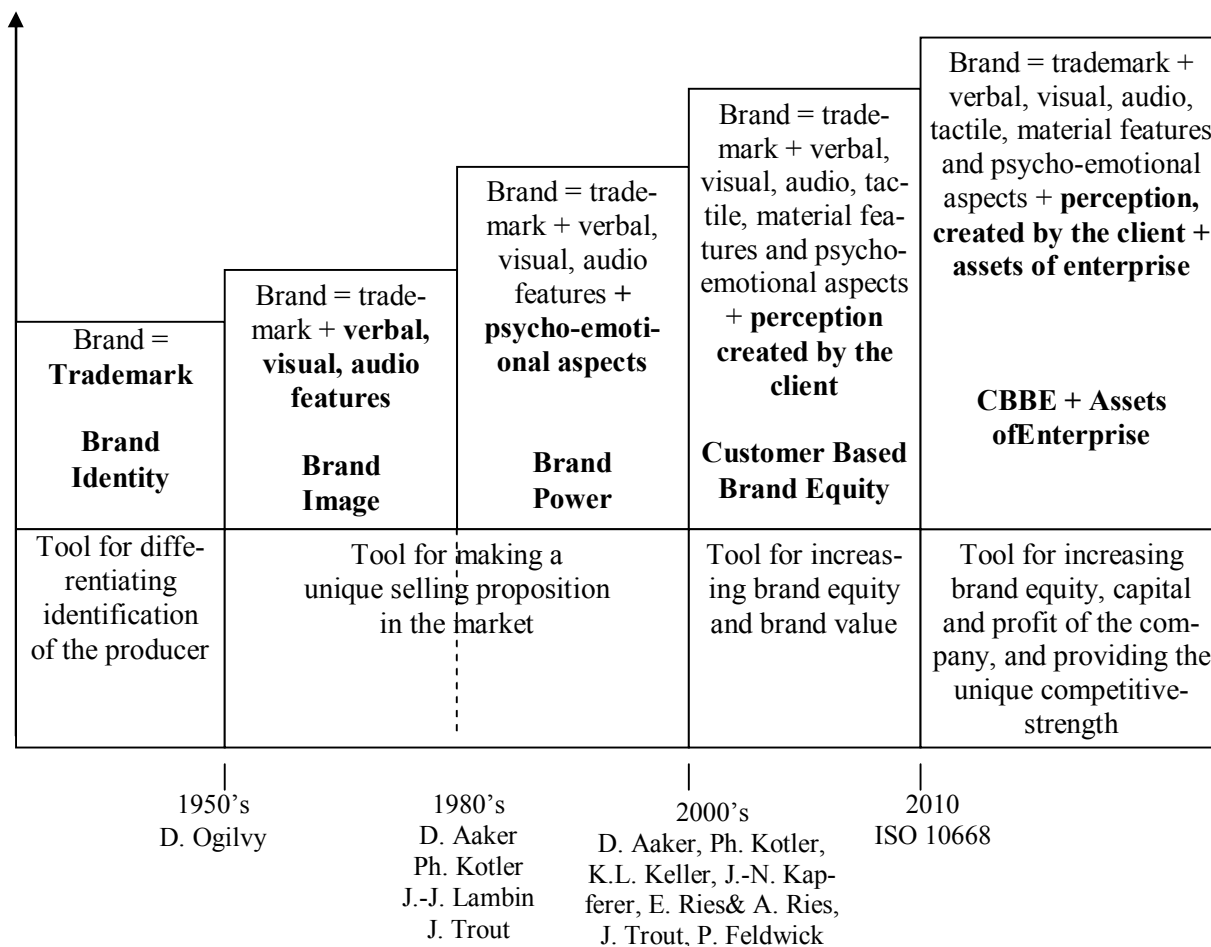
So in the process of developing the brand theory the focus of scientific and practical research have been gradually distributed between three basic principal approaches:

(i) brand as a trade mark / sign [6, p. 221; 7 p.39];

(ii) brand as an asset of the company [8, p. 14];

(iii) brand as a psychological perception of the degree of satisfaction of consumer's own needs and wishes [5, p.22].

Scientists, considering the nature of brand, gradually supplement its traditional interpretation with new features. Retrospective analysis of existing studies of domestic and foreign scientists allowed identifying five main stages of development and improvement of the basic issues to the brand theory (Fig. 2):



Source: composed by the author.

Figure 2. Development of the definition of brand in the retrospective

- I stage – until early 50's of XX century: brand is completely identified with a trademark, stamp, stigma and used only as an identifier of producer, fundamentally the term "brand" is not widely used in scientific terminology;

- II stage – from 50's - to early 80-ies of XX century: brand is considered mostly as a trade mark accompanied by a certain set of verbal (word, phrase, name, term, name, slogan, etc.), visual (symbol design, sign, drawing, color, trademark, logo, emblem, stamp, advertising (video series), image, font, etc.) and audio (tone,

melody, timbre, audio range) properties that are unique and related to the only brand;

- III stage -from the mid 80's of XX century to the early XXI century: brand is considered in terms of psychological aspects that not only cover verbal, visual, tactile-material and audio elements of emotional and psychological aspects but also includes sense, promise, set of perceptions, place in the mind of the buyer, benefits, beliefs, values, level of confidence, radical idea, reputation, expectations, stable associations, events, unique supporting property of the goods, loyalty, buyer experience, image and others elements. Except brand identity and brand image attention is directed to the essence and procedure of creating brand power;

- IV stage - the beginning of the XXI century: brand is considered as capital which is formed through the perception of the brand buyer at psycho-emotional level and creates a brand value (Customer Based Brand Equity);

- V phase - from 2010 to the present: brand is considered as a complex ordered collection of verbal, visual, tactile, physical, audio, emotional and psychological aspects with underlining increased importance of financial and economic characteristics as a basis for the formation of intangible assets and capital of a company, as well as one of the most powerful and effective tools to increase the profitability of a company.

Recent studies have been focused on the fact that brand should be considered as a complex phenomenon that consists of a set of elements [9], attributes and values [10, p. 36], mental constructions [11, p. 61], relations with customers [12, p. 27], and so on. S. Zyman emphasizes that brands are the most important asset of the company, which provides income [13, p 131]. L. Ivanov also notes that brand is the second one in importance after human resource assets [14, p 155]. This aspect is particularly important in terms of creating an effective organizational and economic mechanism of formation and development of brand products for industrial use, because the ability of a brand to create an additional income, to be an asset and to create capital of an enterprise gives an opportunity to represent a brand as an object for management decision-making to ensure long-term sustainable development of an enterprise, to

create its undeniable competitive advantages in the market. Moreover, V. Pustotin emphasizes [15] that, unlike an ordinary trademark, a brand acts as a guarantor of future sales. Thus, the existence of a brand not only ensures the formation of profit and equity in the current period, but also causes a certain flow of financial resources on more favorable terms in the future. More favorable terms should be considered as readiness of the client to buy a given product (loyalty, commitment to the brand [16 S. 20-23]), pay a higher price for a brand [10 P. 128], buy new copies not only if it's necessary, but also as a status process in order to support his own image, reduce risks through simplified consumer's brand awareness, thereby providing additional sales.

Analyzing the definition of the brand, which is presented in the International Standard ISO 10668:2010 (E) [17], three key positions that are fundamental for further research should be underlined:

(i) brand should be considered as an ordered collection of certain tangible and intangible properties and attributes, which together form a psycho-emotional brand perception;

(ii) formation and development of the brand should be targeted on creating a mental and emotional perception not only by brand consumers, but by all groups of stakeholders;

(iii) brand as an intangible asset can create some economic benefit, and has a value that is predictable and can be defined and directed at the growth.

### ***3. Brands' stakeholders: defining the categories***

Based on the above analysis, the groups of stakeholders are differentiated by two basic criteria: understanding of brand identity and purpose of its existence can be defined. Regarding to the chosen criteria of the differentiation of the brand definitions its expedient to separate the following groups of the internal and external stakeholders:

(i) internal stakeholders: brand sponsors (manufacturer of a brand, brand owner and licensees) and the staff of an enterprise – manufacturer of the brand;

(ii) external stakeholders: buyers / consumers / customers, potential investors, partners,

external regulators, contactors and observers, mass communication that is not brand partners.

Relationships between such stakeholders as managers and owners of a brand, brand partners will be in focus in the following studies. Let's pay an attention to the brand perception by buyers / consumers / customers and contactors of the brand.

No doubt it can be argued that the key external stakeholders of any brand both in the market of consumer goods and in the B2B market are from the category of "buyers / consumers / customers". In this case, it should be clearly identified which individuals should be attributed to the group. This will allow formulating the essence of the brand and identifying features of the brand formation in the B2B market.

It should be mentioned that according to the Ukrainian law [18, p. 1] the consumer is an individual who purchases, orders, uses or intends to purchase or order products for personal use, not directly related to business activities and performance of employee's the duty. Thus, considering the B2B market it can be argued that in terms of legislation in B2B markets consumers do not exist at all, because contactors are mostly entities that use purchased product or service for the production of their own goods and services, and individuals are the suppliers of labor, i.e. employees.

However, this issue can be considered as controversial one. Consumption is the process of using physical objects and services, leading to partial or complete transformation of the consumed product or use the product as a part of production of higher levels of redistribution. So, the company by buying resources, raw materials, receiving certain services and transforming them in production process consumes them and

expects to achieve a certain level of satisfaction of its needs.

On the other hand, the consumer may not always be an initiator of the decision to purchase a particular product, so he is not always a buyer. Usually this situation occurs in B2C market when the initiator of a purchase may be a one person, the real buyer (i.e. a person who takes ownership, property / product / service and also pay a sum of money [19, p. 224]), may be someone else, and the consumer may be the third one. However, in B2B market, this situation is also not an exception. This includes operating lease transactions, tolling, and buying goods for resale, when a real buyer may not initiate a purchase (can act on behalf of a consumer), unlike the consumer may not use the purchased product and may not evaluate the result of consumption.

Another inconsistency presented in the law [19] is that the client is a person who uses transportation services, financial markets and other services. Thus, the client is only a service customer. Such an application of the term "client" significantly narrows the scope of the term.

In terms of global economic science and practice any interested person, with which the enterprise have any business relationship, can be considered as a customer (similar to client) [20]. In order to specify the term "customer" for the purposes of brand theory development the differentiation of categories "buyer / consumer / customer" by stages of purchase and consumption (initiator of a purchase, person who decides on the purchase, pays for the purchased product, uses it and evaluates the result of consumption) is presented in the table 1.

*Table 1*

*Differentiation of categories buyer / consumer / customer by stages of buying / consuming*

Stages of buying / consuming process	Buyer	Consumer	Customer
Initiator of purchase	+ / -	+ / -	+ / -
Make a decision about purchase	+	+ / -	+
Pay for purchase	+	+ / -	+
Use the purchased goods and services	+ / -	+	+ / -
Assess the result of consuming	+ / -	+	+

Source: composed by the author.

Thus, the category “customer” (the Ukrainian analogue of “client”) is more aggregated, because all key points in the process of purchase and use of goods and services (decision to purchase, financing and evaluation of results of consumption), that have an influence on subsequent decisions about the possible use of the product / service of the company, are implemented by the client. Accordingly, in the further study on determining this target group the category of customer should be used.

Quite a specific group of stakeholders is brand contactors and observers, represented by participants of the market that do not actually or potentially buy or consume products or services of a brand but observe the brand, its products

and communications, or contact with the brand without its purchasing and / or consuming.

In this case it is necessary to differentiate the relevant contactors by three key factors in the decision making process in the case of purchasing goods and / or services of the brand: desire (propensity) to purchase goods or services of the brand, financial abilities of a contactor, and accessibility of the product / service of the brand in distribution channels (Table 2).

As it shown in the table 2, the actual customer is a person, who desires to buy a product or service of the brand, has enough financial resources (own capital or borrowed funds) for the act of purchase as well as free access to the brand.

Table 2

*Three-dimensional model for determining the category of contactors based on the factors of decision making to purchase the goods and services of the brand*

№	Factors			Type of Contactor
	Desire to purchase the product / service of the brand	Financial abilities for buying the product / service of the brand	Accessibility of the product / service of the brand	
1	Exists	Sufficient	Free	Actual customer
<b>Contactors</b>				
2	Exists	Sufficient	Limited / Not available	1 <sup>st</sup> level prospective customer
3	Exists	Inadequate / default	Free	
4	Default	Sufficient	Free	2 <sup>nd</sup> level prospective customer
5	Exists	Inadequate / default	Limited / Not available	Active observer
6	Default	Sufficient	Limited / Not available	Passive observer
7	Default	Inadequate / default	Free	
8	Default	Inadequate / default	Limited / Not available	

Source: composed by the author.

The first level of contactors is represented by potential customers, among which the contactors that have a desire to commit the act of buying a product / service of the brand and financial resources to purchase but have limited access to it or do not have it at all, should be allocated. This situation indicates a bottleneck in the strategy and tactics of the brand, which may be caused by inadequate planning of such direction of marketing policies as distribution or its inadequate implementation. This, in turn, reflects in the low brand penetration to the distribution channels and the lack of coverage of the target market in terms of qualitative and quantita-

tive distribution, and finally leads to the lack of the product / service of the brand available in contactors' distribution channels. Nevertheless, finding a timely solution to this problem will enable the company - owner of the brand – to transfer the contactor from category of prospective customer of the first level to the category of actual customers.

Those contactors that are financially unable (fully or partially) to become customers of the brand, but perceive the brand as necessary or desirable in achieving a certain status or position in the society, creating own product with suitable quality and level of innovation, forming im-



age of their own corporate brand, etc. should be considered as the 1<sup>st</sup> level prospective customers as well.

This subgroup of contactors is quite interesting in the framework of management of the formation and development of the brand, because the presence of desire or interest in being associated with the brand, and its purchasing, using, and even just monitoring, creates a sustainable brand perception as something desirable. In favor of its obtaining contactors can even refuse to consume other goods, services, brands. As a result, such perception allows widening the customer base of the brand through the development of financial, marketing, promotion and credit programs (discounts, special lending programs, promotions, creating cheaper counterparts, and so on), which would increase the purchasing capacity of contactors. This may lead to additional profit of enterprises, diversification of customers' portfolio, market expansion, and increase in competitiveness of the whole enterprise.

For companies – 1<sup>st</sup> level prospective customer in B2B market – such a situation can arise because of the limited access to financial resources (own or borrowed) due to external factors or unstable financial position of the potential customer. The result of the influence of the listed factors is the decrease in lending, higher interest rates on borrowed resources and the consequent inability to access the relevant product / service of the brand. It should be mentioned that in case of reduction of negative influence of external or internal factors that limit access to financial resources, the potential customer wishing to purchase goods and services of the brand can be immediately transferred to the category of the actual customer.

Contactors, that is financially capable customer of the brand, which for some reason do not perceive the brand as necessary to consume is considered as the potential customer of the second level. In many cases, certain specific impulse, increasing awareness and implementation of persuadable action of the owner or manager of the brand is enough for conversion of the observer into the customer. Moreover, the detection of such observers allows the company to identify "bottlenecks" in the strategy of development of the brand, which restrain the trans-

formation of observers into customers. On the other hand the existence of such entities allows the company to identify additional market niches and to expand the target audience for the creation and promotion of products and services of the brand.

As noted above, the presence of contactors' desire is fundamental in the formation of mechanism of its transformation into an actual customer. The group of contactors who want to own goods or services of the brand, but either have limited access to the brand or the poor financial abilities to its purchase is more complicated for such a transformation. This category of contactors should be considered as an active observer. In case of receiving free access to the goods or services of the brand through the appropriate distribution channels and / or financial resources they can become a potential customer of the first level, and then transfer to a category of actual customers.

No doubt, that a problem for the company - the owner of the brand is advisability and feasibility of transfer of these contactors to the category of actual customers, which is related to costs and risks tied with promotion in the selected channels of distribution and possible costs and risks associated with providing access of contactors to the financial resources. It should be mentioned that in developed financial market the problem of the access to financial resources can be resolved through the use of complex financial instruments, which include not only loans but also insurance of this process. At the same time the issue of the presence in certain distribution channels may be associated not only with certain entrepreneurial risks on driving product / service to a channel, but also with external barriers, including customs restrictions, trade quotas, currency instability, underdevelopment and instability of the financial market, legal restrictions on the presence of certain goods in the domestic market, etc. Directions for solving these problems should be included in the relevant operational, tactical and strategic plans of the company - the owner of the brand.

Considering the category of contactors, who do not desire to buy and consume the product / service of the brand, it should be noted that in case of free access of contactors to the financial resources or product / service of the brand in

distribution channels, their attitude towards the brand becomes passive (passive observer) and contactors of this category hardly can be converted into prospective customers of the first or second levels and especially into actual ones.

It should be mentioned, that the situation, when the contactor has sufficient financial resources but has neither desire to buy a product / service of the brand nor free access to it, most often occurs when bringing a new product to the market and contactor is uninformed about a new product or service. Some times receiving information about certain products and services may be a factor encouraging the gradual expansion of the product / service in the market. This is one of crucial issues for B2B market where new products for industrial use are not only unknown but the result of their consumption is quite uncertain, or their use in the contactor's production requires using new or upgrading old technologies, training personnel, transforming organizational and / or management system of the customer.

In this case the company – brand owner – should seek not only for channels for spreading information about the product / service of the brand through the contactors, but also for ways to make contactors sure to use, demonstrate both positive and negative consequences (outcome) of use in the manufacturing process of the contactor through the relevant test evidence, etc.

Most problematic in terms of conversion a contactor into a customer are the last two subgroups of passive observers:

(i) passive observers, who have neither the desire nor the financial resources to purchase goods or services of the brand, which are freely available in the relevant distribution channels;

(ii) passive observers, who have no access to the goods / services of the brand, and have neither the desire nor the financial resources to buy them.

In this case, these two groups can be considered as non-target audience of the brand and the issue of converting them into active observers or, indeed, potential or actual customers usually lies out of the range of attention of managers of the brand.

However, under conditions of changing at least one of the factors (Table 2) the first of

these subgroups can become a prospective customer of the second level, or even the first level, while the second subgroup can become an active observer in the long run, or at least can get closer to it.

It should be taking into account that expansion of the customer base can gradually decrease the productivity of performance of the enterprise. According to analysts [21, p 8] in industrial production such a decline, caused mainly by significant increases in the cost of attracting new customers, may be up to 14%, and in services sector - up to 27%.

#### **4. Conclusions.**

Thus, the proposed three-dimensional model of logical analysis of contactors of the company - owner of the brand – allows us to identify opportunities of contactors in converting them into the actual customers and to monitor changes in their position. This should become the basis for creation of new or adjustment of existing strategies for brands.

Based on the general concept of brand and the results of critical analysis of the existing brand definitions presented above, it can be argued that brand should be considered as a trade mark that has particular value for customers and contactors, affects them and takes a definite place in the minds of the relevant market entities, forming a rational and psychical perception of a brand, creates signals for its purchase, consumption and / or monitoring. Moreover, brand:

(i) exists in a certain economic, social, political, legal and cultural environment of society, the extent of which varies depending on the level of brand globality (local, national, regional, global), and due to this brand is under the influence of numerous factors that can accelerate or restrain its development;

(ii) has intangible value, which can be quantified and presented by material and financial indicators, and in money means shows its financial power and ability to create an additional capital to the stockholders;

(iii) is created and exists in the minds of its real customers and contactors, readiness of which to buy and consume the goods and services of a brand is strongly depended on their perception of the brand.



The following researches should be focused on the perception of a brand by two groups: the owners and managers of the brand and customers. The perception of the brand by given groups should be considered in several respects: administrative, financial, economic, psychological, communicational, innovative, legal, and social.

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