



# INSTITUT FÜR MARKENTECHNIK

## GENEVA

### **Brand systems are economic bodies**

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#### **Separated management spheres: company/brand**

A brand is today generally being narrowed down to the presentation of a company and its products through symbols (name, logo, colors, etc.) in advertising and communications. The causal relationship between the external effect of the brand and the performance structures of the companies involved is however not established.

This is the reason why even brands that have been highly successful for decades may deviate from their course, thereby causing severe damage to their profitability. As soon as sales figures are no longer in line with expectations, two programs are immediately initiated:

On the one hand, the brand is being questioned, a new advertising agency is hired, logos are “modernized”, the brand’s symbols are re-allocated within the organization, new products and services are offered under new names, i.e. disconnected from the established brand, and market research is carried out on the basis of which the company’s appearance is changed.

On the other hand, cost reduction programs are implemented, prices are lowered, the distribution is expanded (typically downwards) and product ranges are extended without taking the implications for the brand into consideration.

Both programs are executed completely independent from one another. The result: the external presentation is no longer coherent with the company’s actual performance; the brand loses its specific power in the clientele.

Such risks can only be avoided if there is a fundamental understanding of how brands are created and evolve over the course of time. The practice of Markentechnik has consistently shown that the process of brand formation is not linked to communications but is primarily based on the day-to-day activities of the companies.

In this respect, the crucial elements are the experiences the clientele has directly or indirectly with the company's products and services, the contact with sales people, the trade's performance in the various channels (product presentation and service) and additional areas with high relevance to the public. The clientele learns to value the brand through these points of contact which, in turn, enable the company to establish a unique positioning. In this respect, advertising is only capable of playing a supporting role.

In reference to the phenomenon of the brand, the question is often asked: "How can we add emotions, trends, etc. to the brand?" Markentechnik takes an entirely different approach by exclusively concentrating on "How does the brand earn money for the company?". Hence, the Institut für Markentechnik centers its work around the economic correlation between the company's performance and the external impact of the brand and has made this the starting point for its approach.

### **The brand is a normative energy system**

For many years in research and industry practice, the Institut für Markentechnik has analyzed the specific processes and activities concerning brands and has come to the conclusion that a brand goes well beyond the presentation of a company and its products/services in the market by means of its symbols. The brand is a self-contained energy system, consisting of two interrelated sub-systems:

- The first sub-system covers the company's entire performance structure (products and product ranges, the capabilities behind them such as know-how, research and development, production, marketing and sales, etc.), including controlling earlier and later stages of the value-added chain.
- The second sub-system represents the effect the company's performance and activities produce in the minds of the clientele: the brand energy.
- These two sub-systems are interlinked through all the brand-specific symbols which enable the recognition of the brand (name, logo, colors, etc.); these constitute the storage space for all of the company's activities and achievements in the minds of the clientele, the industry, the general public, etc.

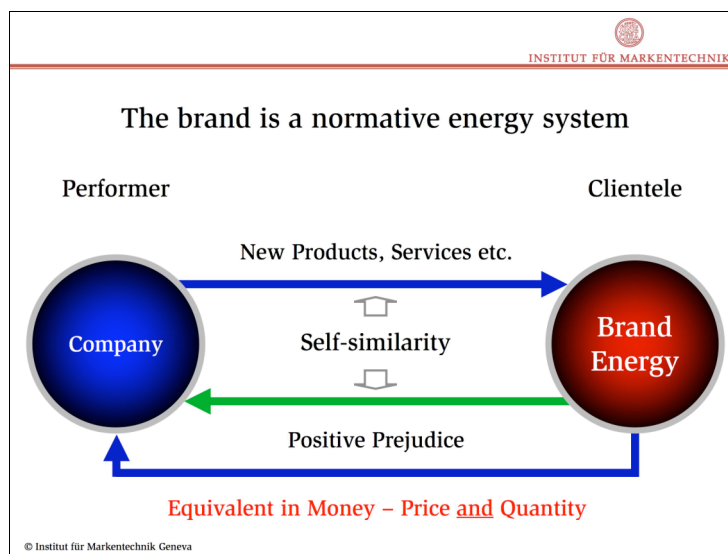
This energy system is fed by the continuous exchange between the two sub-systems. It is based on the relationship between cause (company) and effect (clientele). In order for the brand to gain maximum competitive strength in the market, this causal relationship needs to be controlled and managed in day-to-day business. All the activities of the company have to be geared to achieving the greatest possible impact in the clientele, i.e. reinforcing and increasing brand energy.

Brand energy refers to the enormous power that enables an established company to succeed in the competition in the long run. It develops through experiences with concrete products and services of a company that accumulate in the minds of the clientele, the industry and the public

over long periods of time. The longer the unique history of performance, the higher the degree of brand energy; the advance in trust – the “positive prejudice” – is activated with regard to the brand.

In order to exploit the energy potential that has been built up historically and to reinforce it at the same time, all processes concerning the brand need to be managed according to the principle of self-similarity. This means that all current activities of the company need to be perceived as being in line with its historical achievements.

This is the point at which the energy system comes full circle: the company sends out consistent, self-similar signals through its products and services; these are experienced by the clientele; the signals create a cyclic feedback with the existing positive prejudices and influence the purchasing decision which, in turn, provides the brand system with the money it needs.



*The stronger the cyclic feedback between the company's performance and the established positive prejudice, the higher the profitability of the brand system.*

Cyclical processes develop between the company's performance, purchase, consumption, satisfaction and repeat purchase. As a result of the positive prejudice, the clientele is open to accept new offers as long as they are self-similar to the historical performance.

The brand energy is stored in the clientele, the industry, the public, etc. Each activity the company offers to the clientele is linked to the specific names, symbols, colors, etc. These occupy the storage space in the minds of the clientele, with each of them representing specific bundles of performance of the company (products, price structure, distribution channels, etc.).

Without the comprehensive knowledge about the brand-specific correlation between the performance structure within the company and its effect in the clientele, any alteration in the areas product, product range, pricing, sales, distribution, etc. may threaten the brand and may weaken the profitability of the company. Interferences with regard to the brand's symbols will cause an even more sensitive reaction of the brand system.

