Structure and Learning Objectives of This Chapter

This first chapter focuses on the foundations of brand identity and addresses the two key questions in this area, namely:

- Which challenges does brand management face today, and how can they be tackled most effectively?
- How can identity-based brand management help to create competitive advantages?

To begin with, an overview of the present challenges facing brand managers will reveal how the waning, or in some markets, non-existent, differentiating power of many brands results in enormous price pressures. After that the creation of competitive advantage will be examined from three different perspectives: the market-based view, the resource-based perspective, and the competence-based position of the firm. The findings of these analyses will then form the basis upon which the management of brand identity will be introduced.
1.1 Current Challenges Facing Brand Management

Brand management and brand leadership have been pivotal topics for corporate management strategies for many years.

The relevance of brand management is reflected in the mere number of new brand registrations: 2.99 million brands were registered in 2013 alone, 2.4% more than in the previous year. Summed up herein are registrations that were submitted directly to the national or regional offices (Paris route), or in designated offices via the Madrid System (WIPO 2014). The magnitude of this figure proves that brands are significant in terms of their economic value. Their value stems primarily from their relevance to potential customers and other reference groups (i.e. the “demand side” of market transactions). For instance, the brand value of “Google” has been estimated to amount to 158 bn US dollars in 2011 (cf. Millward Brown 2014). The economic and managerial significance of brands stems from three brand functions for consumers and other reference groups (see Fig. 1.1).

Firstly, from a **behavioural perspective**, the brand offers **orientation**. It increases market transparency, which in turn enables the buyer to choose the most suitable offering...
faster and with more ease. Due to the large number of interchangeable brands (“brand inflation”) this function is seldom fulfilled. However, there are a few strong brands whose power is predominantly based on an orientation function (e.g. Google). From a transaction-theoretical perspective, brands reduce the cost of product and information searches. Hence, a brand can be “cheaper” than a “brandless” offering, as the sum of the price and transaction costs proves relevant for purchasing behaviour (cf. Williamson 1985).

Secondly, a brand can create trust based on awareness and perceived competence (trust function): The transaction between seller and buyer often leads to information asymmetries, which in turn results in behavioural insecurities (cf. Williamson 1983). Trust dissolves such asymmetries and hence facilitates market transactions. In general, the larger the subjectively perceived risks of a purchasing decision are, the greater is the trust function of a brand.

In addition, a brand can fulfil a prestige function for potential customers: As early as in the 19th century, William James recognised that human beings tend to use objects over and above their functional role as an expression of their personality: “A man’s self is the sum total of all that he can call his, not only his body and his psychic power, but his clothes and house, his wife and children, his ancestors and friends, his reputation and works, his lands and yacht and bank account. All these things give him the same emotions.” (James 1890, p. 291). Therefore, brands can become a means of communicating one’s own identity to other people. In addition, brands can contribute to the development of a sense of identity by offering the buyer the opportunity to transfer brand attributes from the brand onto themselves (self-image). Over and above the enjoyment of identifying and living in accordance with one’s own personality (self-realisation), this process can express the buyer’s affiliation to a group. In such cases the brand is a symbol of the important motivational factors for the buyer. Today, this third, symbolic function of the brand tends to be the predominant factor.

The functions detailed above present corporations with numerous opportunities: a successful brand contributes towards top line growth and hence the economic value of the entire company. Professional brand management is thus expected to create preferences for the company’s offering, and hence to differentiate it from competing offerings. In order to achieve this potential for success, it is necessary to master the challenges of brand management.

The key challenge for brand managers is the perceived interchangeability of brands on the demand side. For brands in a B2C or B2B market, in which there is a high degree of interchangeability, it is increasingly difficult to highlight and uniquely differentiate a brand from the mass of competing offerings (cf. Dolak 2005; Wiedmann and Ludewig 2014; Bruhn 2005). Hence, 64% of Germans cannot identify any significant differences between brand offerings (BBDO 2009).

Figure 1.2 shows the positioning of insurance companies in Germany as an example in case and based on multidimensional scaling. The study is based on a representative survey of 6666 people in Germany from 2009, who just covered insurance. Almost all
insurance companies were assigned to one large undifferentiated group by the consumers (see red area in Fig. 1.2). Only two companies distinguished themselves positively or negatively as “affordable with low service” and as “expensive and impersonal”.

These analyses show the lack of differentiation power of many brands. This lack leads to the comparison of the different offers on a pure price level. In consequence, only that provider will prevail in the market that is able to achieve a sufficient margin even at constant price erosion.

One of several solutions to this problem is the development of “experience orientation” (cf. Pine and Gilmore 1999; Freundt 2006). Therefore, research is being increasingly devoted to the construct of brand experience. However, there is no agreement in the literature on the exact definition of the term “experience”. As a matter of fact, the English term “experience” is unhelpful in describing the concept as it tends towards a rather undifferentiated understanding of experience: it conveys the dimension of “accumulated knowledge” as well as that of a singular noteworthy or exciting experience. In contrast, the German language differentiates between the terms “Erfahrung” and “Erlebnis”. Whilst “Erfahrung” can broadly be translated by the term “experience”, the concept of “Erlebnis” is much wider and encompasses a considerably stronger emotional factor, with connotations of adventure, fun and often more existential, personal involvement. Therefore, based on the German term “Erlebnis”, the brand experience for the purpose
of this book is defined along four brand experience (“Erlebnis”) dimensions: sensory (the brand addresses the senses), affective (the brand prompts emotions), intellectual (the brand stimulates thought and reflection) and a behavioural dimension (the brand offers opportunities for physical interaction) (cf. Brakus et al. 2009).

The targeted design of the brand experience along these four dimensions can help to differentiate a brand—even in the context of highly standardised brand performance. The international success of Starbucks, for instance, is largely based on their experience orientation. In a market where differentiation between competitive products is negligible, Starbucks distinguishes itself through a skilful application of all four brand experience dimensions (see Fig. 1.3).

A second major challenge for manufacturer brands is the penetration of private label brands. Formerly brands were manufactured exclusively by specialized producers and afterwards sold through retail. Nowadays retailers often act in direct competition with the manufacturer brands, by offering their own private label brands. The less a manufacturer
brand differentiates itself from competitors, the more it gets under pressure by the private labels.

Digitalization is the third important challenge for brands. It initially intensifies competition because internet and e-commerce enable new competitors to enter the market. Furthermore, market transparency is increased for the buyers (e.g. by comparing products online). Simultaneously, the consumer demands are increasing. They expect the contemporaneous presence of brands in several distribution channels (e.g. physical stores, online-shops and electronic retailers such as Amazon). Under such tough market conditions brands are only successful if their identity provides special benefits, both internally (employees) and externally (consumers). These benefits must create meaning and go beyond the technical and functional products and services of a brand.

### 1.2 Theoretical Foundations of Branding

A company needs to possess one or several competitive advantages in order to differentiate itself from its competitors. The question as to how competitive advantage is created, maintained and defended has been considered in strategic management theory by different schools of thought. The major approaches are detailed below (for a more in-depth discussion see Meffert et al. 2015).

#### 1.2.1 The Market-Based View

The creation of competitive advantage is often explained by the company’s market orientation. The term “market orientation” refers to the company’s strategy of exclusively focussing on the market rather than on company-specific factors (cf. Narver and Slater 1990).

This market orientation is based on an all-encompassing market focus which is reflected in the “market-based” view (MbV) (cf. Teece et al. 1997). The MbV purports that the focus of the company has to be geared towards competitive advantage, which in turn is seen as a necessary condition for long-term above-average returns. The MBV explains competitive advantage exclusively from an “outside-in” perspective (cf. Hannan and Freeman 1977). Competitive advantage is created by a two-step process: while the first step comprises the correct selection of a specific market using market characteristics as the selection tool, the second step deals with the creation of a dominant, superior market position in the selected market (cf. Burmann 2002).

This approach reflects the paradigm of “structure-conduct-performance” (S-C-P) (cf. Bain 1959). It states that the structure of an industry influences the behaviour of the companies, which in turn influences the overall performance of the industry. Accordingly, the success of a brand and the behaviour of the leading players in its market can be traced back to the characteristics of the specific market concerned. The resources and the
level of competence within a company are not considered relevant as this view assumes that all strategic resources are mobile and can be traded (cf. Nolte and Bergmann 1998).

This fundamental assumption leads to the conclusion that the free tradability of resources always leads to resource homogeneity amongst all market players (cf. Zahn et al. 2000). This market-oriented paradigm dominated strategic management research during the 1970s and 1980s, with Porter (1980, 1985) as its key proponent.

This strict focus on the environment in which the firm operates inevitably excludes any company-internal factors which may contribute to the success of a company. Hence, exclusively focusing on the market runs the risk of not being able to position a brand on a promising footing because the company may lack the necessary internal expertise, and it additionally hinders progressive brand management. Henry Ford summarised this succinctly at the beginning of the 20th century: “If I had asked people what they wanted, they would have said faster horses”. This quotation reveals the greatest danger of pure market orientation: consumers are, for the most part, incapable of thinking outside their current status quo, nor can they formulate their future needs and desires.

The European passenger air traffic industry at the beginning of the 1980s is a good example of this predicament: the positioning of each established airline is shown in Fig. 1.4. The low-cost, “no frills” airline industry did not exist at that time. Then, in the 1990s, more than a dozen low-cost airlines attempted to replicate the success of the American airline “Southwest” in Europe and enter into the aviation sector (e.g. European Belgian Airlines, Go, easyJet, Ryanair, Hapag-Lloyd Express, Germanwings).

To date, only Ryanair and easyJet have been able to operate profitably in the “no frills” airline sector. Most of the other participants exited the market, incurring large losses or becoming insolvent: they lacked the necessary resources and expertise to establish a successful business in this sector.
1.2.2 The Resource-Based View

The resource-based view (RbV) was developed in response to the shortcomings of the market-based approach. The RbV views the tangible and intangible assets of the firm as the reason for its success or failure (cf. Freiling 2001). The RbV questions the importance of external market factors and proposes that company performance is predominantly due to internal aspects of the firm. These differ from company to company and, seen from the outside, represent a “black box”.

**Input items**, which, in principle are the same for all companies operating in the market, constitute the first stepping stones for success. The company then develops these input items further into resources by means of internal refining processes. These processes are an important step towards achieving heterogeneity and competitive advantage. However, they can also lead to an uncompetitive market position if “incorrect” refinement processes are applied. This is the case if, for instance, the input is not refined in accordance with market requirements.

In a third step, complementary resources are combined to create a potentially unique customer benefit. This requires a certain amount of competence on the part of the internal side of the company. “**Competence**” is therefore defined as the application of repeatable skills which are based on knowledge and governed by target-driven rules as well as organisational expertise. Thus, competence serves to maintain competitiveness and to create competitive advantage (cf. Gersch et al. 2005).

The market always judges the economic relevance of resources and competencies. Long-term company success is thus based on the “correct” use of the resources, which are “correctly” made available and refined so as to generate a **relative net advantage** for the customer compared to the offerings of competitors (cf. Meffert et al. 2015). The net advantage for the customer is defined as the gain from the expected product benefit minus the costs of purchasing and usage. Hence competencies are crucial for the generation of competitive advantage.

In order to be able to define competence as an organisational rather than individual ability, there has to be **collective activity** (by two or more people), as well as an existing complementarity. If the result of the behaviour of each person is independent of that of the other members of the group (i.e. lacking complementarity), then it is impossible for the collective expertise of the firm to lead to any form of competitive advantage: the sum of all individual activity in the firm can be easily copied (e.g. by recruiting the relevant employees). Furthermore, if the sum of the work performed does not create additional returns over and above the value created by each individual, the value will be completely paid out to the employees with their individual compensation (cf. Burmann 2002).

The RbV has been justifiably criticised because of its static perspective as well as its inability to explain how a company establishes a unique resource profile and how it can successfully respond to changes over time (cf. Rasche and Wolfrum 1994). It is therefore far from the ideal theory to explain the creation of competitive advantage.
The competence-based view (CbV) is based on the RbV and develops it further, hence constituting the most advanced perspective on how competitive advantage can be explained. The CbV emphasises the fact that resources alone are insufficient to establish competitive advantage. In contrast to resources, competence can only be grasped from the perspective of dynamic processes (see Fig. 1.5). Competence is always intangible and the result of expertise based on experience (cf. Freiling 2004). Furthermore, competence is the result of an interactive process over time, which has been codified into rules and processes, explaining how competencies can create competitive advantage for a company (cf. Burmann 2002).

There are three different kinds of competence (cf. Gersch et al. 2005): refinement competence, market supply competence and meta-competence, which potentially supports and, if necessary, alters the other two forms of competence.

Refinement competence offers the possibility of identifying those input goods which are potentially relevant for market success. These input goods can then be altered so that they become required resources for the company. The company’s employees manage this process of alteration. An example of this process in the area of marketing would be to rent a shop at a suitable location (input). The empty shop would then be equipped and furnished as required (the refinement process).

**Fig. 1.5** Competence categories and how they are created. (Source: based on Gersch et al. 2005)
Market supply competence is the organisational expertise of the company. It converts the company’s abilities into actual market offerings and market transactions. Thus input goods and resources are combined in order to create a market-relevant offering. An example of this would be the expertise required to establish and maintain a retail branch network, which subsequently achieves the aspired volume of transactions. Activities in this domain include, for example, managing training requirements, motivating the sales force, and managing optimal point-of-sale communications.

Meta-competence represents the company’s overall framework. It takes precedence over the operational performance and affects all input goods, resources, competencies and processes. Meta-competence is crucial for a company’s ability to adjust to changing market conditions (e.g. updating the product range in order to compensate for changing customer requirements and preferences).

Figure 1.5 should not give the impression that CbV perceives this process as an activity which can be planned and predicted in its entirety. Rather, the development of company competences and resources requires entrepreneurial talent and is always accompanied by uncertainty (cf. Freiling 2004). Collective competence as such is always based on the individual abilities of the employees. This methodological individualism (cf. Schumpeter 1970) forms the basis of modern research into competence (cf. Gersch et al. 2005).

Employees, therefore, need to learn from new information in order to create new individual knowledge which, in turn, has to be integrated into the firm’s collective competence base (cf. Burmann 2002; Lierow and Freiling 2006). Hence competencies of the firm are always the sum of the individual capabilities on a company level (see Fig. 1.6).

From the first step, i.e. information acquisition and processing, the difficulty arises that individuals cannot access all information necessary for effective and efficient learning. Secondly, most knowledge is implicit, i.e. it consists of individual expertise, which is difficult or impossible to verbalise (cf. Polanyi 1967). Thirdly, the flow of information between individuals is heavily influenced by an organisation’s culture, with the term “organisational culture” defined as a system in which the long-term values and convictions are shared by all of its members (cf. Fichtner 2008).

The flow of information is hindered by the fact that not every employee shares the entirety of his or her knowledge with his or her colleagues. Sharing one’s expertise often

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**Fig. 1.6** The process of creating competencies. (Source: based on Lierow 2006, p. 128)
creates a feeling of being easily replaceable, or at the very least of giving up a personal advantage in the job market. The willingness to learn as a team and to share knowledge depends to a large extent on the culture of the company as well as suitable incentive schemes (cf. Burmann 2002). Both are important constituents of internal brand management, which will be discussed in more depth in Sect. 4.2.

Generating competence is a never-ending process. Teece et al. (1997) have examined this process in their “Dynamic Capabilities Approach” which tries to explain a company’s ability to change its competitive advantage. Organisational changes are modelled as path-dependent development processes (cf. Arthur 1988; van Driel and Dolfsma 2009) which lead to the acquisition of new competencies based on old, existing competencies (cf. Burmann 2002). The existence of “dynamic capabilities” ensures that these path-dependent processes can be mastered. Whether or not these processes are mastered well depends on the quality of these “dynamic capabilities”.

The most important hypothesis of the “dynamic capabilities” approach is to be found in the linking of competence development with the historical development of the company (see Fig. 1.7): existing resources and competencies (“evolutionary paths”) heavily influence the way new solutions to problems are searched for. Hence, combining different resources is seen as the only way competencies can be created and therefore the historical resource set-up of the company (“firm-specific resource positions”) has a crucial influence on the creation of new competencies.

According to Teece et al. (1997), as well as Burmann (2002), dynamic capabilities can be subdivided into several processes, as follows.

Replication processes offer an effective and efficient means of coordinating resources and refer to tasks which are well known and well established in the firm. Replication competence is the organisational ability of the company to multiply operative process abilities in day-to-day business. The importance of replication competence is twofold: on the one hand, it enables the company to grow more quickly and more efficiently, on the other hand, the quality of the replication competence reveals the degree to which the firm is capable of comprehending the structure and function of its organisational abilities. The latter is a key starting point for improving and developing organisational capabilities. Thus replication competence is based on the precise and comprehensive codification and transferral of existing competencies within the company.

Reconfiguration processes lead to extensive changes within a company’s set of resources and competencies. In order to control reconfiguration processes, it is necessary to recognise the need for change as early as possible. The earlier the need for change is recognised, the less expensive the reconfiguration process becomes. Secondly, the company must be in a position to be able to learn the requisite new resources and competencies. Hence it presupposes a willingness and ability to learn on the part of the employees.

Replication and reconfiguration competence can be combined to form a meta-competence: both refer to dynamic changes which take place over a distinct period of time. Meta-competence can also be termed “strategic flexibility” (see Fig. 1.8). It is not possible to increase the dynamics of identity-based brand management without strategic flexibility.
Replication competence describes the speed with which action is taken. It is determined by the quality of knowledge codification and the ability of the company to transfer knowledge. The knowledge employees have acquired is individual, implicit knowledge. It is only accessible by the employees themselves. In order for the organisation to be able to utilise and ensure that this knowledge is not lost if the employee leaves the company, implicit knowledge has to be transformed into explicit knowledge. This process is called the “codification of knowledge”. Employees have to be motivated to codify their knowledge. Motivation to participate in this process tends to arise from the employees’ expectation that they will be able to acquire their colleagues’ knowledge through the same process, thus increasing their own value to the firm and to the wider market (cf. Szulanski 1996; Hauschild et al. 2001). Codification is the necessary requirement for efficient learning processes throughout the company (cf. Coriat 2000; Chen et al. 2009).

The codification of knowledge makes sense if, and only if, the codified knowledge is transferred to other employees. This transfer of knowledge is of particular importance for companies with a high turnover of staff (sometimes caused by acquisitions) and in a cooperative agreement context (cf. Capron 1999). The faster a company is able to codify and transfer knowledge, the higher the speed of action with which it will be able to manage its brands (cf. Boisot 1999; Burmann 2002).
In contrast, the reconfiguration competence denotes a company’s scope for action, enabling it to develop new organisational capabilities. The development of new competencies depends on the skilful utilisation of existing knowledge in the company. For this, two processes are necessary: the processes of deriving and absorbing knowledge.

**Knowledge derivation** reduces knowledge to elementary cause and effect relationships. Hence it is a form of pattern recognition (cf. Boisot 1999). By deriving knowledge, a company seeks to identify the routines upon which employees’ knowledge is based and which ultimately form the basis of its set of competencies. **Knowledge absorption** can be interpreted as an internalisation process of new knowledge. This process requires the application of new knowledge time and again, as well as direct experience of this new knowledge and its application (cf. Boisot 1995). The extent to which employees are receptive to new information and knowledge is very much dependent upon the culture of the firm; hence the culture of a company represents its crucial strategic flexibility (cf. Meffert 1969).

If only one of the two competencies (replication and reconfiguration, cf. Fig. 1.8) is well developed, a company is limited in its strategic flexibility: it might find itself in a situation where it encounters several courses of action, but is not in a position to realise these as quickly as required. As a result, it will lose a portion or all of its sales potential to competitors that pre-empt the company’s move. Similarly, a company whose pro-

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**Fig. 1.8** The nature and consequences of strategic flexibility. (Source: based on Burmann 2002, p. 276)
cesses are predominantly standardised, and hence very fast and efficient, may not be able to exploit potential new sales opportunities since it does not possess the necessary scope for action.

**1.2.4 Linking the Market-Based View with the Competence-Based View**

These two approaches (RbV and CbV) do not represent opposites, but rather are interdependent. Neither the MbV nor the CbV are capable of explaining company success in a market in its entirety. Competence management in a company always has to integrate information emanating from the market in order to develop valuable competencies; otherwise the company would risk building up competencies which are not relevant for potential customers (see Fig. 1.9).

An exclusively market-oriented alignment of corporate behaviour would lead to the company following every market trend without being able to fulfil the market’s requirements as the organisational competencies would be missing. The integration of both sides, i.e. looking at the outside-in, as well as the inside-out, perspective in parallel is the basis of identity-based brand management.

**1.3 Conclusion**

Given the difficulty of brand differentiation in most markets, the development and maintenance of a unique market position for a specific brand is a major challenge for most companies. Such a project requires specific competitive advantages.

This chapter has shown the limitations of the market-oriented view, which is not capable of creating and maintaining competitive advantage. In order to achieve this goal, the market-based view has to be combined with the specific competencies of the individual firm. Hence the outside-in view is supplemented by the inside-out perspective: only the combination of both perspectives can lead to competitive advantage. Insights into the
status quo and the likely future developments of the market are combined with an internal view of the brand: its identity is the key driving force that, in the long run, enables the management to differentiate its offering from those of all other competitors. The combination of the outside-in and inside-out perspectives represents the core of identity-based brand management.

References


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