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The evolution of generic brands in industrial markets: the challenges to owners of brand equity

John Low[a], Keith Blois[b,*]

[a]*Sortex Ltd and Royal National Institute for the Deaf, UK*
[b]*Templeton College, University of Oxford, Oxford OX1 5NY, UK*

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Abstract

The paper suggests that generic brands can develop in industrial markets as easily as they can in consumer goods markets. It briefly examines the issue of branding in industrial markets and then describes the problems that firms can face if their brand name becomes used in a generic manner. It suggests actions that such firms can take as responses to this situation. © 2002 Elsevier Science Inc. All rights reserved.

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1. Introduction

The issue of branding in industrial markets has received little attention relative to that accorded to it in consumer markets. It is therefore not surprising that the problems that arise in industrial markets when a brand name becomes used as a generic term are seldom discussed. However, they can be as significant for industrial firms as for a consumer goods firm as the case of *Sortex* illustrates.

2. Sortex

Sortex[1] is a small (1998 turnover £14.3 million) British company, which was incorporated in 1947, and today is a leading supplier of optical sorting machinery primarily for use in food processing. This is a low-volume, high-margin, capital goods business that is highly dependent on international markets. *Sortex* has built up a large installed base in literally every corner of the world and, even though many new competitors have entered the market over the past 15–20 years, none has established such a strong name.

The *Sortex* name has become very well established and has been applied to *Sortex*'s products with numbers used to differentiate between its products and product ranges. A 1997 survey showed that 81% of customers or potential customers interviewed were aware of *Sortex* while the next best known manufacturer was only recognized by 45% of customers or potential customers. However, not only is the name *Sortex* well known, but it has also become a generic term associated with the process of "optically sorting foodstuffs" — especially sorting rice.

Indeed it has been known for rice processors to mark bulk sacks of rice as 'sortexed' as long as an optically sorting machine has been used. Furthermore, second-hand optically sorting equipment is commonly referred to as 'sortex' machinery regardless of the manufacturer. As a result, customers are often confused with regard to the name of the original manufacturer of a specific optical piece of sorting equipment and have been known to say, "I have a sortex machine, but I do not know which manufacturer supplied it." Food retailers, commodity traders or others in the food chain, will often insist that their quality standards can only be met by the use of *Sortex* equipment and make this a contractual requirement. Indeed various publications provide lists of prevailing world prices for rice, and these prices are higher for 'sortexed' rice. For example, the July 1998 price of 'PB 5%' Thai rice was US$295 per ton compared to US$310 for 'PB sortexed 5%' Thai rice.

* Corresponding author. Tel.: +44-1865-422700; fax: +44-1854-422500.

E-mail address: keith.blois@sbs.ox.ac.uk (K. Blois).

[1] Where a registered company or brand name is referred to, it will be in italics. Thus, *Hoover* will be used when referring to the Hoover Company and 'hoover' when referring to the generic use of the word.

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Table 1
Examples of the components of brand value

Components	Tangible	Intangible
Product	Number of defects; useable product life	Perceived reliability
Distribution services	Lead times; number of late deliveries	Ease of ordering; responsiveness in emergencies
Support services	Times and number of staff available	Perceived service quality; rapport between service provider and customer
Company	Profitability; market share	Reputation; country of origin

Source: Based on Ref. [1].

Unfortunately, for *Sortex*, it has become acceptable to classify rice sorted with an optical sorting system from any supplier as 'sortexed.' Furthermore, confusion as to the original manufacturer of installed equipment results in poor performance and inadequate reliability being attributed to *Sortex* even in cases where it is not their machine. Indeed from time to time, firms operating competitors' equipment will telephone *Sortex* asking for technical support following a breakdown!

3. The case for branding industrial[2] goods

The case for branding in general is well established and supported by a considerable volume of research. However, the greater part of it has been concerned with 'consumer' goods and, in comparison, relatively little has been written or researched about issues associated with 'industrial' brands. Indeed some writers have suggested that to industrial marketers "the word brand connotes a gimmicky tactic for a less serious consumer product" [1].

This view is, perhaps unintentionally, supported by the suggestion [2] that, from the customers' point of view, branding offers three intangible but significant advantages:

1. A brand is a summary of all the values associated with it.
2. A brand makes customers confident in their choices.
3. It makes customers feel more satisfied with their purchase.

It has also been argued [1] that the issue of brands must be viewed from the customer's perspective, and it has been asserted that brand value is comprised of four components each of which involves tangible and intangible elements (see Table 1). That is, that a brand name conveys to customers that these components have certain values.[3]

Of course, brand value is difficult to analyze in a precise manner and in reality these four components "blur together" [1]. In addition, a distinction is also made between "basic brands," "augmented brands," and "potential brands." Basic brands, it is argued, depend primarily upon the product component with the other three components remaining relatively less distinct. With augmented brands both distribution and support services gain significance. Finally, potential brands feature all four components in a balanced manner.

It has also been claimed [2] that there are nine specific benefits that an industrial company will derive from having a strong brand image for its products:

1. Premium prices can be obtained.
2. The product will be demanded.
3. Competitive products will be rejected.
4. Communications will be more rapidly accepted.
5. The brand can be built on.
6. Customer satisfaction will be improved.
7. Power in the distribution network will be increased.
8. Licensing opportunities could be opened up.
9. The company will be worth more when it is sold.

It is not only claimed that owning a strong brand brings benefits to a company, but that there are serious penalties for those companies that do not develop strong brands [2].

Yet, these nine benefits are broad generalizations and the applicability of each of them is contingent upon specific circumstances within which a product is being marketed. For example, the assertion that the third benefit of strong branding is that "competitive products will be rejected" implicitly assumes that there is only one strong brand in the market and/or the cost of purchasing the competing brands is substantially higher. This is because if, as is the case in many consumer markets, there is more than one strong brand, then competitive products will only be rejected in favor of a specific brand when that brand is the "strongest" and not just "strong." In addition, a customer will only switch brands when the difference between the cost of purchasing the new brand and the established brand is less than the difference in the value that the customer perceives between the two brands.

4. The value of brands

Determining what value to place on a brand name has been a problem for many years and has led to many disputes

[2] To avoid being repetitive, in the remainder of this paper, the word 'industrial' is omitted, but where an issue refers only to a consumer product, this will be indicated.

[3] It is important in the euphoria of discussions about the benefits of brands to always remember that a brand may have a negative connotation. For example, *Skoda*, at least up to the time that it was bought by *Volkswagen*, had a very negative image.