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B2B branding: A financial burden for shareholders?

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Abstract Is branding an effective tool for generating shareholder wealth for companies that are active in a business-to-business environment? Or, do other factors such as innovation and manufacturing efficiency—or the lack thereof—create or destroy shareholder wealth? Based on an examination of almost 1,700 companies listed either on the United States or European stock exchanges, this study reveals this crucial relationship could be described as a W-shaped curve with five distinctive phases, depending on the strategic branding position of the company. Used strategically, business-to-business (B2B) companies with a balanced corporate brand strategy generally yield a return to their shareholders that is 5%-7% higher. It is therefore vital that key executives, including the board of directors, systematically assess and monitor the strategic branding position of their company and how their branding investments are performing against key competitors. This study reveals that shareholders should insist on systematic performance feedback from the corporation regarding all key items in the balance sheet—including branding. As disclosed herein, very few of the companies analyzed possessed an optimal balance between branding and financial performance.

1. Why don't shareholders show interest in branding?

In the business-to-business (B2B) arena, does branding create sustainable economic value for companies and their shareholders? Or, are other variables such as innovation, research, and manufacturing excellence the predominant business drivers? Over the last few decades, the topic of branding has attracted increasing interest; however, little research has been conducted on the link between branding and the financial performance of companies in the B2B segment. In many cases, business-to-consumer (B2C) activities have been the focus of research, while industrial branding has been treated as the "intellectual step-child" and been somewhat neglected. Academic research in this field has been limited, and the scholarly literature has neither provided a comprehensive theoretical basis nor documented an empirical relationship between brand value and shareholder value (Kerin & Sethuraman, 1998). The result is that branding research in this field is frequently based on shaky foundations whereby key results and findings are debatable. Bold claims shared by Balmer (2001) and Grönroos (1997) challenge the widely accepted perception

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that branding always creates wealth, and suggest that in reality branding can, therefore, frequently be a major cause of wealth destruction for shareholders.

In addition, branding is becoming more and more a question of survival, since many companies face the universal challenge of converging both quality standards and manufacturing costs. This is prompted not only by global manufacturing, enhanced knowledge, and design sharing possibilities, but is also due to the fact that companies have increasingly easier access to the same financial resources and international distribution channels. Put more succinctly, innovation and time to market are important, but have lost much of their value as strategic tools that protect against "metoo" products; FLSmidth experienced this, for example, when protecting their global leadership position in the cement plant industry against aggressive Chinese competitors. This being the case, branding may represent one of the last remaining means by which a company operating in the industrial field can achieve a sustainable competitive advantage. Ultimately, this has wide ramifications, particularly in a B2B context. A well positioned and powerful brand provides a highly effective barrier against competitors, and increases information efficiency and attracts customers, since it reduces the risk of making wrong purchase decisions. It also creates a competitive advantage which translates into enhanced pricing and distribution power.

For European companies in particular, branding increasingly constitutes a major strategic challenge, because their brands are less well known on a global scale; according to Interbrand, only 23 of the top 100 global brands are of European origin (Kiley, 2007). Historically, American B2B companies such as General Electric, Honeywell, Intel, and Caterpillar have been much faster to establish global brands than their European competitors. Increasingly, European players are also getting "squeezed" by East Asian competitors like Tata, Mitsubishi, and Lenovo.

The principal objective of this article is to present and discuss the strategic relationship between branding and financial performance in a B2B context, and to address the fundamental research question: Can the financial benefits of branding be measured and, if so, what are the conclusions for shareholders investing in B2B companies? Given this ambitious starting point, a series of matters require addressing. What definition of branding and brand equity apply to the B2B field? Would other critical variables, such as innovation and manufacturing costs, exert a disruptive influence on the research presented in the article and ultimately lead to biased and inconclusive findings? Furthermore, is there truly any difference in branding strategies between industries, or are we dealing with universal methods and approaches that can be applied to all companies and product types? These intriguing questions are analyzed and discussed in the following sections.

2. Branding in B2B context: Is it different from B2C activities?

Conceptually, the difference in marketing orientations between companies producing consumer goods versus those producing industrial goods or services is significant. There is also a major theoretical difference in their approach to branding. A general assumption exists that there is close long-term cooperation (sales orientation) between producers of industrial goods and services and their customers, whereas consumer goods companies focus more on the short-term marketing mix and segmentation models (Anderson & Narus, 1998; Kotler & Pfoertsch, 2006).

The level of complexity in this field is exceptionally high, because firms can apply radically different branding and pricing models, and have industry-specific distribution models, and the extensive use of patents can either increase or decrease overall average profitability. The brand expectations of B2B customers are also significantly different from other segments. A well positioned brand in this field should provide substantial reassurance to business customers, since the purchaser's entire fate could be totally dependent on it. The stronger the reputation and inherent goodwill of the brand, the greater the likelihood that the company possesses competitive advantages and more pricing power which would ultimately provide its shareholders with above-average returns. General Electric is a prime example of how this can be achieved consistently on a global scale. In this research sample, GE spent 6.5% of corporate turnover on branding activities (including the costs of running subsidiaries), while other players in this field spent up to 14%-18%. The application of a universal, consistent, and focused brand strategy has provided global scalability and branding efficiency, which translates into enhanced shareholder performance.

Furthermore, mass communication can be used to a much lesser extent than it is in the field of fast-moving consumer goods. The focus is also different, since B2B branding—as a general rule—requires the development of a positive reputation, goodwill, and the commitment of the entire company to a set of