

Branding as an opportunity of SMEs' internationalization strategy in B2B market

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Key words: Brand, branding process, SMEs, modularity, B2B marketing

Abstract

Branding theory has its origins in the consumer product markets. The brand is presented as a market signal targeted mostly to the end consumers and enabling them to save time by guaranteeing a certain level of quality, simplifying their choices, and answering to specific needs. Little research has been done to investigate the relevance and the role of brands in industrial markets. Even less research has been done of the brands within SMEs in industrial markets. Brand loyalty can tie the customer very strongly to a supplier. Brand reputation has also been argued to be considered as a psychological factor affecting purchase from a certain supplier. Brand reputation is not necessarily connected to a product or service but can also in business-to-business or service industries be connected to the reputation of a company.

The modularity can be helpful for a SME not only creating economies of scale and economies of scope but also in brand creation. We argue that brand creation is important for internationalizing SMEs in the B2B market and that modularity can be used in brand creation. To demonstrate this we give an example of a Finnish SME, KPatents, operating in the global market. The company has created recognition in the industries were they operate by using the "coca-cola bottle effect". This means that everybody can recognize the KPatents process refractometer by its shape and colour. This effect is the most effective in the case when a SME is internationalizing as a late starter. The cover module has always the same shape and red colour. This paper contributes to the research area of global branding among SMEs in the international industrial market.

1. Introduction

Branding theory has its origins mainly in the consumer product market. Traditionally, branding is a market signal targeted mostly at the end consumer, saving them time by guaranteeing a certain level of quality, simplifying their choices by easily identifying products and attributes, and answering specific needs – hedonistic, ethical, or individual (Kapferer, 1992 [2004] in Crespín-Mazet and Sitz, 2008).

Usually brand management concentrates on how companies can build strong consumer brands that differentiate one seller from another (e.g., Aaker, 1996; Kapferer, 1997). Therefore it is quite understandable that the majority of academic research on brands and brand management concentrates on consumer market instead of business-to-business (B2B) markets (Crespín-Mazet & Sitz, 2008; Martínez & de Chernatony, 2004; Mudambi, 2002; Webster & Keller, 2004). While the brand research in B2B markets is limited, the brand research regarding small and medium enterprises (SMEs) is virtually nonexistent.

Webster and Keller (2004) state that the fundamentals of a brand strategy; market segmentation, targeting and positioning, apply to both consumer and B2B markets. Still it is clear, that the brand research focused on consumer markets can't fully be generalized to describe or explain the B2B markets. Bentsson and Servais (2005:706) raise the different buying process as a justification for independent brand research on the B2B markets. It is even questioned whether a link exists between financial performance and branding in the B2B markets (Ohnemus, 2009)

Brand loyalty can tie a customer very strongly to a supplier. If, for instance, a customer is convinced that a certain brand of product is superior to the products of alternative suppliers, the customer will choose that brand even though there may be cheaper and better products on the market. It has been argued that brand reputation is a psychological factor that affects purchases (Wendelin, 2004). Brand reputation is not necessarily limited to consumer products and services, however, but can also apply to B2B products or service industries, based on the reputation of the company (Selnes, 1993).

It seems that the modularity of products has not been taken into account within SME studies in international markets (Larimo and Kontkanen, 2008). A modular product design that allows mixing and matching of modular components is now appearing in diverse product markets (Sanchez and Mahoney, 1996). Modularity can be helpful for SMEs, not only in creating economies of scale (through standardization) and economies of scope (through tailoring), but also in brand creation. We argue that brand creation is important for internationalizing SMEs in the B2B market, and that modularity can be useful in brand creation. To demonstrate this we use the example of a Finnish SME, K-Patents, which operates in the global market. The company has created recognition in the industries in which it operates by using the "Coca-Cola bottle effect". This means that everybody in factory can recognize the K-Patents product by its shape and colour. The "Coca-Cola bottle effect" is most effective in cases where an SME is internationalizing as a "late starter" (Johanson and Mattsson, 1988). The products have several modules, but the cover always has the same shape and colour. After twenty years in the business, K-Patents was able to change the colour of the cover when new applications needed stainless steel covers, because by that time the shape of the cover was enough to create recognition.

The remainder of the paper is organized as follows. The next section briefly describes the theory and literature underlying our study: here we build on brands and brand literature, modular product design, and the internationalization of networks, explicitly addressing the role of SME brands in the international B2B market. Next we tackle the research methodology. Then we report our case study: the K-Patents brand and its brand creation in international networks. This is based on a longitudinal, historical, and contextual case description, applying multiple sources of data. After this we analyze the case study, where we in particular demonstrate the importance of modularization and international networks for SMEs in global brand creation. Finally, we draw conclusions and discuss their implications.

2. Literature

2.1 Brands and Branding in the B2B Markets

Most of the brand literature concentrates on branding in consumer markets (Webster and Keller 2004:388). Still some research results are presented regarding branding in the B2B markets. Mudambi (2002) identifies the three main differences in branding between consumer brand management and industrial (B2B) brand management. Firstly, industrial brand management relies more on branding in the corporate level with only some experiments at the product level. Secondly, when compared to consumer markets the brand management in industrial markets emphasizes risk-reduction instead of self-expressive benefits of brands. The third difference is the reason behind increasing number of brands within a company. In the industrial markets the increase is mainly due to company acquisitions. On the other hand, Mudambi identifies a consumer market tendency to reduce the number of brands within a company

Webster and Keller (2004) draw guidelines for successful industrial brands. They name the following ten guidelines: 1) The role and importance of branding should be tied directly into the industrial marketer's business model, 2) Understand the role of brand in the organizational buying process, 3) Be sure that the basic value proposition has relevance for all significant players in the decision making process, 4) Emphasize a corporate branding approach, 5) Build the corporate brand around brand intangibles, 6) Avoid confusing corporate communication and brand strategy, 7) Apply detailed segmentation analysis within and across industry-defined segments, 8) Build brand communications around the interactive effects of multiple media, 9) Adopt a top-down and bottom-up brand management approach and 10) Educate the entire organization as to the value of branding and the organization's role in delivering brand value.

Offerings in the B2B market can be seen to consist of five elements (Ford et. al., 2002). These are product, service, logistics, advice (such as to decrease customer uncertainties), and adaptation (tailoring to the specific needs of a customer). These elements can be used in branding in the B2B market (Beverland et al., 2007).

Differentiation from competitors is one of the major benefits of branding (Kotler and Keller, 2009 p. 151). In brand management, companies can choose which brand elements to incorporate in their brands. Kotler and Keller (2009 p. 154) identify six different criteria that help in choosing brand elements. Three criteria help to build the brand, while the other three criteria are used to defend the brand from competitors. The brand building criteria are memorability (how easily the brand is remembered), meaning (what product qualities the brand suggests), and likeability (how it appeals to the customer). Elements that can be used in defending a brand are transferability (how easily the brand can expand e.g. to new markets), adaptability (how easily it can be updated) and protectibility (e.g. is it legally protected from competitors).

Wong and Merrilees (2005) distinguish three different branding strategies (minimalist, embryonic, and integrated) in the SME context. Minimalist applies to a company with a low interest in marketing. An embryonic strategy applies to company with a stronger emphasis on marketing, but which views branding as optional and unimportant. An integrated strategy applies to a company that places a strong emphasis on marketing and branding. In Integrated strategy branding is an essential part of business.

2.2. Modular Product Design

According to Shirley (1990) product designs using modular components provide a large number of product variations while reducing overall manufacturing costs. Sanchez and Mahoney (1996) suggested that modularity in product design creates many options for product variations in the form of feasible combinations of components, some of which may be drawn from a 'design library' of existing components. A modular product design is flexible, as product variations can be leveraged by substituting different modular components into the product architecture without having to redesign

components (Sanchez, 1995) and Garud and Kumaraswamy (1993). In the 1980s Black and Decker designed its entire line of power tools in this way, which enabled the use of a lot of common modular components (Utterback, 1994).

2.3. Internationalization in Networks

Johanson & Mattsson (1988) made four comparative analyses (see Figure 1) of different situations of internationalization in networks. The analysis of the internationalization process concerns three dimensions: extension, penetration, and integration. If suppliers, customers, and competitors of a firm are international, even a purely domestic firm has a number of indirect relationships with foreign networks. This is the case for the “late starter”. The firm can be “pulled out” by customers or suppliers, and in particular by complimentary suppliers. In this case it is not necessary to go from the nearby market to more distant markets. The size of the firm is probably important: for example, a small firm going abroad in an internationalized world probably has to be highly specialized and adjusted to problem solutions in specific sections of the production net.

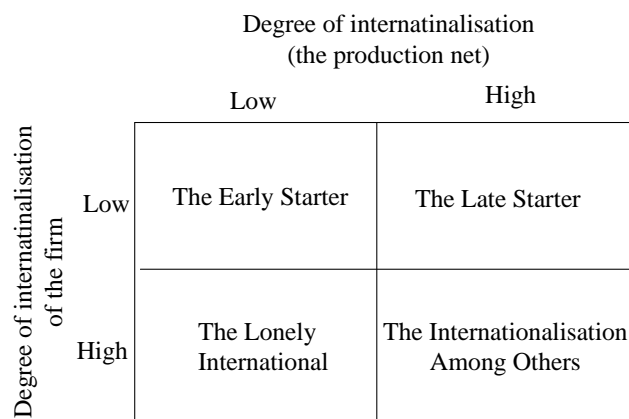


Figure 1. Internationalization and network model (Johanson and Mattsson, 1988).

3. Research Design and Methodology

In our analysis, we take a qualitative research approach to the collection and analysis of primary data (Yin 1984). In a case study the emphasis is on the depth of analysis, both in terms of the number of factors studied and the sources of information used (Yin, 1984). To accumulate knowledge our research process included both inductive and deductive phases, as suggested by Eisenhardt (1989).

The main selection criterion was the brand creation by a small company operating within the global B2B market, an area that calls for more research. At this point we are utilizing only a single case study to illustrate the issues under investigation. One reason for selecting K-Patents is the fact that this company has been closely followed by one of the authors since 1991, involving frequent communication with the CEO and other managers. One author has also visited the company several times, and K-Patents was used as a benchmark firm in a masters thesis. (Rekola, 2000). K-Patents has also been used a teaching case in management training courses since 1992 (Uusitalo, 2004), and since 1996 in a course on innovation management at both the University of Jyväskylä and Tampere University of Technology. The CEO has also visited the courses on several occasions. The company’s documentation has also been followed, including product datasheets, exhibition material, sales promotion material, customer magazine, articles in trade journals, and Internet pages.

4. K-Patents

K-Patents delivers process refractometers to processing industries such as the pulp and paper and food industries. Refractometers measure the concentration of the main component in a process medium. In 2008 K-Patents had thirty employees and a turnover of €8 million. K-Patents exports 95% of its production to 75 countries. Since the first refractometer was sold to a local sugar company in 1983, K-Patents has delivered a total of 5000 devices in 30 years (500 last year). All commercial refractometers function on the same principle: the change in the refraction of light is seen as a function of the edge of the shadow. To avoid drift, K-Patents uses a linear Charged Coupled Device - camera. with a digital measurement technique. In 2008 the factory price of a K-Patents refractometer was €10,000. The cover of the measuring head is painted red and designed so that the K-Patents device is immediately recognizable when seen at the plant. It calls this the "Coca-Cola bottle effect", and it has used this to branding their products the industries in which it operates (see Figure 2).

K-Patents has also used other means besides the Coca-Cola bottle effect to create recognition among its potential customers. The company has participated in several trade fairs, which are reasonably expensive. K-Patents' presentation or branding at fair booths has been consistent and visible (see Figure 3). The company has its own customer magazine, publishes articles in trade journals, and has given presentations at several international seminars. A website was created in 1996 and is regularly updated. On these pages one can find brochures, manuals, technical data, information on applications, and references. The company also makes use of automatic data processing in its administrative routines.



Figure 2. Brand creation by the shape and colour of the cover.

K-Patents applies "openness" in competition: its brochures and data sheets openly reveal the technology it uses. Nobody can steal its ideas and present them as their own. According to the company, the competitive advantage of the firm is based on its ability to create independent solutions. The device is modular in order to be able to decentralize the manufacturing (see Figure 2). To maintain their competitive advantage, the final assembly and calibration is done in their own facilities. It has been easy for the company to take on new technology, such as new connections in the circuit boards, because they are not tied to their own production plants. The two technicians who own the company had had long experience in the processing industry before founding K-Patents, and they maintain good contacts with end customers and outside experts.

Markets

K-Patents' largest market is Europe, which provides one half of the turnover. Asia and South America contribute one quarter and the other 25% is sold to the US. The main customer industries are the sugar, pulp, chemical, and food industries. In the last decade companies in the industries listed have invested heavily in the development of their manufacturing processes. The wastage of raw materials and chemicals has decreased as well as their energy consumption. All these changes have increased the technical requirements of K-Patents' equipment. The measurement of concentration has become much more technology-based.



Figure 3. Brand creation by the shape and colour of the fair booth.

For instance, the manufacture of black liquor in the pulp industry has changed from a concentration of 55-60% in the early 1990s to 80% today. The substance has also become much more solid (the viscosity has increased dramatically). In the sugar industry the changes have been different. The industry has become concentrated, causing the creation of several multinational teams in large organizations. The original equipment manufacturer (OEM) has to be present both at the headquarters and the subsidiaries (manufacturing units).

Two technical support staff persons assist the marketing and sales people to fulfil customers' maintenance and spare parts needs. Moreover, technical support staff searches out new applications for customer processes. K-Patents' effective and highly functional network of representatives and area sales managers have been an extremely important asset in this industry.

In 1998 the food industry (other than the sugar industry) emerged as a new business area for K-Patents. The company could not enter this field until a refractometer suitable for hygienic processes was developed. Firms in the food industry have recently started to apply continuous process measurement and large-scale processes, and there is a lot of market potential for concentration measurement in the food and pharmaceutical industries.

Marketing Channels

In the beginning Ekström, a Finnish industrial trading house, marketed and sold K-Patents' products. At that time in the mid 1980s, trading houses actively sought out local products for export. However, when the recession came in the early 1990s, the Finnish trading houses returned to their core business: the importation of foreign technological products. When Ekström decided to give up exporting, K-Patents had to consider its options. Export was a must for the company, but they were lucky. Their export partner, Ekström, had worked consistently over a long period on the export of refractometers, and had built up experience. K-Patents asked the Ekström staff who had been responsible for exporting their products to continue their work in the K-Patents marketing department. In 1992 the company started exporting with three experienced staff members from Ekström. Today there are six people in the marketing department, one permanently in Germany and another temporarily in the US. Two people work in technical support. Inquiries from representatives or customers are answered quickly to prevent giving the sense that Finland is far away. And K-Patents exploits information technology effectively in its routine activities.

In 1991 K-Patents organized an import company in the US to handle its import business. At first services were outsourced to a local representative, but in 1996 the operations were internalized. In 2001 five staff worked at the US subsidiary, one of whom, as mentioned, was there temporarily from Finland, and concentrated on the pulp industry. The US market is challenging, and creating a large and committed network of representatives is demanding. US sales people are not used to working on a long-term basis. As it takes time to learn all the features, applications, and so on of such a high-tech product, it is not suitable for representatives who are short-term oriented. The investment in product and market know-how usually takes two years of effort. Thus, the lag time before achieving the first sale may be long. Annual sales in the US are approximately 120 units (€1.2 million), which is not enough critical mass to support twenty representatives. The mergers of representatives have changed the network of partners. Coping with these structural changes has been extremely challenging for K-Patents. The US market is strategically important for K-Patents and the company has to be invested there.

In Europe almost all countries have their own representatives, and the area sales managers give marketing support to the representatives. In the marketing department there is also a reserve resource system to guarantee adequate service at all times. The creation of marketing and sales material is centralized in Finland. Sales representatives pay the factory price for K-Patents products and sell at retail prices. At K-Patents the organization of the production schedule is invoice based. Spare parts stores are located in Finland and the US, and most deliveries are shipped by air.

The future looks bright. In-line measurements are growing. The company's greatest challenges are the race to maintain the technological edge and the creation of totally new products in the field of industrial analysis.

5. Conclusions

In conclusion it can be argued that the case study analyzed has shown that branding is important in the internationalization of SME companies such as K-Patents. K-Patents has used modularization to develop its brand, making it easy to recognize the product in the process industry. K-Patents' process refractometers also have many different uses in the industry, and the added benefit of combining two technical solutions. A focus on customer needs has helped to create customer value in a process industry that operates 24 hours a day every day of the year. What is also important when developing a solution for the industry is knowing the customers' needs and developing a modularized product that had better quality, design, and value than that of its competitors. The shape of K-Patents' products creates a Coca-Cola-bottle familiarity in its modularized products, which is also good from a maintenance point of view: improved recognition of the product speeds up maintenance. The K-Patents manner of conducting business is helped by a light organization with lean, flexible management and networks for sourcing, manufacturing, and distribution. The company assembles the modularized products itself, making it possible to have full control of the critical knowledge.

As mentioned earlier, the modularity of products has not been taken into account within SME studies in international markets (Larimo and Kontkanen, 2008). Modular product design that allows mixing and matching of modular components is now appearing in diverse product markets (Sanchez and Mahoney, 1996). Modularity can be helpful for SMEs not only in creating economies of scale and scope but also in brand creation. We argue that brand creation is important for internationalizing SMEs in the B2B market, and that modularity can be used in brand creation. This paper contributes to the research area of global branding among SMEs in the international industrial market.

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