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Valuation Focus

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Branding and The Brand Building of Startup Companies

This article is the second in the four-part series on branding and brand equity and distinguishes between the sustained work of continuous brand building and the illusionary flash from designing a smart logo for tee-shirts, baseball caps, and the company's website. The former can embed the brain with powerful emotional connections and self-identifications with a company, product, or service. The latter merely draws momentary attention to itself without making any lasting impression or creating useful associations, and leaves no trace of the company in the collective memory of the target audience. A business model that targets definable revenue generating customers and produces satisfactory profit margins for the company must proceed brand building. Until customers validate the company's business model, there cannot be a brand. Here we discuss what it means to build a strong brand and to recognize the financial and operating indicators that signal the brand building process is succeeding.

Startups Need Brand Building Right Away

Successful business founders are keenly aware that brand building is a prerequisite to creating a viable market presence and meaningful value that will benefit all of the company's stakeholders. These are the entrepreneurs that committed early on to the principle that branding will affect the near-term business strategy, long-term growth trajectory, and operating performance of the company. Sales volume, revenue growth, gross margin, customer loyalty, incremental value creation, employee recruitment and retention, and the quality of corporate partners and customers all benefit from building a strong brand. Merely expressing brand building as a corporate imperative is profoundly different from designing a strategic plan and engaging the necessary tactical implementation.

Successful organizations disseminate brand equities to the target audience by executing (i) a long-term brand building strategy, (ii) persistent effort on many fronts, (iii) focused investment in the marketing of the company and its products or services, (iv) strategic thinking, (v) tactical organizational coordination, and (vi) an effective implementation team with a unified mission. In so doing, the organization creates the desired brand equities consistent with the company's business model.

Brand versus Branding

A brand is an image or feeling you receive when you anticipate a unique experience or a unique benefit obtained solely through acquiring a specific product or service from an identified company. A brand is striking and has the power to arrest your thoughts or emotions. A strong brand is built on an organizing idea that appeals to your target market. It is a compelling promise made to customers and prospects. The idea and promise are readily deliverable and are unmistakably different from the claims and associations of competitors. A brand evokes anticipation for what is new, unique, better, faster, stylish, and smarter. Branding is the process, the mechanics, or tactics used to transmit the brand's meaning to the target market's thought center. A brand strategy is the platform developed to define the brand idea and promise.

A strong brand in combination with an ongoing and effective branding program form a company's reputation and customer following (known as "customer goodwill"), which are critical for business viability and long term success. Companies that have nurtured the reputation for consistently delivering the product and service experience they promise, while remaining loyal and transparent to the organizing ideas conveyed through the branding process, build a brand with a sustainable competitive advantage.

Brand Pricing

A strong brand receives a price premium for its products or services because the value proposition is integral to the brand. The customer knows that for all of its premium features, exceptional characteristics, unique associations and overall appeal, the branded product or service takes longer/costs more to produce, and therefore is *worth more* even if functionality is fundamentally the same as the unbranded or lesser branded alternative. The customer is willing to pay more for similar functionality once she is convinced the product delivers differentiating qualities, or promises a user experience that the customer recognizes and wants to claim personally. The premium pricing reinforces the perception of higher quality. The brand must have certain premium qualities that make it worth the higher price.

Customer Loyalty

An unambiguous perception of quality can engender customer loyalty. Customers buy brands that reward them with a more favorable experience, partially to avoid the evaluation and selection process each time they need the product or service. The alternative to the rewards of brand loyalty is the questionable and time consuming chore of constantly shopping for and switching to a different brand, with the risk that the different, untested product or service may not result in a better or even equivalent experience. Cognitive dissonance finds fertile soil in user experiences that are disappointing as a consequence of products that fail to deliver on their promise of satisfactory functionality, quality, and reliability. Consumers suffering from "buyer's remorse" are not expected to return for more of the same disappointment and regret.

Brands that keep their promise attract loyal buyers who will return again and again. Loyal customers become vocal advocates as they evangelize the brand, generating valuable referrals and expanding the network of stake-holders. The benefits of brand-driven loyalty to the company are the facilitation of market share forecasting, growth in revenues, profitability, cash flows, and the superior returns on investment and assets provided from the market's acceptance (or permission) of the brand's premium pricing, while generating a higher than industry average gross margin. Customer loyalty is a powerful and valuable intangible asset for a business. Importantly, shareholder value increases under these conditions.

Controlling the Brand

Customers do not own the brand nor do they determine the defining attributes, values, and beliefs that comprise the brand; companies do. However, customer perception of a brand is one measure of its strength, and to an extent, its value as a business asset. Organizations must know what they stand for, believe in, and want to say. The new product or solution developer must have a point of view as to the characteristics of the brand's essence. Only then is there any chance the organization will be able to convey its qualities and values to customers through its brand. If this point of view does not guide the organization with clarity, it is unlikely the brand will resonate with the target audience.

A brand strategy starts as a hypothesis that may, or may not, get validated by the market depending upon its acceptance or rejection of the new product. Nevertheless, the brand strategy must be defined clearly and executed with precision before the product is launched. This form of launch strategy is called "brand-led." When the developer's point of view carries an understanding of the available market information, the brand is "market-informed." The market-informed brand strategy will be *shaped* by customer insights, competition, and social economics, but *will not be driven nor overridden* by such factors.

It is a brand building imperative to send a crisp and powerful message to potential customers that slices through the noise and distraction of other brands cluttering the target's mind. Later, the company may fine-tune brand focus and rethink its target audience. That's okay. What is not okay is having open-ended branding at the time of the launch. Unfocused messaging will pass unnoticed in the market and even alienate some potential customers. When the branding strategy begins with a deliberate unfocused point of view, there is a near certainty that the brand will be meaningless and fail to develop any following.

Emotional Appeal

Finally, the brand building strategy will have a dimension grounded in emotional appeal. To be perceived as distinctive and truly unique, a brand must convey a compelling and sustained differentiation for its product. The surest way to distinguish from other brands is through an emotional appeal to the target audience. Creating a bond between product details and personal values, while creating an emotional connection with the target audience enhances the sustainability of customers, personal identification, and brand loyalty. Such loyalty is not cultivated through a smart logo, but once the emotional bond between customer and brand has been formed, the logo may trigger thoughts and feelings the organization intends its customers to have for the brand.

Sources

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