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Opportunities for Increasing Brand Equity by Applying the Concept of Product Differentiation

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Abstract: *The idea of product differentiation gives answers to such questions as how companies can gain competitive advantage by responding more fully to customers' needs and expectations. The concept of product differentiation enables companies to focus their efforts on developing a specific product for a specific user and simultaneously to increase brand equity and improve their market position. The main objective of the following paper is a theoretical systematization of the possibilities for increasing brand equity by applying the concept of product differentiation. In order to ensure product competitiveness and high brand equity, corporate management must use tools, forms and methods that meet the conditions and requirements of globalization and complexity of today's economic relations.*

Keywords: *brand, brand equity, product differentiation, value chain.*

1. Introduction

The mission of each company is to provide consumers with high value through the product it offers to its customers. In modern concepts company competitiveness is seen as a function of the competitiveness of products and services it produces or as "a reflection of actual and potential company capabilities to develop, design, manufacture and market products and services which price and non-price characteristics included in the complex are more attractive than those of competitors" [1]. Customers perceive products as a set of benefits and satisfactions provided by the purchase. They do not buy just the product but the ability to meet their needs and solve a specific problem. Therefore, they are looking for specific products, with specific consumer features and characteristics that fully meet their customer expectations.

Consumer preferences and attitudes are characterized with rich diversity. How companies can gain competitive advantage by responding more fully to customers' needs and expectations? One of the answers to this question gives the idea of product differentiation. The concept of differentiated product enables companies to focus their efforts on developing a specific product for a specific user and simultaneously to increase brand equity and improve their market position.

On the basis of theoretical studies *the main objective* of the following paper is a systematization of the possibilities for increasing brand equity by applying the concept of product differentiation.

2. Product Differentiation as an Opportunity for Creating a Sustainable Competitive Advantage

The concept of product differentiation originates from the writings of the American Professor Edward Chamberlin (1899 - 1967) who ascertained for the first time in his book "The Theory of Monopolistic Competition" (1933) that "all companies strive for price control and market leadership but these are achieved only by companies that create and offer customers a differentiated product, different from the competitors' one, with unique characteristics that attract new customers and provide an opportunity for price increase" [2]. By differentiating their products companies achieve a "partial market power" and establish a monopoly position in the segment in which they operate. Thus, according to E. Chamberlin, a new "monopoly of the differentiated product" arises. In that market situation the price increase does not necessarily lead to a loss of customers because it is compensated with improved quality and unique product features.

Product differentiation is the ability of the company to provide unique products with higher value than the competitors' ones, higher quality, unique features and characteristics, new sales methods and

after-sales service [2]. The so formulated concept of "product differentiation" is quite wide and takes into consideration not only the essential features and characteristics of the product, but also the conditions and services related to its market realization. According to Chamberlin "differentiation" can be based on certain product characteristics such as brands, trademarks, packaging, or it can be based on product individual characteristics such as shape, quality, colour or style. Differentiation can be based on the terms and conditions of sale such as location of the trade premises, commercial style and general atmosphere, positive reputation of the company, personal approach, etc. As all of these and other intangible factors occur differently in all sellers, so does the "differentiated product". A differentiated product, as a rule, has a higher price which includes the supplement for the created consumer value added (specialized).

Product differentiation is an element of non-price competition which also includes: improved product quality, production of new products and models that attract customers with unique design and packaging, attentive customer service and so on. Therefore, low prices are no longer a crucial factor for ensuring a sustainable competitive advantage of the company. In the formation of product demand much greater emphasis is put on quality, advertising, after-sales service and other additions to the product. An important finding in Chamberlin's theory is that the global process of product differentiation is expanding and intensifying as a result of the increased information awareness and customer requirements, as well as the diversification of their tastes and preferences.

The tendency of companies to "monopoly of the differentiated product" can be explained by the increasing differentiation of demand. However, we should take into consideration the fact that the limits of that "monopoly power" and the control over product supply are limited by the emergence of substitute products and the possibility of greater price elasticity of demand. The market success of firms often depends not so much on the price and consumer characteristics of the product but on the market position of the company and on that whether it is able to gain a privileged position in the market. If the company has achieved a position of "monopoly of the differentiated product" it will get monopoly profits till the emergence of competitor-followers.

The concept of product differentiation has several types of differentiations:

- product differentiation – this is the offer (the proposal of the company) for a product with unique characteristics, quality and design, better than those of competitors' products;
- staff differentiation – hiring and training of personnel who carry out their functions in customer service more effectively than competitors' staff;
- service differentiation – this is the offer of the company for the complex of services with higher quality and more variety that complement the basic product;
- Image differentiation – creating product or company image that is different from competitors' ones.

The implementation of the product differentiation strategy requires the following market conditions:

- presence of many product characteristics desired and valued by customers;
- presence of a large number of buyers who highly estimate the product and recognize its qualities as valuable;
- free development of non-price competition;
- impossibility of quick imitation of differentiation signs;
- Wide range of the product demand structure.

Development and implementation of corporate product differentiation strategies require taking into consideration of the following risks [3]:

- differentiation can lead to "cross-border" price which is set at such a high level that customers start to abandon their preferences (loyalty) to the brand because of financial reasons;
- company does not understand or is unable to determine which is the real value for customers;
- the significant differences among the products can be obliterated by imitation or copying of the product;
- Based on the visible signs of differentiation the company may ignore the need to provide additional information about the product value.

Most often for presentation of the mechanism for product differentiation Michael Porter's "Value Chain" is used [4]. Any company regardless of its production profile, size, structure and geographical location can be viewed as a sequence of operations in product/service development and provision. All operations may be grouped in blocks depending on the manufacturing process stages of realization. Arranged in logical and chronological order these blocks form a "Value Chain". Michael Porter represented the chain as consisting of two types of activities: primary and support (See Fig. 1.).

Fig1. *Value Chain Model*

The analysis of the graphic interpretation of the model shows that the primary activities include:

- delivery and storage of the necessary resources for implementation of the manufacturing process;
- production activity;
- transport and storage of finished production;
- marketing and sales;
- customer service.

The support activities include:

- scientific and research activity, production development and advancing of technologies and systems;
- management of labour resources;
- infrastructure and general management of the company.

We should note that this division is conditional and the terms "primary" and "support" here refer not to the role and importance of separate activities in the process of product creation and its market realization but to the way the value is being added. This division is broadly discussed in scientific literature and in some cases is even disputed [3].

Using in a different way its material, technical, industrial, financial and intellectual resources the company can provide different differentiation of its products by using the included in the "Chain" blocks of activities or to restructure the mechanism in a way that can create a unique product. In the basis of product differentiation are those elements of the "Value Chain" that make the product unique [5].

In recent decades the global economy has significantly changed which led to a crucial change in the nature and mechanism for creating and adding value. On global markets customers receive a value that integrates multiple component "elements of value" – raw materials, energy, assembly technologies, human resources and etc., which are created by different companies on different locations (countries, regions). Thus an "integrated value" is created which from manufacturer's perspective is being achieved with minimum cost and from consumer's perspective – is materializing

higher customer value [6]. The “integrated value” is turning into even more important part of customer value of goods and services for which the customer is willing to pay. This leads to radical changes in the focus of strategic management. The American Professors Arthur A. Thompson and A. J. Strickland III wrote that in place of the “core competencies” to the forefront come the capabilities for “distribution and integration” (distributed capabilities), the skills to integrate diversity into a united whole [7]. Therefore, to ensure product competitiveness and high brand equity, corporate management must use tools, forms and methods that meet the conditions and requirements of globalization and complexity of economic relations. Evidence of this is the expansion of outsourcing, out staffing and leasing. Relocation of production and services in other countries with available raw material sources and cheap labour force, high-tech equipment, logistics, marketing, leasing and technological and scientific products, enables management to form an optimal model of product competitiveness.

3. Building a Strong Brand and Increasing its Equity

The measurability of marketing effectiveness is a real challenge for both academic researchers and practicing managers. The traditional practice marketing results to be measured and justified primarily in the short term is no longer adequate to the realities. Indicators such as “sales volume” and “profit” provide only a “partial picture” of the results of the company marketing policy. The intangible market assets provide much objective basis for analysis of the results of all marketing activities.

The most important assets of any business are the intangible ones: its company name, brands, symbols, slogans and their underlying associations, perceived quality, name awareness, customer base, and proprietary resources such as patents and trademarks. These assets, which comprise brand equity, are a primary source of competitive advantage and future earnings. Yet, research shows that managers cannot identify with confidence their brand associations, levels of consumer awareness, or degree of customer loyalty. Moreover in the last decade, managers desperate for short-term financial results have often unwittingly damaged their brands through price promotions and unwise brand extensions, causing irreversible deterioration of the value of the brand name [9].

Nowadays, when all product technical characteristics almost fully overlap, customers make their choices strongly driven by the brand image. For consumers a well-known brand reduces the risk and therefore brand equity overlaps with the amount of trust which consumers have in the product [10].

Product differentiation won’t do much to build brand equity if the brand’s offerings are not useful and relevant to customers. Brands need to continually renew themselves to remain in contention over the years, adapting to changing times. This might happen through product innovation or changing the way they operate to be more in tune with how customers consume their services.

Thirteen crucial points for building higher brand equity could be listed [9]:

- Increasing demand;
- Possibility to charge higher prices of the products;
- Trust, loyalty and repetitive consumption;
- Customers usually share their good impressions with their acquaintances if the brand is easily recognizable;
- Ability to gain market share from the competitors;
- Faster customer purchasing decision-making process;
- Lower costs for attracting new customers;
- Easy access to opinion leaders;
- More favourable contract terms with suppliers;
- Lower costs to attract and retain staff;
- Lower cost of capital expenditures;
- Lowering the unit costs due to higher sales volume (more productive production);
- Easier access to new markets and lower costs for market penetration.

The main benefits for the brand lie at the root of its power to influence consumers in the process of decision-making by reducing the risk and increasing the satisfaction of purchase. The brand is based on customers' perceptions. A strong brand allows expansion of the product line by placing the product in a leading position even with its very launching on the market and much more highly attracts prospects' interest (the Halo Effect).

There is a difference between brand image and brand identity and these should not be confused. If the brand identity is the combination of all brand characteristics (what it is known for, what its business behaviour is, what the essential characteristics of the product are), then the brand image represents the communication of these characteristics to target audiences and their perception of the brand.

Good brand positioning makes it impossible for competitors to enter other's market space without deviating from the essence of their own positioning because the brand has created a unique combination of values.

Brand contribution reflects a brand's uniqueness, and its ability to stand out from the crowd and generate desire and loyalty. It illustrates the power a brand has to grow the value of the business that owns it.

Brand communications are essential for building a successful brand. In general they could be divided into two types:

- Communications to attract attention and brand awareness and;
- Communications to build brand loyalty.

Each company chooses which means of communication to use, but the most common are: advertising, PR and publicity, company website, social networks, sales promotions, e-commerce, rebranding, etc.

One of the simplest formulas that may be used in this case consists of the following (not quantitative, but qualitative) values:

$$Bs = P \times D \times AV \qquad (1)$$

Where:

Bs is Brand Strength;

P is the quality of the product itself (Good Product);

D is the Distinctive Brand Identity;

AV - Added Value.

It's no secret that products manufactured under famous brands cost much more. The example of *Sony* and *Aiwa* – brands of the same manufacturer – shows how they are positioned with 20-30% price difference in identical categories, and AV in designer clothing lines may exceed 100%. How much AV a product or service may contain is being determined by brand marketers and consultants after a thorough analysis of market and corporate strategy.

A strong brand ensures significant decrease of company costs, since the brand in terms of internal organization of the company is a system of rules, principles and tools that are designed to consistently manage processes such as PR, HR, service standards and many other.

In order to build a strong brand the company must deal with that process systematically. This means that the company consistently and purposefully must build brand awareness and loyalty among its customers.

Brands become most important when people are able to choose among alternatives. Research from Millward Brown [11] finds that people are predisposed to buy brands that they believe are meaningful, different, and salient. These qualities determine how likely people are to choose the brand, pay a premium for it, and stick with it in future. Brands that build positive customer sentiment by being meaningfully different from the competition are able to capture five times more volume and command a 13% price premium, and are four times more likely to grow their value share than those that don't.

The advantages of a well-differentiated brand and products is proven by global leading companies: increased competitiveness, increased profits and higher value of company shares, expanded sphere of company activity, development of new sectors of production – these are just some of the benefits that brands provide their owners. In contemporary economy, where even the most insignificant advantage becomes a basis for company competitiveness, branding should be passed into specialists' hands. The development of the market relations, the increased competition and the complicated market realization of products lead to the implementation of new management approaches, functions and strategies. The need for literate and science-based management of brand assets contributes to the formation of brand management as a separate independent direction in the management operations of the companies.

4. Conclusion

To create a sustainable competitive advantage, a brand and its products must be well differentiated, and marketing must reflect and enhance that differentiation. A meaningful difference is rooted in the intended benefit of the brand, and gives it a meaning that is likely to influence a person's choice. Creating a meaningfully different brand involves clarity of purpose – it must provide something consumers want or need, and offer something its competitors do not. Brands with well differentiated products set the trends for their category or transcend it; they act differently and stand out from their competition.

Branding is one of the industries that were least affected by the crisis. Each company must reorganize its brand strategy according to the crisis. During a recession the opportunities for small and large companies in terms of market positioning are aligned, so now is the chance especially for Bulgarian companies to make a brave step forward and align their branding with Western companies.

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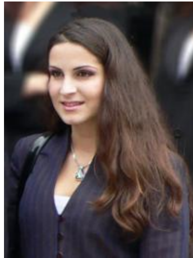

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