Brands in the Digital Economy: From Centralism to Federalism

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Abstract

The prevailing opinion on branding in e-commerce is that its importance and consistency will grow even beyond those prevailing in the brick-and-mortar world. We argue, however, that traditional branding will be negatively affected by the Internet's capabilities of individualization, which means a much stronger emphasis on customized sub-branding. This will lead to a federated system of branding, with an overarching meta-brand and many sub-brands. Central brands will therefore be weakened, and brand management becomes significantly more demanding and costly than in the past.

1. Introduction

Branding in e-commerce has received much attention with the concern about viable business models for Internet companies. Brands help a company to stand out in the clutter. Therefore, a strengthening of the brand identity is generally recommended. In this article, however, we argue that branding over the Internet will not simply follow traditional branding strategies, but will fundamentally change brand building. The ability to individualize the relations to customers extends to the brand. Brands can become customized according to different use and user categories. Instead of the consistent and uniform brand cherished by central managers, a brand hierarchy emerges, in which meta-brands convey the core values of the brand, while customized sub-brands appeal to customers according to their needs, perceptions and values. Brand customization inevitably leads to some brand dilution, and becomes more complex and costly. However, the ability to customize a brand also offers a better opportunity to positively engage a larger segment of customers.

2. The first stage of e-brand perception: the Internet destroys brands

The concept of branding is not new. Branding has existed at least since Greek artisans used symbols to label point-of-origin and quality. In the Middle Ages cities or regions served as brands for certain products like textiles, wine, or cutlery. A brand delivered orientation, trust and served in the consumers' perception as an anchor to be differentiated from other offers. Each new medium affected brands. The industrial age with its mass production, rail transportation, and inexpensive print publications enabled the emergence of national brands. The advent of broadcasting further accelerated brands. Today, the Internet is the new medium, and the question is how it affects the concept and strategy of branding.

In discussing the Internet it is necessary to look beyond its present text-based, low capacity kilobit stage, and envision a mass medium that can carry rich media such as television over emerging megabit and even gigabit individualized networks. It offers a vast information distribution capacity, leaving as the bottleneck the individual processing capacity with its limited attention span (Noam, 1993; Goldhaber, 1997).

The early view of branding on the Internet was shaped by the medium's low barriers to entry and fairly low economies of scale. It assumed the Internet to be a relatively open and level playing field. Consumers would be able to instantaneously find the best deal for their shopping, assisted by intelligent agents and Internet shopbots. This led to a view of brands as industrial age legacies, associated with mass production and mass marketing. This perception of brands on the Internet was therefore that the Internet would destroy or at least weaken brands in a process of commodification.

3. The second stage of e-brand perception: Brands are essential on the Internet

The second stage of perception of Internet brands reversed course radically and now elevated brands to an essential element for e-commerce. In 1998 Business Week declared building and maintaining brands on the Internet as the 'Holy Grail of Marketing'. With hundreds of thousands of websites in existence, brand differentiation could lift a site above commodification. Studies showed that branded e-commerce retailers held significant price advantages[1]. Consumers use brands as a proxy for a retailer's and product's credibility with respect to service quality, especially in situations of asymmetric information (Brynjolfsson and Smith, 2000: 43). Brands on the Internet can also create stickiness through cognitive lock-in as consumers can avoid the time to establish a relationship and account with a new retailer (Johnson et al., 2000). Moreover, brands are important to establish trust. With the burst of the Internet bubble, consumers need the trust on the web that brands offer. Of particular importance are trust and consumer concerns about the security of payment procedures (Camp, 2000) and the protection of personal data, fears that have slowed e-commerce. Such trust element transcends the particulars of a brand image, whether 'exclusive', 'cheap', or 'rebellious' and is therefore essential for building e-brands.

[1] BarnesandNobles.com has an advantage over unbranded retailers of approximately $0.72, a 3.1% margin advantage for branded retailers (Brynjolfsson and Smith, 2000: 22).

Strategic brand management in this stage stresses the importance of the brands' overall consistency, and views the identity of the brand by integrating the outward perspective like image with the inside perspective such as intrinsic values. It emphasizes the importance of a cohesive brand structure where all stakeholders, including suppliers, employees, analysts etc. receive a common view on that brand. This view supports a policy of "brand centralism" controlled by central management, in which all aspects of the brand are tightly controlled and made uniform. This centralized branding is also a tool for management to internally exert control over their far-flung and disparate operations and employees by providing internal signals through the brand.

So critical is the notion of an undiluted central brand, that some authors argue that an e-brand can only be successful if it is completely independent of and unrelated to any offline brand (Ries and Ries, 2000), because the online and offline branding would otherwise conflict. Companies that want to make a commitment to building an e-brand should therefore start from scratch, avoiding its inherently inconsistent offline brand. There are examples to support this view, as are successful counter-examples. Charles Schwab, the offline broker with a discount image successfully managed to build an online brokerage service with a premium image. It shifted consumers' perception of Schwab from a non-frills broker to a high-integrity investment services company online (Pottruck, 2000: 250). The two brand images co-exist.

On the one hand, an e-brand benefits from positive offline existing brand images since consumers already start with an 'ex-ante-trust'-attitude. In the previous case, brands provide a unique brand promise on the Internet with no expectations or transfer to offline products. But it is an expensive proposition to build an e-brand on top of a new e-business and new e-brands risk running out of time and money before they established themselves in the evoked set[2] of the consumers.

4. The third stage of e-brand perception: customization and brand federalism

Into the 1970s, North American and Western European societies tended to be more homogeneous, and the advertising on the major television networks reflected this. In the 1980's, US society recognized its heterogeneity, and differentiated branding strategies emerged as a result. Cable based multichannel TV led to a "narrow-casting" that made targeting easier. The Internet accelerates this trend. It provides tools for customization that allow

[2] The evoked set comprises a set of products and services viewed as substitutes by the consumer in perceived quality.

to target customers individually. Differentiation is possible, because it is a two-way medium that permits feedback and addressablility. Customers provide information and reveal preferences directly through the choices they make, as well as from past transactions. Firms therefore know their customers better than before and can recognize them. They can respond with appropriate ads, promotions, and efforts at image creation. Such differentiation can take place not only across users and user groups, but also across time.

Customization and individualization invariably become dynamic processes. By observing consumer behavior in real time one can analyze consumer needs as they change, and respond to it. The framework to implement customization strategies in branding on the Internet is a federated system, in which the core identity is preserved in the meta-brand, and sub-brands provide customizable elements.

4.1 Meta-brands

The meta-brand provides an overarching set of brand core values. Brand consistency offers some stability to customers and delivers value of recognition and trust, especially when the brand is encountered in offline situations. A meta-brand may promote a generic idea, e.g. 'The best entertainment can get'. Meta-brands are sending a unifying message amid the variety of sub-brands with its products, actions, and slogans. In some cases meta-brands may be irrelevant to consumers, such as for some conglomerate. In other cases, the sub-brands become so desparate that a meta-brand is too diverse and diluted and may be abandoned, or there is the inherent possibility of splitting the company to accommodate desparate brand images.

4.2 Sub-brands

Underneath the meta-brand, uniformity gives way to reveal a number of choices for sub-brands that are tailored to sub-markets, not just for different products, but for customer segments. Sub-brands may target customers depending on basic socio-demographic and depending on consumer attitude criteria like lifestyle, tastes, needs and interests. The sub-brand personalities need to fit the self-expressing needs of the customer. The sub-brand is created in a two-way interaction between customers and firms. The Internet gives more autonomy to the consumer. At the same time, it enables companies to pursue a "push" strategy in branding, in which they can create different images to different people. An e-commerce site that offers clothing can be pitched as sporty to one person, stylish to another, and economic to a third. This customization on the sub-brand level offers the opportunity to create different brand styles, to unbundle the portfolio of values that a brand offers and to set individualized priorities.

The concept of sub-brands is not new, of course. It exists in the extensions of existing products or brands into different product classes, as well as in stretching the brand vertically in its existing product class or co-brand it. E-brands, however, can be more dynamic through the adaptation to changing customer needs. This happens under the premise that people use brands to express themselves, preferences for brands with certain personalities in specific situations change.

Customization in branding will also be supported through the rapid growth of mobile Internet markets. Mobile devices offer unique ways to deliver new forms of value through ubiquity, localization, real-time applications and stronger individualization. Sub-brands will have the potential to additionally be targeted location-based. Therefore, a federated system of branding will better serve customer needs in the future than centralized and strictly controlled brands.

4.3 Brand federalism and brand hierarchy

E-brands are coordinated in a hierarchy. Clearly the federalistic brand model, with the meta-brand on top of customized sub-brands, will lead to a weakening of the centralized brand. Within the federated system, different product and surrounding lifestyle attributes are pushed into the foreground, based on electronically observed consumer behavior. It will be more likely to be successful for goods that offer a broad set of lifestyles and emotional attributes and values to create sub-brands from. The centralized power that management used to have in offering pre-packaged brand features gives way to a collection of these sub-brands that can be allocated in a more targeted way.

5. Disadvantages of customized e-brands

The customized and federated approach to branding is neither simple nor cheap. Creating information and interaction requires skilled people and technology. Internet marketing often necessitates more human interaction, not less. Mass-produced relationships created by technology are often subject to consumer's suspicion of the claim of relationship. Therefore, more personal involvement is required than expected. If cost-cutting is the motivation for entering e-commerce, it will prove to be dead wrong for the branding of many products. To the contrary, Internet technology and marketing requires more people, more effort, and more creativity. This has consequences. The brand architecture and its support all exhibit economies of scale - high fixed cost and low marginal cost. This means that, ceteris paribus, size creates an advantage in the next-generation of branding on the Internet. This size advantage will be even stronger when broadband connectivity will make the vehicle for brands an expensive video medium, instead of the fairly inexpensive text medium of the present.

Other problems of customized branding include the danger of using stereotypes to create sub-brands, and in making certain assumptions on the preferences and values of some groups, in order to target them. This can easily backfire. Similarly, the same customers may be subject to conflicting approaches as they change their role or location.

6. Conclusion

Brand management in the digital economy requires a different approach than for one-way media. Brands will become multi-layered in a federation of sub-brands. We identified three different stages of e-brand perception, starting from the view that the Internet will destroy brands, developing the argument that brands are extremely important on the Internet and suggesting a new approach of multi-layered brands. E-brands will take advantage of the Internet's capabilities of customization. Meta-brands will create the overall elements of the brand, whereas customized sub-brands are more interactive and give some influence to the consumer over the brand. This means that

Internet brands are more diluted and that firms lose some control over their brands. The centralized brand weakens. Yet decentralization better serves the individual needs of a larger customer base, strengthens customer relationships and heightens the value of the e-brand.

In the megabit Internet, the traditional mass-branding of the industrial age will give way to customization and heterogeneity. Branding activities will be more important, more expensive, and require more creativity than ever.

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