Why B-To-B Branding Matters More Than You Think

On March 8, KKR made a $3.74 billion bid for Gardner Denver. In case you haven't heard of Gardner Denver before, they are the go-to guys when it comes to all kinds of pumps, compressors, blowers, loading arms, and fuel systems. As Mercedes is to cars, Gardner Denver is to pumps. The company is so well regarded in its field, in fact, that its latest annual report calculated 43 percent of its value to be goodwill and other intangible assets.

That's a number any company could feel good about. In fact, by that measure, the Philadelphia company has more value tied up in its brand than Procter & Gamble **PG +0.46%**, whose goodwill represents about 40 percent of its asset value.
And Gardner Denver is not atypical. While B-to-B brandsdon't get as much press, they are very valuable and often, as a percentage of assets, more valuable than their better-known B-to-C cousins. Some analysts estimate that B-to-B brands may be worth well over $100 billion.

Brands drive profits

Brands of even less well-known companies such as Gardner Denver can be valuable because B-to-B purchases arguably matter more than B-to-C ones: buy the wrong toothpaste, and you can always change brands when the tube runs out. Buy the wrong turbine and you could hurt your company's earnings for years – and find yourself looking for another job.

All this translates into more profit for the B-to-B supplier. B-to-B companies with brands that are perceived as strong generate a higher EBIT margin than others. In 2012, strong brands outperformed weak brands by 20 percent, up from 13 percent in 2011. Decision makers are willing to pay a premium for strong brands because established brands make their lives easier. They aggregate information and reduce risk. Strong supplier brands may even aid companies in building their own reputation by association.

Brands have a strong influence on purchase decisions

Business marketers have traditionally believed that the key to differentiation in a B-to-B market is to provide service, availability, pricing, and quality. Obviously, these things matter. But in our 2012 study in which we surveyed more than 700 executives with substantial influence on supplier selection in the United States, Germany, and India, we found that as with consumers, business buyers' purchase decisions tend to be a lot less value-driven than they like to think. Like consumers, professional buyers use the vendor's reputation as a short cut that reduces risk and simplifies the evaluation process.

In fact, our survey found that B-to-B purchasing decision makers consider the brand as a central rather than a marginal element of a supplier's value proposition. Our survey found that decision makers say that brand is almost as important as the efforts of sales teams in encouraging them to make out a purchase order. In the US, for example, brands are seen as having an 18% share in the purchasing decision, compared to the 17 percent tied up in the sales effort.

The importance of brands in purchase decisions does vary by market and sector. In India, our survey found that brand-related factors were especially important to buyers, constituting roughly 19 percent of all buyers' motivation. In Germany, however, brand mattered somewhat less (14 percent). Brands are perceived as particularly relevant in tangible goods sectors, such as machines and components, and somewhat less so in some less tangible sectors, such as utilities and financial services, according to our survey.

Banks and financial services, for example, must work harder initially to earn loyalty and respect, perhaps because of the more intangible nature of their offering. While the stakes in banking or financial services can be high, mistakes are more easily remedied: a few phone calls and you can start the process of opening a new line of credit at another bank. But you can't easily swap out an ERP system, for instance, without a lot of money and a lot of pain.

Companies are missing the brand message

Most B2B communications campaigns do not focus on those elements that their customers care most about. Our research shows that while B-to-B suppliers focus their messages on corporate social responsibility, sustainability, and global reach, their customers care most about their honesty, responsibility across the supply chain, and level of specialized expertise. This disconnect may be partly because of a lack of confidence in the strength of the brand's value proposition. Refocusing on the issues their target customers care about most is critical if B-to-B want to stay relevant to their customers.

Given the proliferation of touchpoints and stakeholders – from customers to employees to shareholders – it is more important today than ever before to communicate a consistent brand experience. For this reason, brand strategy needs a cross-functional team that incorporates perspectives from outside of the marketing department, such as finance, sales, and customer service. That team cannot stop at aligning on what the brand is. It needs to clearly articulate how the brand comes to life across touchpoints.

The B-to-B brand is a source of tremendous value to both customers and companies. Organizations need to be more deliberate about developing the strategies and tactics that safeguard this asset.