# Preface

*Silvio M. Brondoni**

Global managerial economics tends to emerge in conditions of strong, continuous competitive tension, in contexts that are open and subject to political, social and technological instability.

Globalisation is essentially the geographic extension of competitive markets, a process dependent on the removal of barriers, and overcoming distance through technology. This trend has accelerated since the 1980s, as technological advances (the Internet and telecommunication infrastructures) have facilitated travel, communication, and doing business.. As a result, the traditional rules of oligopolies have completely changed, with links between firms becoming strategic on a very large scale, and industrial rivalry tending to occur among global networks comprising a multiplicity of firms with different knowledge bases, particularly focused on managing innovation and creative imitation

The transformation from MNCs to global networks has led towards vertical specialization and highly diversified patterns of collaboration across inter-firm and intra-firm transactions coordinated by global corporations.

Globalisation and new competition boundaries oblige companies to adopt a new 'market-oriented competitive management philosophy' (market-driven management), in which competitor value management predominates. Global managerial economics thus interfaces with numerous competition spaces, all with different levels of competitive intensity, and market-driven corporate management thus refers to specific competitive conditions, which may typically be summed up as: conditions of scarcity of supply (D>S), with business economics focused on price competition; conditions of controlled competition (D~S), where management economics embodies widespread internationalisation and non-price competition policies; conditions of over-supply (D<S), where management economics underlines the central role of corporate and product intangible assets.

For companies operating in global markets, the 4th Industrial Revolution increased productivity and production flexibility, with higher product quality, more efficient processes, and completely new business models. Producing more and wasting less, adopting global corporate policies that supplant the business model based on excess supply (over-supply model, in which rivals competitors face volatile production and progressively falling prices), to affirm a global business model based on the progressive disappearance of marginal global companies (*oversize economy* characterized by lower production and sales costs, and by large company size).

The global competitive innovation and imitation landscapes have significantly changed the relative position of many countries. In particular, the United States has

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changed its worldwide competitive position, previously governing the diffusion of innovations and the ‘block’ of imitations, but now having lost its historical leadership, seeking a new role in controlling the innovation and imitation processes. Conversely, Japanese global production networks primarily focus on innovation and breakthrough technologies with competitive policies to not only innovate globally, but also produce or sell across the globe through their own companies. Similarly, South Korean global corporations are focusing their policies on creative imitation. Finally, China’s industry has evolved from a distant-follower (primarily focused on imitation) to an immediate follower (with a specific development model), with significant investments in R&D dedicated to creative product imitation and product/process innovation.

In essence, globalisation has rapidly expanded the market potential of corporations headquartered in countries with a high propensity to innovation (e.g., Japanese companies). Globalisation has also promoted the growth of new countries, especially in the Far East (e.g., South Korea, India, Taiwan), with favourable market conditions (first of all in terms of low labour costs) to develop advanced skills for innovation and creative imitation. Conversely, the main European countries (such as the UK, Germany, and Russia) lost their leadership in innovation, although they played a leading role in the development of last century’s closed markets. Italy also lost its primacy in craftsmanship, despite its important industrial history based on creative skills famous the world over.

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# Ouverture de 'Brand Equity'*

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*Abstract*

*The progressive development of the global market highlights a structural manufacturing over-capacity and therefore an offer permanently and significantly higher than the potential of absorption by demand.*

*In the new competitive domain of over-supply, firms adopt specific policies of exploitation of the 'intangibles', to counter the volatility of demand and stimulate customer loyalty, by exploiting a characteristic intangible asset, represented by the brand equity.*

*Brand equity summarizes a set of tangible and intangible components, quantifiable with respect to the values settled in defined segments of demand. Quantifications that, clearly, does not directly express a monetary value, reconnecting rather to parameters expressive of brand awareness and image.*

**Keywords:** Brand Equity; Brand Portfolio; Over-Supply; Intangible Assets; Market-Driven Management; Global Corporations; Global Markets

## 1. Overture

The globalization of markets has changed the conditions of competition, requiring firms new rules to achieve stable 'performance'.

The progressive development of the global market highlights a structural manufacturing over-capacity and therefore an offer permanently and significantly higher than the potential of absorption by demand. The condition of over-supply manifests itself with both a surplus quantity of goods offered and with an abundant availability of variety. This status of over-supply on the other hand is unusual for competitive business conduct and in fact is not reflected in traditional theories of management and marketing, which in reality have been developed and consolidated in very different conditions of supply and demand: first with demand exceeding supply (phase of the scarcity economy, until the mid-60s) and then with supply and demand in dynamic balance (stage of welfare, until the late '80s).

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In the new competitive domain of over-supply, firms adopt specific policies, which typically take the form of:

- policies of ‘downsizing’ to make the organization leaner and more accountable, through targeted selection of staff, ‘outplacement’, the transition from ‘country manager’ to ‘key product manager’ and category management and so on;
- ‘mergering’ policies (mergers, acquisitions, joint ventures, alliances, etc..), aimed to optimize the competitive relationships. In global market, however, the 'major unions' (i.e. able to improve the supply with lower average costs of production) now take place only between partners with similar and very large size and therefore the compatibility of information systems (corporate intangible asset) of organizations involved in ‘mergering’ becomes critical;
- and finally, policies of exploitation of the ‘intangibles’, to counter the volatility of demand and stimulate customer loyalty, by exploiting a characteristic intangible asset, represented by the brand equity.

The brand equity now constitutes a key element of business management and is no longer limited to the mere concept of trademark, that is the primary function of distinguishing the ‘brand’.

In case of operation, the brand equity in fact implies a managerial concept of brand, which exceed the limits of abstraction and static nature of traditional legal concept of trademark. The brand thus tends to identify ‘the specific relationship established with a given market by a particular offer’, transcending the signal function (primal and referable erga omnes) to enhance the 'thickness of the relationship' between demand and supply.

As a consequence, brand equity is the value (state), at any given time, of the specific relationship established by a defined offer with a particular target market’.

The brand equity thus summarizes a set of tangible and intangible components, quantifiable with respect to the values settled in defined segments of demand. Quantifications that, clearly, does not directly express a monetary value, reconnecting rather to parameters expressive of brand awareness and image. The synthesis of these parameters allows to develop specific indicators of Brand Equity, linked to the levels of fidelization and customer satisfaction, which in turn indicate the monetary value of the investments necessary to ensure certain levels of competitiveness of a given brand and more general to prepare a quantitative basis for judgment on the policies of ‘brand management’.

In over-supply, marketing requires a planning of brand 'personality' management costs and confines to a marginal role benefits of simple rationalization of production processes: quantitative ‘mergering’ policies are precisely targeted to reduce the incidence of fixed costs but are inadequate to interpret the profiles of a more and more demanding and fragmented demand. The car market is a prime example of the difficulties leading to mergers and acquisitions (e.g. ROVER-BMW, FORD-JAGUAR, FIAT-ALFA ROMEO), as the modern processes of concentration can only cover large industrial groups with strong identities, established and still difficult to integrate into a logic of long-term synergies.

In global market, in fact, over-supply can be successfully coped by creating continuous customers 'bubbles' – i.e. groups of potential customers who are converged to a set time on a particular product - to meet with more and more skilled offers at stable or even declining prices. These conditions, however, compress the firm between demand and competition and the growth becomes a sort of prerequisite, needed to compete at decreasing costs. The competitive cost containment must therefore be combined with a more sophisticated ‘market orientation’, in which stands the importance of brand equity as ‘corporate intangible asset’.

## 2. Emerging Issues

Brand equity, according to a modern international managerial interpretation, is closely related to the management and the phenomena of competition and in this context highlights some emerging issues.

### 2.1 Brand Equity and Intangible Assets System

In today's business realities, brand equity reconnects to a larger intangible assets system, where it has to find harmonious composition with:

- the ‘corporate culture’: the nature of planning and control systems, the level of training of employees, ‘business credo’, business climate, etc.;
- the ‘information system’, often underestimated by European firms in the definition of brand value.

### 2.2 Licensing and Merchandising

In businesses dominated by product intangible assets (brand, design, pre/post sale services), licensing and merchandising identify two sophisticated management tools - often still ignored by European marketing handbook - which can cause considerable benefits to brand equity.

Licensing, in particular, ceases to be confined to an activity of exploitation (in which revenues from royalties often affect the brand value) and tends rather to be made functional to the growth of brand equity, with a ‘careful assessment of the opportunities that can be obtained from the sale of rights to use a trademark to specific third economies’.

Even the merchandise exceeds the condition of an occasional tool to stimulate purchases in the store and is rather a continuous tool, with strong repercussions on the brand equity of ‘incentivized’ products, both at end consumer and also intermediate demand.

### 2.3 New Brand Domains

The brand features a strategic intangible product factor whose value affects the success of the firm. In particular, the brand leaves the boundaries of mere distinguishing and assumes managerial connotations much more relevant, qualifying as a ‘responsibility system’.

In other words, brand becomes the benchmark of the consumer and the prime factor for recognition of firm’s offer.

### 2.4 Own Label

In recent years, both in Europe and the United States, distributors, from passive intermediaries, have become entrepreneurs, developing brand policies based on associating the so-called industrial brands.

The active policy of brand relationship development implemented by the distributors changes the industry-trade balance. In particular, the own-label policy determines new forms of competition in distribution channels:

- dramatically increasing the minimum financial critical mass for store brand and for single production units (outlets);
- associating big global brands with adaptation to local needs and stimulating price comparison, especially verifying in a micro-environment the potential of market bubbles on private label innovative products.

### 2.5 Brand Portfolio

Global markets, internationalization, network strategies, changes in buying behavior, the growing importance of cultural diversity, etc. transform the traditional economy and management, focused on a single brand, in an economy centered on a brand portfolio (i.e. from mono to multi brand). This step results in increased management complexity, which results in altered operating conditions and innovated organizational structures.

Brand portfolio cope with specific needs, new markets, emerging needs or new business areas. In any case, this policy is adoptable by strong firms, able to manage different cultures with a sophisticated corporate intangible assets system.