Implementing Brand Valuation in Marketing Management: Estonian Food Industry Cases

Lele Aak  
Institute of Management and Marketing at University of Tartu, Estonia; EMOR Ltd.  
Ahtri 12, 10151 Tallinn, Estonia  
Telephone: +372-6268513; Fax: +372-6268501; e-mail: lele.aak@emor.ee

Alan Brokaw  
Michigan Technological University  
Houghton, MI 49931, USA  
Telephone: 906–487–2885; Fax: 906–487–2944; e-mail: ajbrokaw@mtu.edu

Mait Miljan  
Institute of Management and Marketing at University of Tartu  
4–A226 Narva Rd, 51009 Tartu, Estonia  
Telephone: +372-7376321; Fax: +372-7376312; e-mail: Mait.Miljan@mtk.ut.ee

Abstract

The dynamic global business environment creates brand strategy challenges for companies, including those in fast-adjusting Central and Eastern European countries. Some of the main topics that businesses have to face are brand building, brand equity and brand valuation. The importance of brands varies across and within industries. This paper focuses on analyzing the need for brand building, brand equity, and brand valuation in food industry, with a focus on Estonian businesses. Specifically, the paper deals with the overall importance of branding and brand valuation in different sectors of the food industry, the attributes that have the strongest influence on brand value, and the role of branding in product groups with different involvement levels.

Acknowledgement

This research was undertaken with support from the Estonian Science Foundation.

1. Introduction

The Estonian food industry has faced numerous problems during the last decade. Estonia’s open economic policy and its rapid movement to a market economy have created fierce competition. This competition has forced businesses to struggle for their survival and to invest in technology and product development in order to satisfy customer demands for consumer-friendly, high quality, and ecologically sound products.
A clear indicator of the relative success of the Estonian food industry is consumers’ attitudes towards domestic products, which has consistently improved. In addition, there is a deepening realization that buying local goods helps to support Estonian economic development. The competitive environment has encouraged expenditures in product development and has created new market niches, such as the market for preservative-free and whole-grain foods.

As the Estonian food industry has paid more attention to local market niches, there has been a drastic decrease in exports to Russia and other Eastern European countries, which were Estonia’s major trading partners prior to independence in 1991. Because Estonia will soon join the European Union (EU), new export opportunities to Western countries are also being investigated and developed. As domestic competition has increased, more investment and attention to brand development has become imperative. This paper therefore uses current research to examine the role that branding and brand valuation play in the Estonian food industry.

The structure of the paper is as follows: in the first two parts an overview on classification and most common methods of brand valuation is given. Then the importance of branding in Europe and Estonia, from a business’s perspective, will be covered before looking at branding from a consumer perspective. Finally, brand strategy for small Estonian businesses will be explored and a short overview of the Estonian food industry is given.

2. Classification of Brand Valuation Methods

The number of models and methods of brand valuation and evaluation grows constantly and has already reached the limit of 500 (in the opinion of practitioners). Only 25–30 of them are suitable for measuring the monetary value of brands. Most of the authors classify the brand valuation methods into three main groups: cost-oriented, earnings-oriented and market value oriented methods. When looking at concrete methods in those groups, there are still some differences. For example, the method of hedonic prices, one of the market value oriented methods, is common only in German speaking countries.

Cost-oriented methods. It is possible to value a brand on the basis of what it actually cost to create or what it might theoretically cost to recreate it. However, such costs may bear little similarity to the current value of a brand. Cost-oriented approach is most common if dealing with suing for damages. Market based valuation. In this case the financial value of a brand is determined by the market price resulted from the demand and supply on the market. It is possible to differentiate between two different sub-methods: premium pricing and the method of hedonic prices.

Earnings-oriented methods. In this case there are three different approaches – royalty relief method, discounted cash-flow method and multiple of historical brand earnings method.

The discounted cash-flow (DCF) method is the most common brand valuation method in the whole world, and the only method approved by the Accounting Standards Board to valuate the brands bought in by a firm (for balance sheet purposes). Although the DCF-method is most widely used there are still several disadvantages that should be kept in mind: as the value of a brand and its lifecycle depend largely on exogenous market conditions, problems arise of how to evaluate the amount of future R&D expenditures, incoming cash-flows from a brand, its life time and the discount rate that
should be used. It’s also questionable how appropriate it is to transfer the method used in investment theory unchangeably to measure the future value of intangible assets.

Table 1. An overview of relevant methods, their advantages and disadvantages

<table>
<thead>
<tr>
<th>Method</th>
<th>Base for Valuation</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical creation costs</td>
<td>The sum of all investments done in the past to build the brand</td>
<td>• easy to understand</td>
<td>• hard to reconstruct the outgoings done</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• easy to accomplish</td>
<td>• qualitative variables undervalued</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• if having enough data/information</td>
<td>• may lead to wrong conclusions as weak brands often need extra expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• inexpensive</td>
<td>• not appropriate to determine the potential of a brand in the future</td>
</tr>
<tr>
<td>Current re-creation costs</td>
<td>Costs that need to be done to recreate identical brand with identical strength and identical earnings level</td>
<td>• easy to understand</td>
<td>• qualitative variables undervalued</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• cost calculation is hindered because brands are/should be unique in their substance</td>
</tr>
<tr>
<td>Market based valuation</td>
<td>Comparable market operations with brands/corporate brands</td>
<td>• easy to accomplish</td>
<td>• information not available</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• if having enough data/information</td>
<td>• information difficult to compare</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• not enough comparable market operations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• brands are not identical</td>
</tr>
<tr>
<td>Premium-Pricing</td>
<td>Price-difference between branded and similar no-name product</td>
<td>• easy to provide data/information</td>
<td>• problems by providing the data, when the product is easily identified on the basis of external attributes or there are no “no-names” products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• possible to examine the influence of brand-name value to total assortment (product mix)</td>
<td>• only one attribute influencing consumer behaviour is being considered- price</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• danger to over-(niche brand) or undervalue (mass products) the brand</td>
</tr>
<tr>
<td>Royalty relief method</td>
<td>Royalties that should be paid in the future if the brand is licensed from its owner</td>
<td>• easy to provide the data as there are often special databases of licensing operations available</td>
<td>• concrete details of royalties are often not disclosed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• royalties may be very complicated</td>
</tr>
<tr>
<td>Multiple of historical earnings</td>
<td>Brand earnings made in the past</td>
<td>• simple</td>
<td>• not appropriate to determine the potential of a brand in the future</td>
</tr>
<tr>
<td>Discount- Cashflow method</td>
<td>Net present value of future brand cash-flows</td>
<td>(* see below)</td>
<td>(* see below)</td>
</tr>
</tbody>
</table>

3. The Practice of Brand Valuation in Estonia

In Estonia we can mainly talk about brand equity approach (brand evaluation). The concept of financial/monetary value of brands (brand valuation) is still quite unfamiliar and not widely recognized as one option to collect information about the brand.

In 1999 a specific Brand Equity Coefficient was developed by Emor Ltd (Estonian Market and Opinion Research) with the main objectives (1) to map comparatively the depth of brands’ position (quality) in the consumers’ minds and (2) (as a very sensitive parameter) to analyze the impact of advertising expenditure and other marketing costs to the brands. The Brand Equity Coefficient depends on 5 relevant attributes and is expressed as follows:

\[ E = Ta \times Im \times Sa \times Lo \times Pr \times 100, \]

where:
- \( E \) – Brand Equity Coefficient,
- \( Ta \) – share of potential audience,
- \( Im \) – importance of brand in category,
- \( Sa \) – spontaneous awareness,
- \( Lo \) – share of loyal consumers,
- \( Pr \) – share of consumers, who prefer the brand.

Although not all the attributes relevant to measure the brand equity are considered in the coefficient, it can be said that the analysis of changes in single components of the coefficient gives a good overview on brand performance in the market.

The concept of financial value of brands and the practice of brand valuation in Estonia is relatively new. Nowadays there are only few companies who have measures / tried to measure the value of brand(s) they own. In January 2001 Emor took its first steps by trying to measure the financial value of some well-known Estonian brands and to analyze the suitability of different valuation methods and models to Estonia.

Most of the brand valuation methods presume a very wide information base owned only by companies themselves. Therefore it is very difficult (if not impossible) for external valuation companies, who do not own this kind of information, to make very concrete and accurate calculations.

Regarding the compatibility of the main (one-dimensional) valuation methods in Estonia, it turns out that most of them are not suitable for putting into practice. The approach of historical creation costs requires historical data about investments done to develop the brand in the past and it’s restricted with great difficulties; there are also constraints for applying market based valuation methods, as there are not enough comparable market operations/deals with similar brands; there are not enough licensing operations conducted in Estonia to apply the royalty relief approach etc.

When considering the application of the most common valuation method - discounted cash-flow method, starting points of which are branded sales and branded profits, there also occur some constraints/difficulties:

- most of the companies in Estonia are very unstable with fluctuating growth;
- DCF-method requires a stable homogeneous growth and steady loyal consumer base;
- method presumes long range positive cash-flows (making profits at least three past years);
• without owning internal information it is impossible to evaluate the profits attributable to firm’s immaterial assets, and further more, to evaluate branded profits and forecast future developments;
• operating income of companies is often too low to cover WACC.

To find the financial value of the brands owned by Estonian companies, it is possible to use a “modified current re-creation costs” approach, which binds the investments done to build the brand with the Brand Equity Coefficient. The bases for further calculations are the marketing expenditures spent in 1999 and 2000 to build up a very famous Estonian beer brand A. Le Coq (as this brand was introduced to the market first in 1999 and the expenditures are easily identifiable). Still one of the disadvantages of this approach is that brands are unique, and it is difficult to determine a uniform expense ratio to achieve one unit of the Brand Equity Coefficient.

Because the amount of marketing expenditure made to develop A. Le Coq as a brand during 1999 and 2000 was 15.5 mill EEK and the Brand Equity Coefficient achieved in August 2000 was 2.8, suggests that the marketing expenditure needed per unit of the Brand Equity Coefficient should be about 5.54 million EEK. The Brand Equity Coefficients are based on a study by Emor (2000). Values of some strong Estonian brands calculated by using this method are shown in Table 2.

Table 2. Brand valuation using the “modified current re-creation costs” approach

<table>
<thead>
<tr>
<th>Brand</th>
<th>Category</th>
<th>Brand Equity Coefficient (January 2000)</th>
<th>Brand Value (Million EEK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kalev</td>
<td>Confectionery</td>
<td>26.4</td>
<td>146.14</td>
</tr>
<tr>
<td>Rakvere</td>
<td>Meat products</td>
<td>22.8</td>
<td>126.21</td>
</tr>
<tr>
<td>EMT</td>
<td>Mobile service provider</td>
<td>11.4</td>
<td>63.11</td>
</tr>
<tr>
<td>Põltsamaa</td>
<td>Food</td>
<td>5.1</td>
<td>28.23</td>
</tr>
<tr>
<td>Meieri</td>
<td>Dairy products</td>
<td>3.6</td>
<td>19.93</td>
</tr>
<tr>
<td>Saku Originaal (august 2000)</td>
<td>Beverages</td>
<td>6.5</td>
<td>35.98</td>
</tr>
<tr>
<td>A.Le Coq (august 2000)</td>
<td>Beverages</td>
<td>2.8</td>
<td>15.50</td>
</tr>
</tbody>
</table>

Of course, in this case we are dealing with a very simplified approach where some relevant factors, like for example, company related circumstances, time value of money etc are not taken into consideration.

It is also possible to calculate the brand value based on its book value (Book value = assets – foreign capital) and its market value (Market value = number of shares × average price of a share). For example, based on the companies data from 1999 and assuming that the brand value in food industry (based on European experience) constitutes ca 50% of companies total value, the value of the brand Kalev based on the book value approach is 76 mill EEK and based on the market value approach it is 50 mill EEK; Rakvere is worth 310 mill EEK and/or 90 mill EEK accordingly; the value of Saku as a corporate brand should be 319 mill EEK and/or 473 mill EEK respectively.

Simplified approaches like these are, in terms of brand valuation, mainly speculative taking into account only some relevant factors and leaving out of consideration other factors relevant to the brand value. Therefore, the results can be
understood as approximate estimations of brand value. More exhaustive and accurate calculation demands more input than the companies have made available for public interest.

4. The Importance of Branding in Selected European Countries

In 2002, the market research group Taylor Nelson Sofres published the results of a survey conducted in the UK and in four Central European countries (Czech Republic, Hungary, Poland, Slovak Republic), where the importance of branded products in different product categories and the main reasons for brand loyalty were analyzed. Based on the results, Central Europeans attach much less importance to the brands of the products they purchase compared with consumers in Britain. Also, the British were the most loyal to their domestic brands (See Figures 1 and 2). In addition, the preference of branded products in the food/groceries category is the highest in UK and Hungary. In other countries consumers are more likely to show no preference for branded or non-branded products. Finally, brand preference for food products tends to be lower than other product categories, such as consumer electronics and cosmetics.

Figure 1. Percentage Share of People who prefer Branded Products According to Countries (%)
Figure 2. Preference of Food/ Grocery According to Countries (data in %)

However, the results of the survey should be interpreted carefully because the respondents had to define “unbranded products” subjectively, based on their own interpretation of the phrase. In Estonia, and probably in other Eastern and Central European countries, consumers are likely to connect this concept with high involvement and specialty goods (Swatch watches, Mercedes cars etc). Compared to other product categories in the survey, food and grocery products are low involvement; therefore the brand may not be considered to be as high importance compared to other product categories.

5. The Importance of Branding as Perceived by Estonian Businesses

At the beginning of 2002, The University of Tartu, in co-operation with the Estonian Market and Opinion Research company (Emor) in Tallinn, conducted a survey of businesses in the food industry in Estonia. The survey’s goal was to identify the importance of brands and brand valuation as perceived by Estonian food industry executives, as well as which attributes influence brand value the most. Not surprisingly, consumer loyalty was viewed as being the most important factor affecting brand value (see Figure 3).

The survey universe consisted of enterprises that belong to top 100 food industry enterprises (“TOP 100” 2001) and replies were received from 33 enterprises for a 33% response rate. The majority of survey participants were average size enterprises – the average number of employees was 169 and the average turnover was 177 million EEK. Currently, enterprises operating in the Estonian food industry consider brand valuation to be of only average importance. However, a majority of respondents think that brand valuation will become more important in the future (see Figure 4).

Regardless of relative importance of branding the majority of enterprises probably underestimate the value of the brands they own – approximately 2/3 of enterprises who replied estimate that their brand(s) account for 25% of the total value of the enterprise. In contrast, according to Interbrand, food industry brands normally account for about 50% of the total value of an enterprise.
Figure 3. The Importance of Various Factors in the Composition of Brand Value

<table>
<thead>
<tr>
<th>Factor</th>
<th>Average Estimation</th>
<th>% Share of Respondents Who Gave 1-2 Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer loyalty</td>
<td>1.39</td>
<td>88%</td>
</tr>
<tr>
<td>Brand potential</td>
<td>1.45</td>
<td>85%</td>
</tr>
<tr>
<td>Market share</td>
<td>1.61</td>
<td>88%</td>
</tr>
<tr>
<td>Spontaneous awareness</td>
<td>1.74</td>
<td>73%</td>
</tr>
<tr>
<td>Uniqueness</td>
<td>1.90</td>
<td>63%</td>
</tr>
<tr>
<td>Share of market who prefer the brand</td>
<td>1.91</td>
<td>75%</td>
</tr>
<tr>
<td>Profit</td>
<td>1.93</td>
<td>63%</td>
</tr>
<tr>
<td>Size of potential segment</td>
<td>1.97</td>
<td>63%</td>
</tr>
<tr>
<td>Brand protection</td>
<td>2.03</td>
<td>63%</td>
</tr>
<tr>
<td>Brand associations</td>
<td>2.13</td>
<td>57%</td>
</tr>
<tr>
<td>Market share development</td>
<td>2.31</td>
<td>54%</td>
</tr>
<tr>
<td>Quality of distribution system</td>
<td>2.50</td>
<td>45%</td>
</tr>
<tr>
<td>Advertising expenditures</td>
<td>2.68</td>
<td>36%</td>
</tr>
</tbody>
</table>

Figure 4. The Importance of Brand Valuation in Estonia Today and in the Future

<table>
<thead>
<tr>
<th>Brand Valuation Today</th>
<th>Brand Valuation in the Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very important</td>
<td>Definitely more important</td>
</tr>
<tr>
<td>&quot;4&quot;</td>
<td>&quot;4&quot;</td>
</tr>
<tr>
<td>&quot;3&quot;</td>
<td>&quot;3&quot;</td>
</tr>
<tr>
<td>&quot;2&quot;</td>
<td>&quot;2&quot;</td>
</tr>
<tr>
<td>Not important at all</td>
<td>Definitely less important</td>
</tr>
<tr>
<td>15%</td>
<td>78%</td>
</tr>
<tr>
<td>36%</td>
<td>21%</td>
</tr>
<tr>
<td>36%</td>
<td>3%</td>
</tr>
<tr>
<td>12%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Only half of the enterprises that responded had taken any specific steps to measure the value of the brands they own (either in the monetary sense or in terms of brand equity, including awareness and image). In comparison, based on another survey conducted by Emor in 2001 of large enterprises with well-known brands in Estonia, 77% of the enterprises had measured either brand equity or the monetary value of their brands. This suggests that the food industry in Estonia is lagging behind large businesses in terms of brand development and management. This may be partially due to insufficient capital for smaller enterprises that tend to rely on local investments. The result is that the investments in a brand are limited and tend to focus on the physical development of the product, ignoring the development of the brand–consumer relationship and the personality of the brand.
Larger and foreign-investment-based enterprises can more easily afford brand equity expenditures and brand equity research, including surveys of consumer attitudes. The enterprises that have conducted brand valuation studies, or have had it done by specialized companies, have done it in order to make decisions about brand management and development or to evaluate their marketing activities. Usually, the issue of the monetary evaluation of brands is ignored. In terms of what is most important in the composition of brand value, the future potential of brands ranks third after consumer loyalty and market share (see Figure 4).

However, almost all enterprises agreed that brand valuation is a good tool for making brand management more effective, and the number of enterprises that want to conduct brand valuation in the future is growing (see Figures 5 and 6).

**Figure 5. Goals of Brand Valuation**

- Brand management and development: 71% have evaluated, 65% haven’t evaluated
- Evaluation of marketing activities: 65% have evaluated, 69% haven’t evaluated
- To identify the future potentials of brands: 17% have evaluated, 75% haven’t evaluated
- Internal management decisions: 34% have evaluated, 54% haven’t evaluated
- Buying and/or selling brands / M&A: 29% have evaluated, 50% haven’t evaluated
- Licensing: 6% have evaluated, 12% haven’t evaluated
- Marketing budget allocation: 6% have evaluated, 12% haven’t evaluated
- Identifying corporate value: 6% have evaluated, 25% haven’t evaluated
- Litigation support: 19% have evaluated, 69% haven’t evaluated
- Evaluate management performance: 6% have evaluated, 25% haven’t evaluated
- Warrant by borrowing: 25% have evaluated, 6% haven’t evaluated
- Other: 6% have evaluated, 25% haven’t evaluated

**Figure 6. Agreement with Different Aspects on Brand Management**

- Brand valuation contributes to more effective brand management: 97% agree, 3% disagree
- More and more corporations will start valuing their brands in the future: 88% agree, 12% disagree
- Brands have value even without physical product: 67% agree, 33% disagree
- It’s important that brands developed by the company could be figured on the balance sheet: 56% agree, 44% disagree
- It’s important that brands bought by the company could be figured on the balance sheet: 50% agree, 50% disagree
6. The Importance of Branding as Perceived by Estonian Consumers

Several surveys conducted in Estonia during 2001 and 2002 have shown that in many product categories Estonian consumers are characterized by a relatively high level of psychological commitment to the brand they most frequently purchase (to study consumers commitment level Emor uses a tool called Conversion Model). The results in other Baltic countries (Latvia and in Lithuania) are the same. A survey conducted last year on the Baltic coffee market showed that 84% of Estonian coffee consumers are committed to the producer whose products they consume most often. In Latvia and Lithuania this share was 79% and 87% respectively; based on the results of other surveys conducted worldwide this percentage is only about 61%.

Worldwide experience with the Conversion Model has showed that commitment level tend to be higher in developing countries; relatively lower in developed countries. One reason for this could be high levels of brand consciousness saturation in developed markets. Also the continuous sales and promotion campaigns of large shopping centres may have a big role to play, resulting in buying decisions that are based more purely on price, rather than psychological commitment to brands. It is expected that the psychological commitment of Estonian consumers to brands to weaken (i.e., companies will have to struggle to maintain consumers’ brand commitment).

It is clear that in different markets the commitment level and emotional bond of consumers are based on different reasons. There are markets where the psychological commitment can be increased simply by increasing advertising expenditures (for example: toothpaste). But this is more an exception than the rule. Commitment level to the brand usually does not change in proportion with changes in ad expenditures. In some markets the historical background of the brand is crucial, and commitment is based on traditions and longevity of the brand in the market (examples in Estonia include the local sweets producer Kalev and the local alcohol producer Liviko). In such cases the consumers may feel connected to the brands because of their historical context, even with no advertising expenditures at all. Another attribute important to Estonian consumers when talking about creating an emotional bond is origin and background, especially for domestic brands. In some product groups (especially in product groups with lower importance and low involvement, like mayonnaise) consumers’ buying habits play an important role. In that case it might be said that the behavioural loyalty of consumers is the reason for their psychological commitment. When looking at the Estonian coffee market, the commitment level clearly is connected to the high-quality image of brands – the brands considered to be premium (Löfbergs Lila, Luxus, Paulig President) are dominant.

7. A Short Overview of the Estonian Food Industry

According to Estonian Food Industry statistics (2002), the industry can be divided into different sectors as follows (in 2001): milk industry 29%, meat products 16%, fish industry 14%, drinks 18%, meal and cereals 1% and bread and bakery products 9%. The food industry makes up 24% of Estonian industrial output and employs 18% of all employees working in secondary industries. This sector creates about 4% of Estonian GDP and 5% of exports. In 1994 the export to Russia was 44% of the foreign trade, while in 2000 this share had decreased to 4%. In contrast, exports to the neighbouring
countries of Latvia and Lithuania have increased rapidly (from 15.6% in 1994 to 39.4% in 2000). The share of exports to EU countries has also been continuously increasing (from 23.2% in 1994 to 39.4% in 2001).

Large investments for the improvement of production conditions and for increasing the efficiency of manufacturing have been made in the Estonian food industry in recent years, connected primarily with fulfilling requirements for entry into the EU. Also as a result of impending EU membership, great attention is being paid to consumers’ health and improving safety standards. Compared to the other fields of agriculture, there is relatively more foreign capital invested in food industry in Estonia. In 2000 foreign investments were mainly in milk production, although in earlier years there were also investments in the beer, meat and bread industries. The fish industry has turned out to be less attractive to foreign investors.

The year 2002 will be the key year for Estonian food industry, in the course of which the works required for the adjustment to the new structural and hygiene requirements of the Food Act have to be completed. According to the Food Act, which will become effective on 1 January 2003, all food processing and manufacturing enterprises must meet standards spelled out in the Act, and enterprises that fail to meet the requirements have to terminate their activities. The conformity of the food industry enterprises with the requirements will be essential for entry into the European Union; the opening of EU market for Estonian products will depend on that. The amount of investments needed for bringing all food industry enterprises into conformity with the requirements has been estimated to range approximately from EEK 1.5 billion to 2 billion.

The concentration of companies varies in the different sectors of food industry. The beer industry has the highest concentration – 4 large breweries make up 97% of the turnover, according to the Estonian Ministry of Agriculture. Meat production is also quite concentrated – 4 enterprises provide 80% of the turnover. Industrial concentration is expected to increase in the fish, meat, and milk industries. One of the reasons behind this increased concentration is the strengthened regulations that smaller companies are unable to meet because of the investments required. As this shakeout in the food industry proceeds, businesses will seek stronger brand positions in current markets and work to develop new ones. As a result, investments in brands and branding will become more important in order to improve brand awareness, create product differentiation, and offer a sense of trustworthiness and security to consumers.

The first steps in developing domestic brands were taken after independence when the borders were opened and import goods became available to consumers. At first consumers felt that everything from outside the former Soviet sphere of influence was definitely better than local Estonian products. The consumption of foreign imported products, especially Western goods, showed prestige; the only advantage of local products was lower price. In order to compete profitably with foreign goods, local producers realized that they had to start branding products, many of which were long considered to be commodities.

In order to improve the competitiveness of the Estonian food industry, the Association of the Estonian Food Industry initiated a competition in 1994. The objective of the competition is to encourage the development of new products, to introduce those new products to consumers and to the trade, and to improve consumers’ attitudes toward and trust in local food.
The need to recognise products of domestic origin resulted in the awarding of the food quality label by the Estonian Chamber of Agriculture and Commerce in 1998. The label of origin and quality, "Approved Estonian Taste" featuring a swallow (the Estonian national bird), is awarded biannually to products that are produced 100% from Estonian raw materials and have successfully passed laboratory and sensory testing. This quality label is also awarded to products if it is impossible and unreasonable to meet the domestic origin requirement for some of the raw material (e.g., for sweets, confectionery, soft drinks etc.).

Although the Estonian food industry has improved its competitiveness with foreign producers, increased product differentiation, and developed new market niches, these actions have resulted in increased costs, which many Estonian businesses, especially smaller enterprises, are hard pressed to cover.


From 1995 to 2001, Emor conducted biannual surveys mapping buying and consumer behaviour of Estonians ("What do Estonians buy and think?"). Based on the results of these surveys, it is possible to position different product groups in a matrix with price sensitivity on one axis and the importance of the brand on the other. Importance of brand is based on the percentage of respondents who buy 1–3 specific brands in the product group; price sensitivity is based on the percentage of respondents who consider price to be more important than quality. Product groups can be divided into four sectors. Each sector is characterized by a specific consumer type (see Figure 7).

As depicted on the graph, the majority of product groups are situated in the “brand loyal buyers” sector, where brands are clearly differentiated from each other. In addition to personal care products, such as skincare products and perfumes, brand loyal buyers exist for by everyday groceries like bread (in Estonia, this means dark bread), white bread, milk, cheese and coffee. Compared to 1995 the importance of brand has consistently increased for bread and white bread product categories. This increasing importance of brand and low price sensitivity presents Estonian food producers with opportunities to “design” brand loyal consumers. Increased loyalty tends to decrease the price sensitivity even more and gives the producers opportunities to ask for a premium price from these brand loyal consumers.

The “price sensitive buyers who still value brands” sector is quite interesting. Compared to 1995, a move of several product groups (especially non-food) from “brand loyal buyers” to “price sensitive buyers who still value brands” is likely the result of promotion campaigns. Strong alcohol belongs to this sector (whisky, cognac; vodka and gin are close). These are not necessities the way other food products are, and they tend to be expensive products with wide price variations. Promotional campaigns emphasizing price may have moved consumers to be more price sensitive.

In product groups where consumers are price sensitive, price campaigns can obviously have an important role to play. However, an emphasis on price tends to encourage consumers to think of the products as commodities. There are two basic strategies for commodity branding. The first strategy is to follow the commodity-pricing trend. This strategy tends to lead to low margins. Commodity pricing strategies might include marketing unbranded bulk items in order to capture the consumers who only buy the product with the lowest price on a fairly infrequent basis. In addition, there may be opportunities for marketing private labels. Although private labels can be attractive
to consumers because they are low-cost, branded products, any brand equity accrues to the retailer who owns the brand rather than to the producer. The second strategy is to try to create a branded product with high brand equity. Here, the goal is to create brand loyal consumers who evaluate products based on value, rather than price. This strategy can be difficult to implement, especially for smaller companies with limited resources for creating brand equity. However, the reward may be more defensible market segments with stable sales, higher margins, and greater profitability.

**Figure 7. Product Groups Positioned on the Scales of Price Sensitivity and Importance of Brand**

If both strategies are contemplated, it is important to maintain two separate marketing strategies in order to avoid damaging one or the other part of the business, especially the higher-margin business. This problem may be particularly relevant for markets in transition, because there is an increased interest in consumer products, but significant segments of the population have small disposable incomes and are looking for the lowest price.
If the strategy of increasing brand equity is contemplated, in addition to examining the importance of the brand and the price sensitivity of consumers, firms should consider the saturation of the brand consciousness of consumers in the specific product category (i.e., “is there any place left for newcomers in consumers’ minds”). In product groups where the brand consciousness is already saturated, it is rather difficult for new brands to enter the market. In several food and drink categories (like margarine, juice, carbonate soft drinks) the brand consciousness of Estonian consumers is quite saturated already (see Figure 8). Therefore, it is difficult for a producer to enter to those markets. In those cases, there are already very strong and well-known brands. Brand consciousness is unsaturated mainly in product groups where there are a large number of different brands and where consumers have difficulty differentiating among the brands (like chocolate, ice cream).

Most of the companies operating in the Estonian food industry are small and have underdeveloped brands; these include firms producing basic food products and other commodities. These small firms face two major problems. First, because the companies are small and have very limited resources, they tend to believe that investing in developing brand equity is too costly and short-term goals dominate their strategies. As a result, they emphasize price and use promotional campaigns in order to meet their sales goals. However, these smaller companies seldom have the resources to create the long-term cost advantages that are necessary for a profitable low-price strategy, so short-term thinking tends to result in long-term failure. Second, these companies assume that consumers perceive most grocery products as commodities. Therefore, the majority of small firms in the Estonian food industry do not even consider the strategic value of developing brand equity.
However, brands with a small geographic market, as in Estonia, can compete even with well-known, global brands. Bergvall (2003) has said: “The most important thing from a small brand’s perspective is to be strong in its own defined market.” Smaller brands have an opportunity to serve their customers in a more flexible and in a more creative way than larger competitors. This suggests that careful market segmentation, coupled with strong brand development that creates value for the targeted consumers, can be a winning strategy for smaller brands. Large media investments are not necessarily required to create strong brand equity. Smaller firms need to be creative, possibly using guerrilla-marketing techniques, based on their better knowledge of targeted market niches.

Nick Moon, director of strategic consulting at FutureBrand has said (Mirabel 2002): “The market needs to be at a level of maturity where consumerism is such that the nature of purchase lends itself to choice and convenience. Only in this environment does the brand model truly work for commodity products.” Estonia is reaching this point, and manufacturers can successfully brand commodity items. In some product groups (like coffee, ketchup, and alcohol) it has already been done successfully. Moving a product from a commodity to a brand with strong brand equity is a long-term process. It involves changing the consumers’ attitudes and understanding toward the category and the brand. The challenge is to create a competitive advantage, in a defensible market segment, that adds value for the brand in the minds of consumers.

9. Conclusions

In this paper, the role of branding and the importance of brand valuation in the Estonian food industry have been analyzed. The first steps in developing domestic brands in the Estonian food industry were taken soon after independence when the borders were opened and imported goods became available to the consumers. Strengthening competition has forced companies to start to invest in branding and in educating consumers about the value of their brands. Nowadays, branding in the Estonian food industry has become unavoidable. The majority of food product categories are now located in sectors where brands are clearly differentiated from each other and where brands have perceived value to consumers. Furthermore, in many categories the brand consciousness of consumers is already saturated making it difficult for the newcomers to enter the market. In this environment, smaller firms tend to concentrate their strategies on short-term goals and price. They believe that they cannot increase brand equity in order to compete against better-known brands; so they do not try. Unfortunately, unless brand equity is used as a strategic goal, these firms are likely to face declining profit margins and failure.

In the future, research needs to identify specific branding strategies and tactics that are most likely to be successful for smaller firms selling products that are perceived to be commodities. What is the role of family branding and the use of the producer’s name in creating brand equity? Under what circumstances are small firms in the Estonian food industry most likely to be successful by selling through private labellers? What role should private labels play in the brand portfolio of smaller firms.
References