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JOINT MASTER'S THESIS

THE NEED FOR BRANDING IN SLOVENIAN STARTUPS

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INTRODUCTION

When looking into current marketing theory and business developments, we notice that consumers are placed in a saturated environment of choice, which is making them more and more perplexed. The perplexity comes from the fact that the products nowadays are delivering the same functional quality. Marketing theory advises that companies should tackle this sameness through co-creation processes that deliver a unique consumer experience (Prahalad & Ramaswamy, 2004). The augmented value of the product becomes the new battlefield for a consumer. Branding is the process of adding augmented value to a product through marketing choices of brand elements (Keller, 2003a). With that, the basic functional value of products is the same, but the experience value is what differentiates products nowadays.

An interesting business area where unique value is especially important is the one created by startups. A startup by Thiel and Masters’s (2014) definition creates a unique product which solves a specific problem and it presents a better value to a consumer than all other existing solutions. A startup strives towards building a highly diversified position on the market and its product or service is one of a kind, so differentiated from the competition which it is not even competing. This is also a condition to even call it a startup, and what differentiates it from any other regular new business. Besides, it has to have other startup characteristics such as passion, agility, being risk averse and many more.

Based on the Global Startup Ecosystem Ranking 2015 (Compass, 2015), Silicon Valley is still the world’s most recognized area as the best home for startups with most venture capital raised. Therefore, when talking about the startup culture, most people would refer to the one talked about and known from the Silicon Valley. At the same time, the Slovenian startup ecosystem is rapidly growing as well, as a result of a less stable economic position of the country and the changing mentality that increasingly favours entrepreneurship (GEM Slovenija, 2016). In the year 2015, Slovenian startups raised twice as much venture capital as the previous year, and as much as the previous seven years combined (Špetič, 2016).

From our personal and professional experience background, we have noticed a clear gap of functional understanding of what branding means and its strategic marketing use to a startup. We also miss a more systematic approach in describing the marketing efforts and value that Slovenian startups attribute to branding of their companies and products. That is why this research will focus on exploring branding value in the field of startups in Slovenia, with the aim of creating guidelines for branding in the Slovenian startup ecosystem.

The purpose and objectives. The interest of this thesis will be to understand the current situation of branding in the Slovenian startup ecosystem, through the interviews conducted with ten Slovenian startups, which mostly perform on international market or have the
wish to expand to an international market and would thus be expected to act, perform, and understand branding, in a similar manner to other international startups. As marketing practitioners, we believe that for this type of businesses, a good understanding of branding process can enable a better claim of market share and create differentiation against competition. We will further investigate the perception of branding in Slovenian startups by talking to people that are closely working with them in accelerators, as consultants or as venture investors.

We will be analysing startups because such companies are, especially in their early stages, driven by their sheer focus on the value adding activities - building their core product, and do not have the luxury of already established corporations’ funds to diversify their marketing activities. If they know and use branding they do because they see it as added business value.

**Methodology.** To be able to understand the value of branding, we have first gone through the analysis of secondary sources, looked at the evolution of business use of marketing practice, and the gradual development of consumer value of developing commitment and emotions towards a business. This gave us, as marketing practitioner or a business practitioner, the ability to understand the value of using branding in a marketing or business strategy.

We based our analytical framework on a theoretical model used by Keller (2003a), namely the Customer-based brand equity model (hereinafter: CBBE). In this framework, a brand is seen as an asset, and in creating the brand asset, marketers of the company choose certain brand elements that then start to define the company's product from competitors.

This analytical view on branding as a process of creating an asset based on the CBBE model enabled us to understand the current practice of branding in small and medium enterprises (hereinafter: SME) with particular focus on startups. Through the concept of innovation marketing and Blue ocean strategy, we also showed the added value branding is able to have in their business model and in creating brand equity.

To understand the role and perception of branding in Startups, we analysed secondary sources to form the startup definition and description of their most typical culture. We placed our “ideal startup ecosystem” in the area of Silicon Valley, USA, where startups are currently at their highest stage of development (Compass, 2015).

After we established an understanding of the startup ecosystem, we implemented it to the one in Slovenia. This was done through carrying our qualitative research in structured interviews with the owners or marketing personnel of ten Slovenian startups with whom we discussed their understanding and perception of branding and the startup environment. The goal of this research was to find common activities that they already perform in accordance to the startup branding models, which we presented in the theoretical part of
the thesis, but moreover, to discover what are the practices that some or most of them are not implementing in their startups.

Additionally, we also included in our research additional stakeholders by extending the interviews to take in the people that are participating in building the Slovenian Startup ecosystem, and are working closely with Slovenian startups. These interviews provided an additional perspective of which Slovenian startups, living and working in Slovenia, might not even be aware of.

By looking through the Slovenian startup environment, we especially highlighted the missing components and explained why those also matter in a process of building a brand and a company. The findings of our thesis work are therefore able to form basic recommendations, that should be considered of, by the Slovenian startup ecosystem. More importantly the findings can be a great starting point for developing a systematic research on branding by official marketing and business stakeholders in order to develop practices to increase the state of branding knowledge in the Slovenian startup ecosystem.

Throughout the process of writing this thesis we focused on our research question:

Are startups in Slovenia using branding as a marketing tool to communicate the unique experience of the product or only to communicate the product attributes and are they therefore missing the branding potential?

1 BRAND MANAGEMENT

1.1 Evolution of the importance of marketing activities and focus on the consumer

In order to perceive branding as a value adding marketing activity focused on the consumer the goal of this chapter is to prove this by showing the evolution of the business use of marketing practice. As a starting point we take the 1920s, time when mass production as a method of production came to the forefront of how industries created products. Our end point is today’s state of the market. Such an evolution analysis is able to give reader a better understanding of the environment in which today’s businesses often find themselves in. As we will be taking small, medium sized enterprises and startups, such knowledge on how marketing evolved from a product management oriented marketing practice towards a customer relationship defined management marketing practice is able to give a quick overview of marketing areas that big industries are taking advantage of, but small businesses are not. Small businesses do not have the time or the knowledge to go through all the evolution steps to understand where they are now and what do their customers expect from them.
Furthermore, this evolution analysis will allow the basic understanding of the concepts used in explaining branding in a later chapter. It also enables us to note the change in how a user perceives value and to show that the 21st century market changes in customer demand push for innovation on the consumer experience side. This gives us an additional argument on the fact how today brand management is able to be an area of marketing innovation for small, medium sized enterprises and startups. We expand on this by introducing the concept of innovation marketing and the business strategy of Blue ocean, which shows the process of creating new brand equity in the following chapter on branding.

1.1.1 Marketing activities satisfying customers at a profit

The discipline of marketing came from economics, as this field was not interested in the details of market behaviour or activities of a middleman. First marketers had strong operational interests (Sheth & Parvatiyar, 1995). As Vargo and Lutschen (2004) explain, the formal study of marketing at first oriented its focus on the distribution and exchange of commodities and manufacturing of products. The basic understanding of the goods centred view was in this sense coming from economics and had a clear functional approach. This view saw the creation and distribution of things that can be sold as the aim of economic activity. In order for this to be achieved, the goods must have utility and value during production and distribution process, and must offer the consumer superior value in relation to the offer from the competition. According to this logic, the company should in set all decision variables at a level that enables it to maximize the profit from the sale of the output. The first marketing scholars influenced by this logic put their research attention towards how the exchange of commodities is done by marketing institutions.

In the 1950s, marketing focus shifted from exchange of goods through marketing institutions to how to satisfy the consumer at a profit (Kotler, 1967). The functional school evolved into marketing management school. Its main feature was the decision making approach in how to manage the marketing functions of a company (Vargo & Lutschen, 2004). At that time, the marketing mix management paradigm became the leading way of marketing thinking and doing in how to best compete on the market (Grönroos, 1994). This paradigm saw marketing as a decision management practice, the goal of which was to identify the consumer, the market demand and what would be the best marketing mix to satisfy all of these variables (Kotler, 1967).

Grönroos (1994) sees Borden as the inventor of the term marketing mix, which at the beginning included 12 elements. These were: product planning, pricing, branding, channels of distribution, personal selling, advertising, promotions, packaging, display, servicing, physical handling and fact finding, and analysis. McCarthy later stripped down Borden’s 12 elements to 4ps, namely the product, price, promotion and place. With this, McCarthy locked down the definition of marketing mix to be seen as the combination of the above factors that a marketing manager is able to use to satisfy the target market (Goi, 2006).
Marketing mix is seen as a management model that explains all the basic decisions a manager must take in order to set up an offer that will suit the needs of a consumer. The manager is able to shape a long-term strategy that allows him to create short-term marketing programs. The approach such management practice uses is an analytical one, which allows for the variables in the marketing mix to be measured and altered (Palmer, 2004). Kotler (1986), who is the one most associated with the term in the modern marketing theory, later expands the 4P’s concept by adding political power and public opinion.

Grönroos (1994) states that this view took such a strong dominance that it could be seen as a standard (or as he phrases it - a tablet of faith) that the marketing academics have been evolving by adding additional P’s since its beginning. But for Grönroos, marketing mix is not a valid concept to be applied to all possible marketing situations, as it has been developed to describe the typical market situation in the 1960s. This situational specific is the strongest criticism of the concept of the 4P’s. Such a definition of marketing is too production-oriented based, and does not include the customer in the concept but only deals with packaged goods (Popovic, 2006).

With that, marketing mix does not include the customer behaviour in its concept and turns customers into passive objects. The model sees no need for communication between the company and the consumer. The focus of the model is only on the product from which it isolates the customer. Thus, marketing mix does not include the relationship building aspect of marketing or the aspect of providing a customer experience. Marketing mix is then just a model to narrow down the focus of product management, preventing it from evolving into a customer relationship oriented one. And marketing observed through marketing mix is only the management of mixing the variables, which makes marketing look easy to handle. The only strategy that marketing has to find in this case is the right balance of variables in the marketing mix, which will give the company a competitive position. The process taking place in this case is the calculation of the trade offs when choosing between the strength of one of the variables compared to the others. But the simplicity of it still makes it a very widely used concept in how to perceive marketing (Grönroos, 1994).

1.1.2 Focus on consumer experience

With the marketing mix becoming focused on the product and not the consumer, there was a stream of marketing activities that was not being taken into account due to the narrowness of the model. Therefore, a line of marketing academics wished to liberate from this view. Services marketing became a strong new perspective, shifting the focus from the producer experience to the customer experience. Vargo and Lutschen (2004, p. 2), the leading authorities in this field, put in the forefront the importance of intangibility, exchange processes, and relationships. They define services as “the application of
specialized knowledge and skills through deeds, processes, and performances for the benefit of another entity or the entity itself”.

The biggest change this logic makes in comparison to marketing mix is the view it adopts on resources, where they point out that resources are not fixed things, but are intangibles that can become. This logic is able to take into account core competences or organizational processes of a company through its notion of operant resources, which it places before the operand resources. It is the application of the operant resources that produces the effects for the company. In comparison to operand resources, which are static and finite, these are dynamic and infinite. This shift in the lead of the type of resources influences how marketing views and approaches exchange processes, markets, and customers. In the goods centred marketing mix, operand resources were considered primary and customers like operand resources became something to be acted on (Vargo & Maglio, 2008).

The shift in marketing in favour of operant resources came in the late 20s. It is in that time that the value of skills and knowledge as the most important types of resources came about and some of the first economists to recognize this were Zimmerman (1951) and Penrose, (1959). Penrose instead of the term factor of production uses the term collection of productive resources (Vargo & Lusch, 2004).

For Vargo and Lusch (2004), marketing has shifted much of its dominant logic away from exchange of tangible goods into exchange of intangibles, skills and knowledge, and processes. This change in perspective on resources starts to drive the new, so called S-D dominant logic of marketing as the alternative to marketing mix. According to this logic, the value is defined by and co-created with the consumer and is not in the output. Consumers do not buy products but instead buy offerings, which render service, which creates value for the consumer. Marketing is no longer interested in the producer perspective of producing but instead looks to the consumer perspective and into the utilization of service.

The service-centred view of marketing is customer centric and market driven, meaning that marketing collaborates with customers and learns from them. With that, marketing is able to adapt to their individual and dynamic needs (Vargo & Lusch, 2008).

Marketing becomes a continuous series of social and economic processes focused on operant resources, from which the company tries to make better value propositions for the customer in comparison to the competition. What the service view consists of in terms of marketing management is the identification of core competences of the company and the core benefits for the consumer entities, and how to evolve the relationship between them. In case of the company, it is the identification of knowledge and skills of the company that can become the competitive advantage. In case of consumers, it is the identification of other entities that could benefit from these competences. The goal of marketing becomes how to create and establish a relationship that involves the customer in developing
customized, competitively compelling value propositions to meet specific needs. An important part is the analysis of the feedback of the financial performance to learn how to improve the company’s offering to the customer and improve company’s performance. Marketing evolves into a continuous learning process based on the feedback it receives from the marketplace in terms of financial performance (Vargo & Lusch, 2004).

The S-D logic sees the role of marketing as a promises management process. Promises are made through value propositions and the customer value is created in the customer sphere. The focus on the customer becomes a part of all organizational functions and processes of the company and marketing embodies the customer focus, which should flow through all organizational functions. Marketing supports value creation in the company, customers and other stakeholders. The customer’s interactions with the resources provided by the company become a central element in marketing. Through a set of resources, processes, and interactions, the company is able to support customers’ value creation (Grönroos, 2011).

This value-in-use approach to customer value, instead of the value-in-exchange, focuses on the nature of marketing as a process and also wants to shift its research focus from structure to process. With that, it wants to open the black box of consumption and make it the basic part of marketing and the marketing process (Grönroos, 2006b).

1.1.3 Focus on customer relationship

Looking at marketing through the management practice, according to Kotler (2000), who is synonymous with the traditional marketing-management model (Vargo & Lusch, 2011), “marketing deals with identifying and meeting human and social needs, the shortest definition of it being ‘meeting needs profitably’” (Kotler 2000, p. 1).

Kotler (2000) defines marketing through societal and managerial perspective, where the latter is the art of selling products, while the first is a process of getting what you need via exchanging it with others at a value. The fact that the value-in-exchange view is present in all pores of this take on marketing is also seen through what marketing mix stands for. Marketing mix, according to Kotler, is the set of tools with which a company pursues its marketing objectives on the market. For him, the marketing concept holds that the key to achieving organizational goals consists of the company being more effective than its competitors in creating, delivering and communicating customer value to its chosen target market. He points out relationship marketing, individualization, customer database, and model-based decision making, as the major marketing themes at the start of the new millennium. But even though Kotler does state that customer value is in the forefront, he is at the same time one of the strongest critics of the S-D logic, this fact being the evidence that S-D logic challenges the traditional marketing thought (Vargo & Lusch, 2011).
Prahlad and Ramaswamy (2004) note that the economies of the world are becoming one large service system, moving away from the company centric to the consumer centric take on value creation. The shift towards the customer co-creation of value is a result of the modern variety of product choice, which does not always lead to a better consumer experience. Due to lower profit margins resulting from the increased competition, companies have fewer resources to invest in their innovation of the product cycle or the distribution chain. Because of that, the companies are now incentivized to look to different areas for growth, not only to the area of maximizing their operations optimization. The authors Prahlad and Ramaswamy (2004, pp. 2-3) state the paradox of the 21st century very bluntly: “Consumers have more choices that yield less satisfaction and top management has more strategic options that yield less growth.” The future of competition in their opinion is to be found in a new approach to value creation. This should be based on an individual-centred co-creation of value between consumers and companies. A new business practice should combine the operational efficiency of a company centric perspective with new business development, innovation being the glue linking them together. Personalized co-creation experiences are the new drivers of unique value for each individual. Such a view moves the company towards an individual-centred view of demand. Companies as such are not able to work autonomously, but have to interact with the customers (Prahlad and Ramaswamy, 2004).

This change has faced marketing with it having to include a new paradigm in its existence, namely the relationship marketing (Grönroos, 1994). The role of the consumer is what has shifted the paradigm and the point of value creation. Consumer has developed from a passive, only receiving the preselected information, into an active, connected and informed part of the creation process. This means that the consumer is no longer a static receiver of the end value, but an active co-creator of value. A knowledgeable consumer in touch with a global view is, in the opinion of the authors, an empowered consumer, being able to use information as their power point in adapting the treatment modalities according to their needs. With consumers being connected through their interests and their need for community comment, we are observing the rise of thematic consumer communities. These communities are those that are inverting the top down patterns of marketing communication. With this, the consumers seek to exercise their influence and to even further establish their equal portion in the co-creation partnership with the company (Prahalad & Ramaswamy, 2004).

This means that the focus of marketing is to be a mix of activities which are focused on the product, and those activities which concern the consumer. The goal of the latter is the establishment and the nurturing of the relationship with the consumer. The main element of relationship marketing becomes the maintenance of relations between the company and the stakeholders in their micro-environment (Ravald and Grönroos 1996). In the traditional approach, quality is based on the offering of the company, while in the co-creation the focus is on consumers co-constructing their own experience. In contrast to the static old system of company centric value creation, the system of co-creation of value derives from
the importance of the context and consumer involvement that shapes the customer experience (Prahlad & Ramaswamy 2004, p. 50).

The quality is therefore moved away from optimization of business processes of the company to the quality of co-creation of experiences, shaped around the “experience of one”. In the old system of value creation, the brand has been the main building block of the company’s communication with the clients, and brand differentiation lead the need to diversify the variety of offerings. This should now be expanded beyond diversification towards delivering a personalized interaction that is meaningful to the consumer (Prahlad & Ramaswamy, 2004).

1.2 Branding as marketing activity for business innovation

The goal of this chapter is to build on the previous chapter’s analysis of management marketing practice, to identify the change where new value can be created in more detail. We establish that place for business innovation lies on the customer experience side of the product, and define how marketing is able to incorporate the focus on it. We name branding as the area in which a company should apply this focus to build business innovation, marketing specialists being the ones who are able to facilitate it, but through the perspective of relationship marketing.

1.2.1 Customer experience as the creation of value

Due to the changes in business environment lead by the increase of the available information, capital, and ideas, new opportunities for new products and services presented themselves. Our industrial system is generating more offers and products through an increased number of channels. But this product variety has become overwhelming for the consumer, who does not know how to decipher the complexity of offerings, to really end up with what would satisfy his needs. This leads to the conclusion that a variety of products does not necessarily result in a better consumer experience (Prahlad & Ramaswamy, 2004).

All of a sudden, the mere existence of a product is not enough, as it can be offered by so many providers, so the experience of the product becomes that which cannot be offered by everyone in the same way (Prahlad & Ramaswamy, 2004). The use of interaction as the basic element of customer co-creation of value is the new emerging reality, which challenges the two basic premises of company logic on business production. First, the one that states that a company or industry can create value unilaterally, so on their own, without the consumer in mind. Service centred model positions service as the application of competences for the benefit of the consumer as the core of the company’s mission, and marketing becomes the facilitator of exchange by defining and developing the core competences, and positions them as value propositions that offer potential competitive advantage (Vargo & Lusch, 2004).
The traditional belief is that the company creates the value that it can provide through its choice of products and services all on its own. The customer is only understood in the form of demand for the products and services that the company created on its own. Matching the demand and supply through the exchange process is seen as the most important process and as a point of reflection in determining the value. The way the exchange happens is through the company-customer interface. Extraction of value can be done through increasing the variety of offerings, efficiency in delivering, customizing and context setting for the increased variety of offerings. The whole process is managed by looking on the products and services as a value chain system, which represents the linear cost build of products and services based on supply and logistics decisions (Prahalad & Ramaswamy, 2004).

The second premise states that the value can only be seen only to lie in the product or the service of a company, more clearly stated by the well accepted classification business to business (B2B) and business to customer (B2C) (Prahalad & Ramaswamy, 2004).

This means that the customer becomes primarily an operant resource, a co-producer rather than an operand resource - target. Consumer is not the endpoint of the value chain anymore, but becomes involved in the entire value and service chain. Value is not added as in the idea of an industrial economy, but is actually co-produced with suppliers, business partners, allies and customers. The key point in creating value is therefore in co-producing offerings that mobilize customers (Vargo & Lusch, 2004).

The new value creation space can be found by the company striving to create personalized co-creation experiences, by means of putting the individual first and seeing the whole process of co-creation of value as an individual centred co-creation of value between consumers and companies (Prahlad & Ramaswamy, 2004). The focus of marketing is moved away from targeting the consumer with ready-made value through value distribution, but becomes a form of relationship facilitation and building through value creation (Grönroos, 2006). The need for unique value leads to interaction between the company and the consumer in search of a variety of co-creation experiences, where context and consumer involvement attach a meaning to the experience of the individual. The quality of the company’s products and processes becomes of secondary importance and the quality of co-creation of experiences becomes the main point. This depends on the infrastructure for interaction between companies and consumers which is based on its capacity to create different experiences. That is why a company must create “experience environments” which will enable the creation of different experiences. The company must also create an “experience network” in which an individual can co-construct and personalize his experiences. All these actions and processes in the end enable the consumer to create his unique “experience of one” where market is merely a forum for the consumer to inform himself from and where to choose. In the end, what becomes the value is not a product or a service that is rich in features, but one that is rich with experiences (Prahalad & Ramaswamy, 2004, p. 40).
1.2.2 Branding as the focus on customer experience

For Grönroos (2006a) this means that a thorough understanding of customer’s everyday practices has to become the starting point for developing a customer-centric offering based on service logic. The more a company becomes aware of customer’s desired experiences, usage situations, and experience environments, the better value propositions and outcomes can be co-created. Therefore, customers must be examined at the individual level in addition to the aggregate level. Accordingly, marketing has to move away from mass and segment-based marketing toward individuals marketing and towards the experience of one.

It is the dimensions of choice that condition the co-creation of customer value through creation of experiences. What the consumer wants is freedom of choice in how he will interact with the company, so the company must enable multiple channels for interaction. At the same time, the company must provide experience centric options to reflect what the consumer’s wants. Every interaction must be in the consumer’s preferred style and option, meaning the company should focus on the consumer through transactions as well. And most importantly, the pricing of the experience must be a fair one, as a consumer wants the company to accommodate his experience already within the final product and for this to include consumer’s context (Prahalad & Ramaswamy, 2004).

The fact that the consumers are also more informed needs to be incorporated into marketing by means of a wider context of the marketing strategy. Porter (in Kramer, 2011) does not use the term co-creation but uses the term shared value, where he replaces the customer with the society and defines the company’s strategy to include the society in it. For a company to be successful, it has to create a distinctive value proposition that meets the needs of a chosen set of customers. But before that it should connect it to a fundamental societal need. Creating shared value opens the company to a wider set of influences and its self-interested behaviour to create economic value now incorporates doing this by creating societal value. Porter does not envisage the role of the marketing, but we can distil it from his image of what shared value enables. For Porter, the notion of shared value can lead to a new wave of innovation and productivity growth in the global economy. While the company learns how to create shared value, it is actually legitimizing itself, which means that those who do not wish to share value and only push their production choice are not being legitimized. Creating shared value represents a new approach to managing that cuts across disciplines (Kramer, 2011).

As we have showed through the analysis of the use of marketing and the business opportunity of creating a unique customer experience, we believe that the most important focus for marketing in the 21st century lies in branding. As the brand of a company actually builds on the product itself, in this case on its value in exchange, it incorporates marketing activities that can respond to the management practice of marketing mix, and the use of the customer or others, where we could argue for the brand to be able to incorporate the shared value (Keller & Lehman 2006). The goal of the brand is to establish
a relationship with the customer, as it has a social and emotional value to users. With that, brands are able to enhance the perceived utility and desirability of a product and to add or subtract the perceived value of a product (Kotler & Gertner, 2002).

1.3 Definition of brand and branding

The goal of this chapter is to define what branding and brand as terms mean and what the process of branding entails. We will base our explanation of branding on the Customer based brand equity model (CBBE), which we will first consider as a subset of brand elements, and then discuss each element of the model on its own. This part will give us an overview of brand and branding as a process, brand elements, and the CBBE branding model. It will enable a marketing practitioner to understand all components of the branding process and enable the future layering of management practice on top of this theoretical knowledge.

1.3.1 Brand

Before going into the definition of what a brand is and how to manage a brand, it is important that we first define what it is that we tie a brand to. When discussing brands, we will be using the term in connection to products as defined by Phillip Kotler (1969), which states that a product is an offer to a market to satisfy a need or want.

With this, we take the same approach as Keller (2003a) meaning that when using the term product in our work, we do not differentiate between physical goods and services. Furthermore, Kotler (in Keller 2003a) breaks down the product into five levels and Keller (2003a) places the brand on the 4th level of a product, namely the augmented product level, which includes additional product features, benefits or related services that make the product different from competition.

Keller (Keller, Apéria, & Georgson, 2008) the leading marketing authority on branding, defines a brand as “ultimately … something that resides in the minds of consumers”. In that sense, he sees the brand as a perceptual entity rooted in reality.

Branding as a term in the arena of marketing science can be defined through the glossary of the American Marketing Association (AMA) explanation. Here, a brand is defined as a mean of diversification of a product from competition: "Name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers” (AMA, 2016a).

Keller (2003a) sees these different components listed by the AMA definition as brand elements and not as the list of all the possibilities that a brand has to offer. That is why it is better to take the lengthier definition by the AMA to properly define a brand. In this one, a brand is seen not only as a feature way of diversifying a product, but also as the whole
process of creating an experience with intent to invoke a specific recognition reaction in the customer:

A brand is a customer experience represented by a collection of images and ideas; often, it refers to a symbol such as a name, logo, slogan, and design scheme. Brand recognition and other reactions are created by the accumulation of experiences with the specific product or service, both directly relating to its use, and through the influence of advertising, design, and media commentary. (AMA 2016a).

This gives us the understanding that when talking about a brand of something, we are looking at what defines the difference between products for a consumer. We attribute the awareness of the difference to a certain identification process and do not take it as coincidental outcome. We also do not just take the visual or feature cues of a product or service as the whole brand, but do understand them as one of the brand’s elements (Webster & Keller, 2004). This broader definition ties with Keller’s wholesome understanding of a brand.

For Keller (2003a, p. 4) a brand is “... a product that adds other dimensions that differentiate it in some way from other products designed to satisfy the same need”. What is important to notice is that for him, these differences can be tangible or intangible. He connects the tangible with rational, which is related to product performance of the brand. The intangible, he connects with symbolic and emotional, which is related to what the brand represents. For a consumer, according to Achenbaum (1993), a brand is as a total sum of his perceptions and feelings towards the product attributes, their performance, brand name and the company connected to the brand.

Applying all these layers of the definition of a brand, we are able to state that when using the term brand, we mean with the following: a brand is a product connected to the augmented level of a product with a function of differentiation of the product from competition. A brand in that sense creates intangible and tangible additional ways of differentiation from other products in the perception of consumers. When we are speaking of creating tangible differences, we are speaking of a brand creating the competitive advantage of product performance. When we are speaking of creating intangible differences, we are speaking of a brand creating a competitive advantage through non product related means. This is achieved by understanding consumer motivations and desires to create image associations in consumer perception tied to the brand. It is these intangible differences that create the augmented level of the product through brand. In that sense, even though we are looking at two products of the same quality, the brand causes that we actually perceive two unique realities, which leads us to choose the product whose reality means more to us (Keller, 2003a).

In that sense, it is logical that a brand is a company's legal protection for the unique attributes of the product. A brand as legal property holds the company’s intellectual property rights, which enables the company the security needed to continue investing in
branding of the product. From a company perspective, a brand is seen as an intangible asset equal to management, marketing, and financial and operational expertise (Keller 2003a).

### 1.3.2 Branding

According to Keller (1993), to be able to brand a product, a marketing person must establish a clear understanding in the consumer as to what the product is to him and why it is important and different in regards to other products. In that sense, branding is the process of creating, establishing and communicating all the information with which the company wishes for the customers to associate the brand. The branding process is done by marketers who create the value that can change into financial profits for the company.

So to brand a product, a marketing professional must successfully carry out the branding process in which the identification process must take place first, and is then followed by a differentiation process. The identification process happens through the labelling of the product. This informs the consumer on who the product is by giving it a name, and using other brand elements to identify it. The differentiation process happens through giving the product a meaning via brand. This is done through the definition of why this product is special and what makes it different from other, similar products. The goal is for the process of branding to create and communicate a perceived difference among brands in a product category to a consumer (Keller, 2003a).

**Branding** as a process can be therefore defined as the complete creation of perceived differences among products with the goal of developing a loyal segment of customers tied to the product. Branding enables the creation of mental structures for the consumer and helps to organize consumer’s knowledge about the products to be able to make a final decision. With that, branding creates brand knowledge in consumer minds, leading to the differential consumer responses, which affect the brand-building marketing programs. Brand knowledge established through branding is the source of brand equity of a company (Keller, 2003b).

Brand loyalty, which is one of the results of branding, gives the company a security of demand, and becomes an entry barrier for other players in the market. In this process, a brand has an identification purpose to make product management for the company easier in terms of inventory organization and accounting (Keller, 2001).

### 1.3.3 Customer based brand equity model (CBBE)

In order to be able to think about branding in a marketing practice way, we will be using the **CBBE model**. CBBE is a model that combines the marketing theory with managerial practices and we will use it to explain how to understand and influence consumer
behaviour. The model is able to explain what brand equity is and how it should be built, measured and managed.

The CBBE model is based on the consumer, the experiences and the knowledge about a brand through time. The model is developed on the belief that “the power of a brand lies in what customers have learnt, felt, seen, and heard about the brand as a result of their experiences over time” (Keller, 2003a, p. 59).

A formal definition for CBBE is the differential effect brand knowledge has on consumer response to the marketing program of a certain brand. There are two types of equity in CBBE - a positive and a negative one. A brand has a positive CBBE when consumers react more favourably to a product and the way it is marketed when the brand is identified than when it is not. The economical and managerial possible outcomes of a positive CBBE can be the consumer to react favourably to brand extensions, to be less sensitive about price increases or withdrawal of advertising support or to be more willing to seek the brand in new distribution channels (Keller, 2003b).

A brand has a negative CBBE when consumers react less favourably to a product and the way it is marketed when the brand is identified than when it is not. An example illustrating this would be a blind product sampling, where one group tries a product without knowing the brand and the other with knowing the brand. When asked about opinions on the product the differences would occur, which would give us a base to establish the CBBE of a product. Keller (2003a, p. 61) explains that “when consumers report different opinions regarding branded and unbranded versions of identical products, it must be the case that knowledge about the brand, created by whatever means has somehow changed consumer’s product perceptions”.

The difference that creates the brand equity in the CBBE model, be it a positive or a negative one, is driven by consumer brand knowledge. The definition does not care about the source of the difference and is only interested whether the difference results in a favourable, strong and unique brand association (Keller, 2003a).

The main components of CBBE are the differential effect, brand knowledge, and consumer response to marketing. Brand equity starts to create itself out of the differences in consumer responses. If there is no difference, then the brand name product can be labelled as a commodity or generic version of the product. Marketing strategies to win consumers from the competition would then be built on price. The differences in response occur as result of consumer brand knowledge. What consumers feel, perceive or see about the brand is a result of their past experiences with the brand, which are in majority caused and influenced by marketing activities. The differential response of consumers to the brand that creates the CBBE is related to all aspects of marketing a brand (Keller, 2003b).
The model therefore puts forward the notion that the base for successful marketing should be built on the understanding of consumer wants and needs, and according to these, marketing should be developing products and programs to satisfy the consumer. There are two questions that this model requires the marketers to answer. The first one deals with the brand meaning and the second one deals with brand knowledge. The first question asks: What do different brands mean to the consumer? The second question asks: How does the brand knowledge of consumers affect their response to marketing activity? The model sees the challenge for marketers in building a strong brand through making sure that the customers have a correct type of experiences with the products and the marketing programs that come with them. The aim of these correct types of experiences is connecting the desired thoughts, feelings, images and beliefs to become to the brand and to create positive brand equity (Keller, 2003a).

This means that a consumer possesses CBBE towards a brand when he as a consumer has a high level of awareness and familiarity with the brand and has built positive and unique brand associations towards it in his memory (Keller, 1993).

Marketing in the sense of the CBBE model is seen not as an expense, but as an investment in creating the correct knowledge structures in consumers’ minds that lead to positive brand equity. The quality of the investment in brand building is crucial, as overspending is possible. A marketing professional’s thought should be therefore put in the goal of CBBE model on how to most effectively create enduring brand meaning in consumer minds that will lead them to positively react to marketing activity. For a branding strategy to be seen as a success that leads towards creating brand equity, the consumer must believe that there is a meaningful difference amongst the brands in the product category from which the product stems (Keller, 2003a).

1.3.4 Brand knowledge

As we have seen from the above explanation of the CBBE model, it recognizes brand knowledge as the key to creating brand equity - as it is the brand knowledge that creates the differential effect, which drives the brand equity (Keller, 2003b).

Since branding deals with creating an imaginary field of experience in the head of a consumer, it can be a bit tricky for marketers to be able to visualize this space. Here, brand marketing borrows a bit from psychologists. To be able to explain brand knowledge and how it works, marketers use working of the associative network memory model. The associative network memory model sees memory as network of nodes and connecting links. The nodes are the storages of information or concepts and the links represent the strength of associations between information and concept. Brand knowledge as a concept resembles the functioning of the associative network memory model by having a brand node in the memory, with many different associations linked to it (Keller, 1993).
Over the past years, the term brand knowledge has been vastly researched and its multiple dimensions have been established. This means that there is a vast range of information that can be linked to the brand through brand knowledge. Keller (2003b) lists these as following: awareness, attributes, benefits, images, thoughts, feelings, attitudes, and experiences.

The CBBE model we are using breaks down the brand knowledge into two building blocks - the brand image and the brand awareness. In order to create the brand knowledge structure that would lead to different types of CBBE in the consumer’s mind, a high level of brand awareness and a positive brand image should be created (Keller, 2003a).

Creating high brand awareness is the first step in building brand equity. Brand awareness establishes the first brand node in the mind of a consumer and the nature of that brand node influences the formation and strength of the brand associations connecting to it. The brand node and associations connected to it make up the brand image. Choosing the brand elements to register the brand in the consumer’s mind and using brand awareness to teach the consumer about the brand is the first step towards creating brand equity (Keller, 1993).

1.3.5 Brand image

**Brand image** is defined by Keller as “perceptions about a brand as reflected by the brand associations held in consumer memory (Keller 2003a, p. 66).” This means that other informational nodes can be connected to the brand node. Through skilful marketing, the variety of those associations can be vast and can even give the brand characteristics that are independent of the product to which the brand is tied. Marketing programs are able to create a strong positive brand image by linking strong, favourable and unique associations to the brand in memory. The strength of the associations is connected to how deeply a person is able to think about the product information and relate that information to the already established structure of brand knowledge (Keller, 1993). The deeper he or she can think, the stronger the associations will be. The strength could be seen as a function of the amount – the quantity of processing that the information receives and the nature – the quality of the processing. Two factors that enable the strength of the association to a piece of information are, according to Keller (2003a), the personal relevance of the information and the consistency with which this information is presented over time.

The factors that affect how strong of a recall the brand associations create in the consumer’s mind are brand attributes and brand benefits. Brand attributes characterize a product and brand benefits represent the personal meaning and value a consumer attaches to product attributes (Keller, 2003b). A consumer normally forms a value by experiencing the product in different ways. The source of information that creates the strongest brand attribute and benefits association would be direct experience that predicts the future experience with the brand. Next to it would be word of mouth and last one would be company influenced sources of information, namely advertising. As advertising creates the
weakest links in comparison to direct experience, it is able to be changed very quickly (Keller, 2003a).

The process of choosing which favourable and unique associations should be linked to the brand meaning to differentiate it from competition is called brand positioning. Brand positioning is one of the steps in determining the meaning of the brand knowledge structure and is at the heart of a brand marketing strategy. Favourable associations for a brand are those that the consumers desire and the product is able to successfully deliver. The favourability of a brand association can be therefore broken down into desirability and deliverability associations (Keller, 2003a).

Desirability image association answers three questions, namely: how relevant consumers find this association, how distinctive consumers find the brand association and how believable the consumers find the brand association. Deliverability stems from the actual potential of the product to perform, the current or future option of communicating the performance of the product and the sustainability of the actual communicated performance over time (Keller, 2003b).

Unique association means an existence of strongly held, favourably evaluated associations unique to the brand that give it superiority over other brands. To create the differential response that leads to positive CBBE, it is important that some associations are unique by creating points of difference. Unique associations are seen as critical to brand success, although it must be mentioned that a complete uniqueness in association would only come about if the brand faced no competition whatsoever. Shared associations in that sense are also able to establish category membership (Keller, 2003).

1.3.6 Brand awareness

**Brand awareness** as the second part of brand knowledge according to CBBE model is related to the strength of the brand node, which means how capable the consumer is of recognizing and identifying the brand under different conditions (Keller, 2003b).

We divide brand awareness into two parts: brand recognition and brand recall performance. Brand recognition is the ability of the consumer to recognize the brand exposure when seeing the brand, meaning he is able to correctly discriminate the brand. Brand recall means that the consumer is able to recall the brand from memory when shown a product category, need, or a purchase situation (Keller, 1993). Brand recognition, when compared to brand recall, is simpler. The importance of recognition or recall is relative and depends on the extent of brand presence when the customer will be making a product decision. Brand awareness is created by increasing the familiarity of the brand in the consumer mind through repeated exposure. The repeated exposure ensures strong brand recognition and strengthens the recall by affirming the associations with the correct product category or other consumption cues (Keller, 2003a; Keller, 2003b).
A practical marketing way of creating brand awareness with the goal of a strong brand recall is increasing the familiarity of the brand by repeated exposure. Exposure here means a whole range of communication options ranging from advertising to outdoor advertising, promotion, sponsorship, PR, events. To achieve a strong recall all brand elements should be used. All this marketing communication actions will lead to strengthening the brand node in consumer’s memory, giving the consumer the ability to recognize the brand. In order for the consumer to be able to recall the brand, there must be effort put into linking the brand node in the memory to appropriate associations of product categories and other consumption cues (Keller, 2003a).

Brand awareness plays an important role not only in creating learning advantages, but also brings with it consideration advantages, which push the brand to become a part of consideration set for a consumer, and choice advantages. Here, high brand awareness can make consumers buy a product just for the brand, due to lack of purchase motivation or purchase ability (Keller, 2003a).

1.3.7 CBBE model of building a strong brand

The CBBE model is useful in a sense that it not only explains the relationship between brand knowledge (brand awareness and brand image) and the equity that such knowledge brings along, but also from the business practice point, as it puts forward four consecutive steps to build a strong brand. These steps are meant as a way to answer the questions that consumers not knowingly create when witnessing the brand. The model points out the fact that there are no shortcuts when it comes to building a brand and that it is to be seen as an investment of time and resources from the company. In order for a company to build a strong brand, the branding steps must be properly defined as concrete goals and given its full attention to provide its biggest contribution to brand building (Keller, 2003a).

As Keller (2003a, p. 96) says:

The length of time to build a strong brand will therefore be directly proportional to the amount of time it takes to create sufficient awareness and understanding so that firmly held and felt beliefs and attitudes about the brand are formed that can serve as the foundations for brand equity. Strong brands blend product performance and imagery to create a rich, varied, but complementary set of consumer responses to the brand.

Before going through the four consecutive steps, it is worthwhile to go through the four questions that deal with brand identity, brand meaning, response of a consumer and the brand relationship. The first question a consumer sets when asking about a brand is the question about brand identity - who are you? After that, the consumer asks about the brand meaning - what are you? - to which a question about the response the consumer should have towards a brand will follow - what about you? What do I think or feel about you? The final question is related to the brand relationship between the consumer and the brand -
what about you and me? What kind of associations and how strong of a connection would I like to have with you? (Keller, 2001).

As a response to these four fundamental questions that a consumer asks, the CBBE model presents the four steps that could be quickly summarized into identification of the brand, establishing the meaning of the brand, eliciting the customer response and converting the brand’s response into customer relationship (Keller, 2003a).

The first step of the CBBE model, connected to the question of brand identity, ensures the identification of the brand with the customers and association of the brand with a specific product class or customer need in customers’ minds. The second step, connected to the question of brand meaning, establishes the totality of brand meaning in the minds of customers by strategically linking a host of tangible and intangible brand associations with certain properties. The third step of the CBBE model answers the question on the response a consumer should have towards the brand. The third step of CBEE model therefore created the correct consumer response to the brand identification and brand meaning. And the final step of the CBBE model is an answer to the consumer question on the brand relationship between the consumer and the brand. The fourth step converts the brand response to create an intense, active loyalty relationship between the brand and the customer (Keller, 2003a).

All these steps should be actual marketing goals in a brand strategy followed by a company in order to create the brand knowledge that will create the positive equity. The goals should be achieved via marketing activities. In order for this to be as efficient as possible, the six building blocks of the CBBE pyramid should be used.

1.3.8 CBEE pyramid

To make the process of answering the four questions easier, Keller (2001) advises to use six brand building blocks with the consumer, which assemble the CBEE pyramid (see Figure 1). The six building blocks are brand salience, brand performance, brand imagery, brand judgments, brand feeling and brand resonance. The goal is that through branding, via marketing efforts, the top of the pyramid would be achieved. When that would be done, all four mentioned questions and goals would also be achieved.

The bottom of the pyramid is based on the brand salience which is connected to brand awareness recall and recognition parts. Building this part helps the consumer understand in which product category the brand competes and which need of the consumer is the brand satisfying. Category identification and needs satisfaction are the sub-dimensions of salience. Brand awareness can in this sense also be understood by its depth and breadth, where a deep level brand comes easily to a consumer’s mind. The breadth of a brand is connected to the range of purchase and usage situations in which the brand elements appear and is connected to the structure of the brand knowledge. It becomes important to
what extent the organization of brand and product knowledge are nested in the consumer’s memory. To understand this, a marketer should be aware of the current product category structure that plays an important role in consumer’s decision making. The brand should not only be on top of the mind in terms of product category, but also in time and place where a consumer could be situated. A highly salient brand is the one that has both depth and breadth of brand awareness. With that it is able to answer the question about brand identity (Keller, 2003a).

Figure 1. CBBE Pyramid

The next part of the pyramid is brand performance and brand imagery. These two parts are connected to answering the question of what you are as a brand to the consumer through creating the brand meaning. This involves establishing a brand image and what the brand is characterized by performance wise and abstract image wise. Brand performance is connected to how the product satisfies the consumer need on its intrinsic level in a functional way to create brand loyalty and resonance. There are five types of attributes and benefits that make up the functionality - primary ingredients and supplementary features followed by product reliability, durability and serviceability, followed by service effectiveness, efficiency and empathy, followed by style and design and as the last, fifth attribute - price of the product (Keller, 2001).

Brand imagery represents how people see the brand abstractly and deals with the extrinsic properties of the product. Imagery refers to the more intangible aspects of the brand which can be formed from a direct experience or indirectly. There are four types of intangibles: user profiles; purchase and usage situations; personality and values and history; heritage

and experience. To create brand equity according to the CBBE model, it is important that the brand has brand associations that are strong, favourable and unique (Keller, 2001).

The third part of the CBBE pyramid is connected to answering the question of how a consumer should feel towards the brand - so namely, the response it should get. Brand response is connected to how a consumer responds to the brand, all its marketing activity, and other sources of information. Brand responses can be divided into brand judgment - so what a consumer thinks about the brand; and into brand feeling - so what a consumer feels about the brand. Brand judgments focus on how a consumer personally thinks and evaluates the brand. Here, four types of brand judgments come into play, namely quality, credibility, consideration and superiority. Brand feelings are the consumer’s emotional responses connected to the brand. Transformational advertising is advertising that is designed to change consumer’s perception of actual usage experience with the product. There are six types of brand building feelings: warmth, fun, excitement, security, social approval, and self-respect (Keller, 2003a).

The fourth part of the CBBE pyramid focuses on the ultimate relationship and level of identification that a consumer is able to have with the brand. It answers to the consumer’s question on what kind of associations and how strong of a connection would a consumer like to have with a brand. Brand resonance is the term describing this relationship and can be described as the intensity or the depth of the psychological bond between the consumer and the brand. It can be broken into four categories: behavioural loyalty, attitudinal attachment, sense of community, and active engagement (Keller, 2001). It is the resonance that is the top of the CBBE pyramid and that should be the final goal of the branding process, as when reached, the consumer is able to have the full experience of the brand and is able to fully answer to all of the questions (Keller, 2003a).

1.4 Brand equity measurement and management

The goal of this chapter is to define what brand equity is, what its components are, and what value brand equity holds for a company. After we are able to understand its value, we are then able to explain how this equity is managed by a company through the strategic brand management process, and elaborating on the goals, parts and managers that should be a part of this process. In the end, we are able to understand what it means to successfully manage brand equity and how to practically go about it.

1.4.1 Brand equity

Keller (2003a, p. 42) states that branding in its essence is “about endowing products and services with the power of brand equity”. For Walfried, Banwari and Arun (1995, p.13) brand equity is the enhancement of the perception of the customer on the utility and desirability of a product to it being branded by a brand name. Brand equity for them is “the
consumer's’ perception of the overall superiority of a product carrying that brand name when compared to other brands”.

The most consistent definition of brand equity in the marketing literature is by Farquhar (1989), who defines **brand equity** as the value a brand adds to the company’s offering. Keller and Lehmann (2006) state that the impact and the value of brands can be reflected on three levels: customer mind set, product-market outcomes, and the final level of the stock market, value of a company.

Brand equity is connected to the fact that different outcomes can occur due to a product having a brand when compared to a product that has no brand identification. Keller (2003a) states four basic principles of brand equity. The first is the value of past marketing activities for the brand that lead to the different outcomes; the second principle states that brand equity can be created in many ways; the third principle is that brand equity is the common denominator that enables us to assess the value of a brand and the interpretation of marketing strategies behind it; and the final principle is connected to the use of the brand equity, as there are many ways in which the company can benefit from the value of the brand created by the marketing strategy to differentiate the product from the rest (Keller, 2003a).

The added value for a company that has a brand with high brand equity are the options for successful brand extensions, having an advantage and a shield to ward off competition and its promotional pressures, and the final ability to create barriers of entry for competition in the market (Farquhar, 1989; Bridges, 1992).

When it comes to brand managers and marketing professionals, brand equity holds the value of brand loyalty and brand extensions for them (Keller, 2001). Brand loyalty and brand equity are linked through a positive relationship, which means the higher the brand equity, the higher the loyalty of consumers to a brand and to a product associated with the brand. This means that for such a brand, there is less need for promotional activities. Brand equity is also of use when creating new brands or spin offs of the brand through brand extensions. In such a case, a completely new brand in comparison to an established brand would create a greater expense for the company in terms of higher advertising costs and possible lower sales. This would be due to the lack of consumer knowledge, which in case of brand extension is provided by the already existing original brand (Bridges, 1992; Smith & Whan Park, 1992).

The impact and value of a brand can be seen in three levels: customer mind set, product-market outcomes, and, ultimately, the stock market value of a company (Keller & Lehmann, 2006 in Mzik, 2014). To be able to fully understand the value of brand equity for the company, management and consumer we will look at it through two lenses, one where we will see the financial perspective of brand equity and the other where we will see the customer perspective of brand equity and how to measure it in both ways. In that sense,
we are acknowledging that the consumer mind set is not the only added value, but that the financial value for the company is also important. Another reason why it is important to show the financial perspective of brand equity is to better understand the link between brands and future performance of a company. This one is not easy to demonstrate, which leads to brand building activities being hard to justify. Being able to understand the financial returns to such marketing asset provides the needed ability to set the appropriate levels of marketing budget and the resources needed to support the different marketing initiatives (Aaker, 1991; Keller, 2003a).

1.4.1.1 Customer based brand equity

Brands provide value to consumers by reducing the search costs, perceived risk, guarantee quality and enable consumption experiences (Aaker, 2011). Kamakura and Russel (1991) define the customer-based brand equity as the differential effect of brand knowledge on consumer respons to the marketing of the brand.

Customer based brand equity is seen as the loyalty and the willingness of a customer to pay a premium price for a brand. As we have mentioned in our CBBE model, the whole model is focused on creating the brand knowledge by brand image and brand awareness that would be creating this positive CBBE equity (Keller, 2003). That is why in this part, we will not be going again through what the customer based equity is, and will be focusing more on how to measure it.

In order to fully understand the value of the perception of the brand equity by consumers, it is recommended that consumer mind sets should be measured on a regular basis, to see the developments in consumer brand equity. With that, the consumer response to a brand name is evaluated, as the customer-based brand equity creates the incremental financial gains for a company (Keller, 2003a; Walfried, et al., 1995). A measurement model that is simple and corresponds to the CBBE pyramid (see Figure 1) that we have introduced earlier in the text, is the customer-based brand equity scale developed by Walfried, Banwari and Arun (1995). This measurement model tries to measure the associations that the consumers connect to the brand. The model measures five dimensions of brand equity associations: performance, value, social image, trustworthiness, and commitment. Authors especially note that performance is of critical importance to a brand, and if performing poorly, this will influence the brand equity in a big way, and in the other way around, if it will perform well, it will have a halo effect across the other dimensions of the brand equity. At the same time, all five dimensions of the brand equity should be monitored and managed.

These also correspond to the associations needed to form in the consumer mind according to CBBE model. It is recommended that company measure the equity associated with their brands on a regular basis, as this provides a tool to evaluate their marketing programs. In case of a positive consumer based brand equity, marketing can think of innovative ways of marketing to continue, and in case of negative brand equity, further feedback can be
obtained on which to build new marketing activities. This feedback is able to help identify issues with the product performance, advertising activities that do not function or positioning that does not fit (Walfried, et al., 1995).

1.4.1.2 Financial based brand equity

When it comes to evaluating the brand equity from a financial perspective, there is no unified approach to it. In practice, it is done on measuring the product market outcome, which happens normally in monetary terms or by financial market valuation, where the value of the brand is defined as the total sum of all cash flows (Mzik, 2014).

When accounting for brand value connected to product market outcome, Mzik (2004) lists the price premium a brand is able to get in comparison to its competition or the profit as the most popular measurement. Connecting brand value with profit on a product is seen as better, as it also includes the costs of maintaining and managing a brand. But when focusing on the profit, we are only able to predict a one-year financial impact, and not its future impact. With that, we are not accounting for the whole value of the brand (Srinivasan, Park, & Chang, 2005).

In case of accounting, there is a lack of a consistent valuation approach towards brands. But if a brand is seen as a company asset, its value is normally defined as the total sum of all current and future cash flows assigned to this brand (Bahadir, Bharadwaj, & Srivastava, 2008; Mahajan, Rao, & Srivastava, 1994).

Brand equity models proposed by consulting firms are based on earnings-decomposition and brand-growth multipliers to account for the total value of a brand. This means that product-market brand outcomes, exemplified by brand-induced profits or sales, are first computed and then weighted by a “multiplier”, to arrive at the final valuation. Most popular brand equity models use price, market share, revenue, and profit premium to evaluate a brand’s financial impact (Mzik, 2014).

This means that in current business practice of financial assessments of brand value, there is no clear way of getting the full brand value out. The only way to really get a feeling of the full financial brand value would be in case of acquisition of a company. In this case, the full brand value becomes seen by aggregating the brand’s overall franchise and licensing income. But such brand acquisitions are rare events and also, in case of many companies, their brands are not franchised or licensed (Mahajan, et al., 1994).

What we are seeing here is the fact that the value of brands is still mostly seen through the value of customer mind set - so customer based equity. Consumer mind set is typically measured through multiple-item surveys, the results of which do not reflect a brand’s financial value. Mzik (2014) notes that because of this, these are not good measurements for predicting the financial returns of brand investment. With that, only focusing on the
consumer perspective of measuring brand equity, we are not able to be clear about the marketing productivity in establishing brand equity, which disables a brand manager or marketer in determining the appropriate spending level. Making brand management decisions based only on available short-term brand performance metrics can have negative implications for the company, which Mzik shows on the example of the Martha Stewart case. Due to focusing only on short term positive signals after the scandal connected with Martha Stewart and stock fraud, marketing efforts were not changed to strengthen the shattered brand. Due to this, next year’s sales suffered as the negative change of brand equity showed itself later on.

This example ties with Mzik’s notion that there is a need to know the full financial returns of a brand to properly guide the level and direction of brand investments. Managers that do not know the dynamics of the brand impact in their sector and do not invest adequately in their marketing activities due to short term product market outcomes, are very likely to underinvest in brand assets that could generate value (Lodish & Mela, 2007). Mzik (2014) acknowledges that there are many studies done on how to transform the consumer mind set metrics into future predictions of brand returns, but in her opinion, these do not address the dynamics of performance impact, how to put the total performance impact of brands in numbers or assess the heterogeneity of it. With that, the dynamics and the size of short and long term returns to brand assets remain unknown.

1.4.2 Strategic brand management process

Branding as a process is not synonymous with brand management, which according to the AMA’s definition is synonymous to product management. It is important to note that the Association does not have a specific definition for what brand management is, and states that the terms product management and product manager can be substituted with brand management and brand manager. In that sense, brand management is run by a brand manager and the process entails developing of marketing plans, coordination of the implementation of the plans, and monitoring of the performance of assigned products. AMA’s definition stems from a multiproduct company, which means that in this case a brand manager reports to a marketing manager who oversees all the different brand managers (AMA, 2016).

In our case, we understand brand management as superior to just product management, as we are interested in the work that the marketing manager, to whom the brand-product manager reports, does. Branding is much more than a naming problem - it is a strategy problem (Webster & Keller, 2004). With that, we are interested in the strategic brand management process.

This process consists of activities with a broader perspective on brand equity and how branding strategies should take into account company’s concerns and adjust them according to time and geographical location. The goal of the strategic management process
is to design and implement marketing programs and activities that aim to build, measure and manage brand equity. According to Keller (2003a), the strategic brand management process has four main parts – identification; planning and implementing; measuring; and growing of brand equity.

The goal of the first step is to place the brand in the minds of consumers in a way that the potential benefit of brand equity for the company is maximized. This is achieved through competitive brand positioning (Keller, 1993). In this part of the management process, marketing determines the brand’s core values and a brand mantra - a short 5 word expression of core brand promise, also known as brand DNA. These are established to articulate the abstract associations and values that the consumer should connect with the brand. When the step of competitive brand positioning is concluded with a brand positioning strategy, the second step of determining the marketing programs to establish the agreed associations in the consumer minds can follow (Keller, 2003a).

The second step of planning and implementing brand marketing programs is a knowledge building process that uses brand building tools to create consumer knowledge effects to gather branding benefits. It is based on mixing and matching of brand elements, integration of brand marketing activities and the leverage of secondary associations. The goal of this step is to make the consumer aware of the brand and create a strong, unique, positive brand association between the consumer and the brand. This step is seen as marketing expenditure and investment (Keller, 2003a).

After the knowledge building process is put in place, the third step of measuring and interpreting of the brand performance can begin. In this step, the brand equity management system is put in place, which then designs and implements a brand equity measurement system. As a tool for this, a brand value chain is used, which tracks the brand value creation process to understand the financial impact of brand marketing investment. It tracks the brand equity sources and the brand equity outcomes. With this, it enables to focus the research effort of a marketer, which is the basis of building a brand equity measurement system. This is a set of research procedures that give actionable information for the marketer to base his short term and long term strategic brand management decisions on. The customer based equity can be measured in a direct or indirect way (Keller, 1993; Keller, 2003a).

After the measurement system is put into place, the final step of growing and sustaining brand equity can follow. This step is seen as the essence of managing brand equity through establishing the brand product matrix, which is a visual representation of all the brands and products sold by the company, and the establishment of brand hierarchy, which is explicit ordering of brands according to differences, prominences and similarities between them. These two enable a company to map out the brand portfolio and the relationships between brands in it. This in itself enables various branding strategies to manage and create brand equity. A marketer can also include the enhancement of brand equity through time and
establishing the brand equity over market segments. With that, a marketer includes a long term perspective and the diversity of consumers in his strategic brand management (Keller, 2003a).

1.5 Branding in SMEs

The goal of this chapter is to define and clarify the nature of small and medium enterprises (SME) and to explain the growth model that this kind of companies normally take. From here, we will continue with understanding the branding practices of SME, making us able to see if the SME are using the brand building blocks we have introduced in the chapter Definition of Branding. We will present branding as a business opportunity of strategic differentiation through the concept of innovative marketing and show the business application of it through the management theory of Blue Ocean Strategy. This will also show how this leads to creation of brand equity for a company.

1.5.1 SME’s branding practices

In the European Union (EU), SMEs represent 99% of all businesses. As the definition set by the European Commission (EC) in the Commission Recommendation of the 6th May 2003 concerning the definition of micro, small and medium-sized enterprises enables SME access to finance and EU support programs, we will be using this one in our understanding of what an SME is. The need for a clear definition stems from the issues that SMEs are confronted with, namely market failures and structural barriers. Within structural barriers, the EC clearly states that SMEs often lack management skills and have a limited knowledge of opportunities for international expansion. When it comes to market failures, in finance areas these often occur in venture capital (European Commission, 2016).

In establishing a definition that would unite and hold between all EU countries, the two main factors used are the headcount of people employed by an enterprise and the annual turnover or annual balance sheet total.

According to Article 1 of EC Recommendation, an enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. An economic activity usually means the sale of products or services at a given price, in a given market (European commission 2016). This definition takes in self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.

Article 2 defines the number of staff and the two financial factors that determine the SME categories, namely the annual turnover or the annual balance sheet total. The staff criterion is a mandatory one and in this case, the category of SME consists of all enterprises which employ a staff smaller than 250 persons. To be financially defined as an SME, either the enterprise has an annual turnover that does not exceeded EUR 50 million or an annual
balance sheet total that does not exceed EUR 43 million. It does not need to satisfy both requirements and may exceed one of them without impact on its SME status (European Commission, 2016). This article also states a difference between a small enterprise and a microenterprise.

A small enterprise employs less than 50 persons and has an annual turnover which does not exceed EUR 10 million. A microenterprise on the other side employs less than 10 persons and its annual turnover does not exceed EUR 2 million (European Commission, 2003). Medium-sized enterprises employ fewer than 250 persons and either have an annual turnover that does not exceed EUR 50 million, or an annual balance sheet not exceeding EUR 43 million (European Commission, 2016).

Since one of the struggles mentioned by the EC is market failure, this is one of the predominant characteristics of an SME, as market uncertainty is high due to SMEs normally having a smaller share of the market. The first three years of a SME business are believed to be the most challenging ones as in this period of time 50% of SMEs will stop with their trade (Burns, 2001).

With such characteristics, an SME is normally seen as the taker of the prices that are set by the larger companies in the market. With that, a majority of the SMEs compete in perfect competition environments and only a few compete in market niches, which face them with little or no competition. Here, SMEs have the opportunity to influence the prices and the quantity sold (Burns & Dewhurst, 1996).

Churchill and Lewis’s (1987) model of SME growth divides the growth into five stages: existence, survival, success, take-off, and maturity. The final point in the growth model is defined as the maturity point in which the owner gives up the control and professional managers take over. In the first stage, the SME searches for customers and evolves into the next stage named the survival stage. Here, the company focuses on creating the customer base and defines the main products or services. In this stage, there is no strategy planning and the owner is the one that is fully involved in all parts of the company. It is in this phase that an investment has to happen in managing the customer base, the staff and monitoring of the market, for an SME to be able to advance to the success stage.

Managing to reach the success stage, the company becomes a well-established company with a stable customer base. From here on, the company strategically starts to shape a medium term strategy, which is defined by the outlook on how the company will achieve growth in the future. One way is by following the focus on establishing itself in the niche market and maintaining its market position. This means that the company puts its focus on servicing the customer base. The other option of strategic focus is for the company to focus on its growth and creating and sharing throughout the company a clear vision of the future. In this case, the company starts to focus on expanding its customer base and business offerings. At this point of the growth model, the company will try to evolve into the take-
off stage and will be faced with the main threat of competition. In the take-off stage, the SME faces tough times as it wishes to establish itself as a large player on the market. Successfully achieving this, the company will evolve into the final - maturity - stage, which is the final part of this growth model. At this point, the owner will no longer be connected with the company and instead of the owner, a well-established management team will take over (Churchill & Lewis, 1987).

An SME would normally have one to two major customers and is with that less able to influence the market prices. Being dependent on such big clients for its existence, this also presents the SMEs with high risks in case of the big customers’ change of business growth or success. In such business relationships, the SMEs normally receive a smaller margin. When searching for new customers, SMEs can find it difficult to build new resources, which reduces their ability to take on new strategic opportunities (Levy & Powell, 2005).

It is the lack of resources in a sense of finances and skills that is the predominant negative characteristic of SMEs. This leads SMEs to pull in skills from outside the company, example being the hiring of external consultants. Such impromptu decisions reduce the SMEs ability to implement new strategies, technologies and work practices. It also means that the ability to properly equip an SME with the needed skills and knowledge is closely linked with the owners reasoning of the need for such skills or knowledge in the company (Hay & Kamshad, 1994).

It is the attitude of the owner and how he views the growth of the company that will determine the future of the company. When it comes to the owners, they are also often times the reason for the failure of the SME, as they get caught up in focusing too much on themselves and not on the customer or what the market demands from them. When it comes to forming a strategy, this less of a long-term one and more of a medium one with the focus being given to operational ability rather than the strategic ability of an SME. Again, the owner’s skillfulness becomes the greatest key in determining the success and achieving strategic goals. How well the owner knows the market becomes the determinant for the SME to do well on it (Hay & Kamshad, 1994; Keasey & Watson, 1993; Analoui & Karami, 2003).

But even though the market for SMEs is the biggest challenge, they have the advantages of being able to use their independent nature in decision making, flexibility and innovation, to quickly respond to customer and market demand. When it comes to innovation, a SME is able to respond to changes that the customers demand from the SME products faster than in case of larger firms, even without the research or developmental capabilities that those have. An important fact here is that an SME is able to have a small product run allowing it to be more flexible and to innovate faster, although they are limited in resources (Levy & Powell, 2005). Again, the factor of the owner plays a part here, as the flexibility and innovation are connected to the people that the SME employs, and innovation is closely linked to the mind set of the owner/manager (Feindt, Jeffcoate, & Chappell, 2002).
SMEs’ normal strategy for business growth is one of differentiation that evolves in refining its offering to satisfy a niche market. The goal of the SME in the differentiation strategy is to properly locate the gap in the market and then dominate it. This then gives the SME the ability to control and define the prices. Establishing a strategy for growth normally happens by investing in product or service innovation, optimizing the quality of it and being able to create an innovative way of delivering it to the customer (Levy & Powell, 2005).

1.5.2 Brand building blocks of use to SMEs and startups

Now that we are able to understand the definition of SMEs, the growth model they normally take on and the growth opportunities they strategically focus on, we are also able to grasp how SMEs approach branding.

Vidic and Vadnjal (2013) agree that SMEs, because of their resource limitations in financial and human sense, normally do not run a formalized process which would deal with branding. Even though they are interested in reshaping their marketing practices and adopting branding strategies, they cannot do this due to financial, time and marketing knowledge resource limitations. More specifically, SMEs’ lack of marketing specialist expertise has a limited impact on the market place. With that, Vidic and Vadnjal notice the same characteristics in the marketing practice of SMEs as are observed in the business practice of SMEs.

Most of the time, branding for SMEs is seen as a radical new concept which they are not able to fully grasp due to a lack of strategic and marketing knowledge (Inskip, 2004). SMEs add business functions according to their growth needs, which means that the function of branding is designed randomly and simultaneously. The use of branding in SME is dependent on its growth, life-cycle development and organizational culture. In that sense, we are able to speculate that when it comes to branding, it all comes down to SMEs owner’s understanding of the added value such a business function brings to the SME growth. Once again, branding is used if the owner knows the value of it for the company. Branding as a business function in case of SMEs happens in companies which have a clearly defined strategy (Berthon, Ewing, & Napoli, 2008).

A very good insight in SMEs’ use of branding can be seen in the research done by Vidic and Vadnjal (2013) on branding of SMEs in Slovenia. They have done a quantitative research on the use of branding in Slovenian SMEs in 2010 through sending out mail questionnaires to 2,500 businesses, which employed between 6-50 people. These SMEs were selected from the IPIS database using a random sampling technique.

As we are interested in branding practices in Slovenian SMEs, we will here dwell a bit more into the sample characteristics of the owner nature of SMEs they have researched. What it worth mentioning is that they have excluded one man SMEs from their research.
From the received 176 usable questioners, 82.5 % of respondents were entrepreneurs/chief executive officers, 76 % of responses were by male respondents and the age of respondents was between 23 and 72 years old, where 70 % of them were between 40 and 60 years. Education wise, 49 % of respondents had technical backgrounds and 30 % had an economics or business one. Only 9.5 % obtained post-graduate education. 40 % percent of respondents considered their business as a family business and 80 % of the businesses are still in the hands of the founding generation. An average profile of Vidic and Vadnjal research was therefore a middle age male entrepreneur with a secondary school education, running a family owned business of 10 employees, which earned less than 1 million euros per year (Vidic and Vadnjal 2013).

When it comes to the results of the survey itself, 8.9 % of the respondents answered that they did not have any branding marks of their business and only 2.8 % of the respondents used a marketing agency in creating the brand identity. In less than half of the cases the respondents did not pay anything for their brand design (42.8 %) or paid less than 2000 EUR (40 %). A majority of the respondents - 63.9 % - did not legally protect their logo (Vidic & Vadnjal, 2013).

The added value of the research of branding in SMEs is the classification system of SMEs, with regard to their market position and future perspective. Here, Vidic and Vadnjal (2013) organized the SMEs into four different groups regarding their use of branding, and related activities and contextualized them within Porter’s generic strategy framework. With that, Vidic and Vadnjal identified before the research that in the first group - the start-up phase of life cycle - SMEs show almost no awareness of branding. Those in the second group, who are in an early growth phase, start to do some branding activities, which are normally connected with developing the logo and visual cues of branding. The third group are SMEs in the phase where strategic orientation becomes important, but goes towards low-cost strategy and so branding is important, but includes only basic branding activities. The fourth group of SMEs would be those who have a strategic orientation into differentiation from competition, which is expected to be built on powerful branding.

After organizing the respondents into those clusters, they have found out that the biggest users of branding elements were SMEs in the early growth phase (41 %) and SMEs who wished to grow via low cost strategy (39 %). The ones who did not use branding were local companies without strategic orientation (12 %). And the biggest value received from branding was observed in SMEs following a differentiation strategy.

The SMEs in the early growth phase used elements of branding printed on the business cards, official letters and e-mail advertisements. The symbol of a company was depicted by
a trade mark and was designed according to the customer expectations and customers’ trust of the brand.

The second biggest group of branding users were the SMEs following a low cost producer strategy. In this case, the branding elements they used were brand visual stimuli, such as signs on printed materials, specially designed buildings and offices, signed cars and other examples. Great importance in shaping the trade mark is attributed to the anticipation of customer and product functionality. When it comes to the value of the brand, it is secondary to the price, as this is the most important tool for achieving good sales. In case of this group, brand does not have a significant impact on selling success of the product or service. Low price is the most important tool for good sales.

The group that, according to this survey, profited most from branding, was the fourth group of SMEs, that were following a differentiation strategy. In this group, the customers trust the company’s name and the name holds a great importance in shaping the anticipation of customer and product functionality. In this group, the company brand has a clear financial value as it holds a significant impact on sales volume, and carries an effect on the selling price. It is the fourth group in which the branding reaches its goal of providing the difference between the SME product or service in comparison to the one of the competition (Vidic & Vajdjal, 2013).

From the above quantitative research done by Vidic and Vajdjal and also the understanding of how an SME functions, we are able to see that branding in its basic definition according to the AMA does happen, as companies do create the basic elements of branding (brand name, design, symbol or anything that will differentiate the company’s products or services from the competition). We are also able to see that a really thought out - strategic - approach to branding happens in SMEs that have a differentiation growth strategy.

This is actually a very logic outcome as those who wish to create a clear differentiation between their offering and the one of their competition will think of all the ways in which to achieve it. It is this type of companies that actually fully embody Keller’s take on branding as the process that will create the perceived differences among products with the goal of developing a segment of customers that are loyal to the product.

Vidic and Vajdjal (2013) also clearly state that in the case of these companies, the branding gives a clear financial value by having a positive impact on sales volume, and carries an effect on the selling price. In the case of SMEs following a differentiation strategy, branding according to the CBBE model creates positive CBBE.
1.5.3 Creating brand equity as a marketing innovation activity

As we have seen from the definition of SMEs, the growth models they follow and the points of growth in which they use branding, we are able to say that the relationship between SMEs and marketing is growth focused or survival. Sales of products and services are of main interest to a SME and to achieve those, marketing is a basic need and act of a company (Carson, 1993).

SME growth comes from initiating some marketing activity that focuses on attaining and retaining competitive advantage by engaging in marketing practice, which focuses on the company’s share on the market, its market development, product promotion, product pricing, product differentiation and product distribution (O'Dwyer, Carson, & Gilmore, 2009a).

But as small firms do not have the ability to use economies of scale to gain competitive advantage they must develop their competitive advantage by developing innovative products or processes. This can be only done by having an accurate take on market the company is servicing and customer information (Forrest, 1990; Low and MacMillan, 1988). Innovation in SMEs can be therefore seen as happening in the following areas product, process or management innovation, radical or incremental innovation, continuous or discontinuous innovation, or administrative or technological innovation (Wang and Ahmed, 2004). The uncertain business environment, adequate resources, nature of the owner/manager and key personnel has in great part lead the focus of companies on the customer satisfaction, competitive advantage, creativity and profit. Under these conditions SMEs have been successful in using innovation to maximize competitive advantage and build on their abilities to suit the informality of their structures, their size, and their internal and external environments (O'Dwyer et al., 2009a).

In this sense, marketing in SMEs and entrepreneurship becomes interdependent through the search of innovative ways of developing new products, services and processes for performing organizational functions. Marketing becomes a way of identifying customer requirements and areas of potential competitive advantage for an SME. In that sense, marketing can be termed innovative marketing and as such becomes a critical business component. Effective innovative marketing practices enable the maximization of innovation and utilization of organizational resources, while improving profitability and reducing inherent operational risks (Miles & Darroch, 2006; Carson & McCartan-Quinn, 1995).

But still, even though we do give an added value to innovative marketing, the pre-requisite for an SME to follow is the already existing product quality, which was also noted by all SMEs in the research done by O'Dwyer, Carson and Gilmore (2009b) as the basic pre-requisite for their innovative marketing. The research also confirmed the significance of
image in the SMEs marketing activities and practices, so not only the product quality aspect.

But in order to harness such business advantage of innovative marketing, an SME must possess the marketing knowledge, skills and expertise that are required to have a sophisticated marketing and a strategic marketing organization that enables innovative marketing (O’Dwyer, et al., 2009b; Blythe, 2001). What SMEs have going for themselves is the fact that the presence of less formal organizational structure enables a corporate culture of participation, networking, inclusion, and experimentation throughout the organization, which fosters innovation (Johne & Davies, 2000; Carroll, 2002). Additionally, the nature of the environment in which SMEs find themselves is uncertain and often forces SMEs to form innovative responses while trying to establish a competitive advantage (Ashford & Towers, 2001).

If we look at innovation as a process, it can be understood as the production of a unique concept, or one that is put together by existing ideas and concepts (Cummins et al., 2000). How successful innovation is will be defined by how new the innovation is, how adopted can it be and can the SME translate this innovation into a business opportunity (Johannessen et al., 2001; Arias-Aranda et al., 2001).

Innovative marketing components include product enhancement, alternative channels and methods of product distribution, an exploration of new markets, an alteration of the marketing mix, and new operational systems (Stokes, 1995). Marketing’s role in innovation becomes one of providing the concepts, tools and infrastructure in order to achieve a sustainable competitive advantage by closing the hole between innovation and market positioning (Gardner, 1991). It is important to notice that innovative marketing consists of largely unplanned reactive activities that are focused on customer service, and using better promotional media (McGowan & Rocks, 1995).

Here, we are able to tie the innovation marketing to branding and the relationship marketing perspective of forming relationships. As a clear example of a strategy that could enable the starting point for detection of the area where an SME could position its focus for innovation, we present the Blue Ocean Strategy (Kim & Mauborgne, 2005). Blue Ocean Strategy is a business management marketing strategy that shows how an innovation in a mature industry is able to change the view of the supply and create a whole new segment of users. As the most appropriate unit of analysis for explaining this creation, Kim and Mauborgne (2004) put forward a set of managerial actions and decisions involved in making a major market-creating business offering. It shows that the creation of innovation came about from the simultaneous pursuit of lowering of the costs and differentiation. This pursuit creates blue oceans. With that, the strategy is very useful for SMEs and startups that wish to create a niche market through innovation. It also shows the importance of the strategy in the aspect of branding, as a blue ocean strategic move is able to create brand equity that lasts for decades.
This strategy bets on the discovery of new combinations of factors, which lead to raising buyer value through offering elements the industry has never offered before. This creates superior value that has no competition and is able to garner high sales volumes that superior value generates. This new consumer satisfaction leads to a whole new industry called the blue ocean, where a company is able to be the market leader. What the strategy actually implies is how a company should reconfigure its offering to create a blue ocean – so a niche market for itself. They also acknowledge this type of businesses as the engines of growth (Kim & Mauborgne 2005).

The strategy defines mature industries as the red oceans in which there is intense competition. The only goal for survival and growth is actually beating the competition and stealing customers from it. This is done through lowering the costs or a clear differentiation strategy. The strategy for growth in a blue ocean is actually creating a new niche market through innovation. Innovation means that the company is able to lower its costs and at the same time increase the final value of the service for the consumer. That a whole new industry would come about there has to come to a creation of a new marketing space without competition, which means that the competition becomes obsolete. Besides the creation of new market space, Blue Ocean strategy also enables the attraction of new customers and with that the creation of new segments of demand. It brings in not only those consumers with a clearly defined need for the service offered by the company, but also those who are against it and those who have never heard of it (Kim & Mauborgne, 2004).

The example this strategy shows is the case of Cirque de Solei, which transformed the notion of what a circus is in a sense that it stripped itself down of all the cost increasing elements. It only left the basic elements that gave the customer the knowledge of circus and then infused elements from theatre to create a completely new customer experience of circus. It thus brought the company a niche market in which they were the leader. In that sense, Cirque de Solei became a world established brand, as it has a clear differentiation from others in the field. This gives Cirque de Solei a clear brand equity with which it is able to create shows all over the world for consumers from different countries all coming for the experience of a Cirque de Solei show. And the way the company achieved this brand equity was through a strategic managerial plan, rejecting the goal of just lowering costs for business growth. This shift in mind set brought about a whole new business offering – a clearly different customer experience of entertainment in the cross section of circus and theatre. With that, the company also has a clear cognitive barrier in front of its competition because it offers a leap in value, which translates into quickly gaining brand buzz and a loyal following in the marketplace. The authors claim that experience shows that even the most expensive marketing campaigns from competition are unable to beat the creator of a blue ocean and in case of imitation, there is a clear conflict with the imitator's existing brand image (Kim & Mauborgne, 2005).
2 STARTUP ECOSYSTEM ANALYSIS

2.1 Startup definition

In this chapter, we look into a startup as a unique business model that brings a unique approach to building new companies and new brands, but because of it also requires different approaches in management, financing, human resources and branding. The chapter will provide reader with a full understanding of a startup as an economic unit and its characteristics.

The goal is to present a few definitions of a startup and highlight the one which, in our opinion, gives the most wholesome description of a startup. We provide an explanation of differences between startups and SMEs based on their characteristics. In order to understand the challenges a startup is faced with, we do a strengths and weaknesses analysis of a typical startup, presenting its biggest strengths and opportunities, but also not forgetting about the weaknesses and threats. Furthermore, we approach branding from the perspective of a startup and then additionally look into concept of user driven innovation strategies as the most effective models to use in building a startup as well as its branding strategy.

2.1.1 What is a startup

Some people use the word startup to describe any new venture, some use it to refer to a new business in high-tech industry and then some limit the use to a high-growth potential business, but in any industry. Binder (2001, Define “Startup” section) calls it a “company, usually fairly young, that is searching for a business model with high-growth potential”. As Graham (2012) explains, a startup as “a company designed to scale very quickly. It is this focus on growth unconstrained by geography which differentiates startups from small businesses. A restaurant in one town is not a startup, nor is a franchise a startup”. Eric Ries (2010, para. 4), the author of The Lean Startup gives this definition: "A startup is a human institution designed to deliver a new product or service under conditions of extreme uncertainty." In his definition, a company can be a startup regardless of its size, industry or age. Steve Blank (2010, para. 2), a serial entrepreneur, takes this definition a bit further in saying that:

A startup is an organization formed to search for a repeatable and scalable business model. Lifestyle businesses or small businesses are done by normal people. We're the people who are insane. Founders wake up every morning saying, I don't just want to be self-employed. I want to take over the universe. I want to change the world.
K. Ruzzier & Ruzzier (2015, p.19) provide a definition of a startup that we found to sum up all ideas in one and perfectly resonate with our research, and describes it as:

A team of people that works on a common goal to create something new and impactful, driven by a future vision and potential of sharp growth, sharing an exciting and passionate atmosphere, working in unstable conditions and with high risk of failure.

Additionally, one factor that all sources agree on is that the key attribute of a startup is its ability to grow exponentially. Based on Graham (2012), this is what prevents a local hairdresser or a plumber or a website dedicated to Hungarians trying to learn Tibetan to fit the category of startups. With very few exceptions (example of a startup hairdresser: Drybar), the first two businesses would normally have limited ability in reaching their potential audience and serving a bigger audience, while the translation service only has a small number of audience that could even potentially be interested in this. Although, a better potential for a startup would be a website teaching English audience to speak Chinese, which has a huge number of potential customers - either English native speakers or people that can understand English and that could be at the same time interested in learning Chinese.

We provide a more detailed explanation of the SMEs in chapter 1.5.1 where we present that a European Commission uses the SME term for all new and small companies but limits them with a number of staff and two financial criteria of the enterprise. The staff criterion is a mandatory one and is limited to a staff size smaller than 250 persons. Additionally, to be financially defined as an SME either the enterprise has an annual turnover that does not exceed EUR 50 million or an annual balance sheet total that does not exceed EUR 43 million (European Commission 2016). Considering this definition, we can say that all startups are considered SME’s but not all SMEs fit into a category of a startup. However, a further look into both types of ventures shows that there are more differences between the both of them. Table 1 compares startups and SMEs based on several categories, displaying their similarities and also differences.

Table 1. Similarities and differences between startups and SMEs based on a few most relevant categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Startup</th>
<th>SME</th>
<th>Similar?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founder</td>
<td>entrepreneur</td>
<td>entrepreneur</td>
<td>yes</td>
</tr>
<tr>
<td>Employees</td>
<td>little</td>
<td>little</td>
<td>yes</td>
</tr>
<tr>
<td>Starting capital</td>
<td>small</td>
<td>small</td>
<td>yes</td>
</tr>
</tbody>
</table>

Table continues
<table>
<thead>
<tr>
<th>Category</th>
<th>Startup</th>
<th>SME</th>
<th>Similar?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intent</td>
<td>disrupt the industry, have a significant impact on the market</td>
<td>owner's intent is to be their own boss and have a regular income</td>
<td>no</td>
</tr>
<tr>
<td>Growth</td>
<td>scale and grow globally, even create new markets</td>
<td>secure a financially sustainable place in a local market</td>
<td>no</td>
</tr>
<tr>
<td>Revenue</td>
<td>focused on top-end revenue volume and growth potential</td>
<td>making a profit and creating a business offering stable long-term value</td>
<td>no</td>
</tr>
<tr>
<td>Innovation</td>
<td>focused on innovative and never before seen products</td>
<td>selling known products to known customers</td>
<td>no</td>
</tr>
<tr>
<td>Function</td>
<td>search for a repeatable and scalable business model via a process of testing, pivoting and validating innovative hypotheses</td>
<td>organization that is focused on the delivery of value to known customers, does not change rapidly</td>
<td>no</td>
</tr>
<tr>
<td>Funding</td>
<td>in order to grow, seeks additional funding, usually in venture capital</td>
<td>grows steadily and organically with no venture capital</td>
<td>no</td>
</tr>
</tbody>
</table>

Source: Retrieved and adapted from P. Barskerville, *What's the Difference Between a Startup and an SME (Small Medium Enterprise)*?, 2015.

When discussing startups and SMEs, they both have another additional similarity. While many of them might not perceive their own environmental impacts as significant when set against those of larger operators, collectively, they are very impactful. It is therefore important, both in terms of environmental protection and sustainable development more generally, that they too are encouraged and helped to improve their performance (Hillary, 2000). The World Bank Review on Small Business Activities establishes the commitment of the World Bank Group to the development of the SME sector as a core element in its strategy to foster economic growth, employment and poverty alleviation (Ayyagari, 2007).

2.1.2 Startup’s strengths and weaknesses analysis

We try to describe the startup’s environment using the internal and external assessment and capture it in a strengths and weaknesses analysis in Table 2 based on Chavarria (2016). We look into strengths (and opportunities) that could encourage one to believe that a startup is an easy, interesting and even fun field to step into. But we also want to emphasize the
weaknesses (and threats) that explain why a startup has a number of challenges to conquer and tests to overcome in order for it to become a successful venture. Highlighting which strengths, weaknesses, opportunities and threats to anticipate with the new startup will help to understand not only the business side but also the branding possibilities and necessities.

Table 2. Strengths and weaknesses analysis of startup’s internal and external assessments in comparison to large corporations

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>No fear</td>
<td>Fragility</td>
</tr>
<tr>
<td>Agility &amp; speed</td>
<td>Cash balance</td>
</tr>
<tr>
<td>Culture</td>
<td>Hardship</td>
</tr>
<tr>
<td>Incentives for talent</td>
<td>No name</td>
</tr>
<tr>
<td>Creativity</td>
<td>Lack of network</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>Less experience</td>
</tr>
<tr>
<td>Unlimited upside</td>
<td>Limited resources</td>
</tr>
<tr>
<td>Inflection points + catalysts</td>
<td>Legal</td>
</tr>
<tr>
<td>Fast learning</td>
<td>Brain rape</td>
</tr>
<tr>
<td>Greenfield</td>
<td>Compliance</td>
</tr>
</tbody>
</table>

Source: Retrieved and adapted from A. Chavarria A Startup’s SWOT Analysis, 2016.

Strengths capture internal factors that offer a startup its competitive edge and external factors upon which startup can capitalize on to grow its business. These are a few strengths that are mostly unique and mentioned most often in literature:

- **No fear:**
  Having nothing to lose, startups can experiment all they want and lose very little. Cheap experimentation is a tool, but the fact that they have nothing to lose leads to no fear approach. For large corporations with a lot of brand equity at stake, that is not the case.

- **Agility:**
  Small teams, focused resources, little bureaucracy and hierarchy and sticky notes instead of lengthy requirements are among some of the elements that yield a higher speed of execution for startups in comparison to large corporations.

- **Access to Talent:**
  Strong founding teams benefit from having the ability to attract top talent which in turns breeds more top talent and organically removes poor performers over time. Similarly, a startup has an unparalleled ability to align incentives with its employees.
• Fresh Culture:
  It is not only the mission and vision of the startup that has the entire team breathing for
the same goal, but it is also the startup culture what makes the working environment so
different and unique. We discuss this in chapter 2.2.3.
• Creativity:
  The culture, the youthfulness and the free spirit of “there’s nothing to lose” contribute
to the unlimited amounts of creativity inside the startup teams.
• Innovativeness:
  As a consequence of all other strengths the environment of a startup and their approach
to problem solving enables teams to create and build innovative ideas.
• Unlimited Upside:
  Disruption potential is unlimited and can bring incredible results in combination with
great execution plan and an element of luck.
• Ride a Wave:
  When a change or a potential in an industry appears, startups have the opportunity to
react to its demand the fastest and pivot their business the easiest in order to “catch that
wave”.
• Greenfields:
  As a startup, developing new markets with new or re-defined products is quite
common. This is also called pivoting the idea (Patel, 2016).
• Learning:
  How to translate data and lessons into money? You fail, learn and iterate at the speed
of light which gives startups a big advantage. The ability to learn fast and react faster is
an opportunity every startup exploits.

On the other hand, startups weaknesses are not to be overlooked. These are internal factors
that could stop or slow down a startup’s growth and success or external factors that might
affect the startup in the near or long term future-changing market conditions. The
following weaknesses are most critical ones and usually present a concern for any startup:

• Fragility:
  A startup can implode anytime due to lack of funding, a founders’ dispute or simply
people losing interest in the idea or market opportunity.
• Cash Balance:
  Lack of financial resources to solve distribution and critical mass in terms of adoption
to get to revenue is one of the most frequent reasons why startups fail.
• Hardship = The Physical, Emotional & Financial “costs”:
  Startups are hard on everyone given the daily challenges and major obstacles that every
successful entrepreneur must endure. There can be over 300 "Nos" before getting a
"Yes" for funding.
• No Name:
   Every startup needs to figure out a way to open up doors and for some, this can be more challenging than others. Thus building a brand name is an important factor of success when building a new brand or startup.

• Lack of network:
   Personal and professional networks make a big difference in getting the idea across to investors, customers, and partners.

• Less experience:
   With years of working in one industry, companies build valuable experience that help them make better and more efficient decisions, and it is something startups usually lack.

• Limited resources:
   Startups are limited in terms of human capital, money and time. Being limited with available financial sources, startups need to act fast and cost efficient in order to start attracting employees that help build the idea, venture capitalists to start investing in it, and last but not least, customers to start purchasing it.

• Brain Rape:
   A term that describes unknown parties being interested in investing in a startup but only to learn more about the technology and knowledge behind the idea and actually having no intention of realizing the investment.

• Legal:
   There are several legal issues that might get in the way, like intellectual property rights or fights among the founders, that end up in lawsuits or anything else that is not directly related to the core business and can thus slow down the growth.

• Compliance:
   All rules and laws need to be obeyed and the excuse of doing it for the first time does not apply. Having the company’s paperwork done correctly is a must. Not complying can result in a shut down.

• No exit:
   Building on a great product or service for a long time, and investing all the energy in it, can sometimes also result in not having an exit. Other people might not be so interested in the idea, investors not willing to invest, and perhaps no company sees an opportunity to acquire the startup. This then results in the end of a startup (unless it pivots into a new idea).

2.1.3 Branding in startups

In addition to chapter 1.5, we further investigate branding activities that are more applicable for the startup environment, based on its characteristics and possibilities. To them, branding can feel like a rather elusive concept, as the value-add of a strong brand is difficult to quantify and measure. Startups thus often undervalue the importance of building a brand, particularly if the founding team is strong on tech but has no marketing
or sales experience (DiResta, Forrest, & Vinyard, 2015). But the brand is a special intangible that is the most important asset in many businesses because of the economic impact that brands have. They influence the choices of customers, employees, investors and government authorities. In a world of abundant choices, such influence is crucial for commercial success. Additionally, emotional responses to products also matter, in which case brands serve three primary functions: navigation - attraction to the brand familiar to a customer; reassurance - warranty of high quality and trustworthiness; and engagement - as a result of customers identifying with a brand (Wheeler, 2012). All the functions combined would ideally result in brand loyalty. Neutron LLC’s (2003) study demonstrates that a brand is not a logo, identity or a product. Their definition of a brand is that “it is a person’s gut feeling about a product, service or organization”, explaining it based on the fact that people are emotional, intuitive beings and summing it all up into an expression of a “charismatic brand”, which is any product, service or organization for which people believe there’s no substitute.

K. Ruzzier and Ruzzier (2015) present a startup branding model, SBFunnel (see Figure 2), which is based on the idea of customer co-creation of brand value and works as a dynamic branding process as it emphasizes that with fast changing markets and consumer behaviours, branding should be a never-ending process. They propose that branding should be approached from two perspectives, entrepreneur’s and customer’s. While the first one needs to have a clear goal on what his/her company does and why they exist, the consumer on the other end needs to have a great user experience with the brand. The SBFunnel consists of four phases: (1) Investigate, (2) Develop, (3) Implement and (4) Validate/evaluate which are treated as guidance for a continuous coming back to the model and refining and improving the brand.

Figure 2. SBFunnel Model

DiResta, Forrest, and Vinyard (2015) highlight that the following parts of a branding process are also extremely important and answer the question of how to build a recognizable brand:

- **Have a mission.**
  - A mission explains the core of the company - what it does, why and for whom.
  - It has to be articulated in a few simple clear sentences (or as an elevator pitch).
  - It explains the public what you stand for and why you exist.

- **Know your mantra (vision).**
  - A strong statement why a company exists.
  - A bigger purpose.

- **Define brand personality.**
  - Consumers buy products that fit the perception they have of themselves, or the way they wish to be perceived by others.

The key in building a brand in any entity is to stay consistent across all possible touch points and through time (unless undergoing restructuring or repositioning processes in between). This is especially important for a startup which is a newcomer and that people are not familiar with yet, so in order for them to learn about a new brand, they need to receive consistent communication, tone of voice and visual appearance from one brand, so they can learn to connect all of it under one brand name. This way a “no name” startup can build, retain and improve its positioning and differentiation from the rest of the market and overcomes a possible weakness of having an unfamiliar brand.

### 2.1.4 User driven innovation strategies

Similar to idea of K. Ruzzier and Ruzzier (2015), two very popular concepts of user-centred approach explain how startups should do business to achieve innovative results and also include branding in these processes. A lot of times, these are the concepts that also appear in a startup unintentionally, since it is often the only way in which to approach problems and challenges. We are talking about the Lean Startup Theory and the Design Thinking Methodology. The “lean startup” (Ries, 2011) is an innovation method for startup companies that claims that the most efficient innovation is the one for which there is an actual demand by the users. This concept is highly relevant for any strategy or method that aims at creating innovations. It leads to developing solutions based on a user-centred approach and adapting to customer needs. It tries to test the core business assumptions early in the product development process, sometimes even before any product is built at all. “Design thinking” - although it is not referring to lean principles, the main idea behind it is similar: it tries to identify user’s needs in order to create appropriate solutions. Based on a user-centred approach with multidisciplinary teams, it aims at solving complex problems and at generating innovative solutions. Design thinking makes
use of extensive user research, feedback loops and iteration cycles in order to achieve best insights into the problem and with this its understanding, which later becomes the base knowledge to form solutions (Mueller & Thoring, 2012).

Both lean startup and design thinking have a goal of achieving innovative solutions by listening to users, constantly re-evaluating the solutions, getting them back to users as fast as possible, then evaluating them again and being willing and capable to pivot. This is their recipe to achieve the most innovative ideas. Similarly, K. Ruzzier and Ruzzier (2015) teach about branding, as this process is very much related to innovations and creativeness. In addition, it can (or even should) be a long term, never ending process that helps a company to constantly grow and improve, which is the whole purpose of a startup and its brand in the first place.

2.2 Startup culture

The goal of this chapter is to bring the reader even deeper into a startup unit. It first presents an understanding of a startup’s founder, what are his/her characteristics and what is expected of him/her. We continue with an explanation of what follows after a startup is not a one-person entity anymore and the team is brought into the picture. Understanding the structure of a startup will also provide a better understanding of a culture that is built and nourished inside startups. Some parts might sound a bit extreme at some points but the reality is that startups are extreme in every way we look at them.

2.2.1 Entrepreneur

Startups are built on an idea supported with a plan and vision. All of these three components are normally provided by the founder, who can also be called entrepreneur. While building a brand in a startup is very closely connected to the owner of the company, as he/she is the one normally taking the role of a front person, there are also several other roles that a CEO is expected to take over, as defined by the Sam Altman’s (n.d.) Startup Playbook:

1. set the vision and strategy for the company,
2. evangelize the company to everyone,
3. hire and manage the team, especially in areas where he/she has gaps,
4. raise money and make sure the company does not run out of money, and
5. set the execution quality bar.

Further on, a skill that is often associated with entrepreneurs and even seems to be expected of them is creativity. The term creativity is quite often used due to the fact that the need for creativity has become increasingly significant at all levels. Creative businesses are more active than other types of businesses in promoting innovation. The real challenge that those who dare to engage in a creative entrepreneurship must face is the need to find a
balance between the artistic side, and the financing and the development side of the business (Bujor & Avasical, 2016).

Taking an even deeper look into characteristics of an entrepreneur, Howkins (2001) creatively proposed the following 11 rules for successful creative entrepreneurs. He or she is expected to:

- invent himself/herself;
- prioritize idea, not data;
- be a nomad;
- be defined by his/her activities, way of thinking, seeing things;
- be the adept of the life studying, to borrow, to innovate;
- exploit fame and celebrity;
- treat what is virtual as real, and vice versa;
- be good, because goodness is a success factor;
- openly admire success;
- be ambitious and courageous;
- have efficient communication;
- have fun.

One interesting aspect in the category of entrepreneurship is a comparison between the number of male and female founders. Studies show that increased levels of female entrepreneurship can contribute to a higher quality of entrepreneurship through conferring greater diversity, not merely in gender terms but also with regard to “products, processes, forms of organization and targeted markets” (Verheul, Stel, & Thurik, 2006, p. 152). Furthermore, raising the proportion of female founders might be a worthwhile objective in itself, because several studies provide empirical evidence of female founders who focus less on economic goals than their male counterparts and instead devote more time to pursuing social goals as well (Jennings & Brush, 2013). However, while entrepreneurial ecosystems reflect a high level of entrepreneurial activity, they differ significantly in terms of the proportion of female founders, which means some ecosystems do not fulfil their true potential (Berger, 2016).

2.2.2 Team

To be a startup is to claim a freshness that suggests being a part of innovations that will build a future. The brand may even help companies to take advantage of the “cool” factor when hiring, allowing them to attract qualified staff for a lower pay check, because the promise of innovation and a ping-pong table intrigues them (Robehmed, 2013). When building a team, it is important to be aware that anything that is set at the beginning will usually still be in force years later, and as startups grow, each new person needs to first “buy in” and then “sell others” on the mission and the values of the company. Therefore,
having clear cultural values and mission in the startups early stages can improve relationships and results in long term success (Altman, n.d.).

Besides being aligned with the company's mission and vision, employees also need to understand the importance and the core of the brand, its complexity, and the differentiation factors from other brands. If all stakeholders in the chain know what a brand stands for, it gives an outside viewer or a customer a better, more coherent brand perception. Therefore, internal communication and transparency is just as equally important as the public one. “Employees can share a common understanding about the brand and co-create it in a way that will strengthen its position on the market. In order to live a brand, one must believe in it!” is how K. Ruzzier and Ruzzier (2015, p. 28) explain the role of a team in the SBFunnel model.

Building a strong team of competitive and extra capable employees is key to building a successful startup. There is a strong sense of team spirit, team work, commitment and friendship present in startups together with flat structure (almost no hierarchy) and appealing culture, and the perks which we talk about in the next chapter. But stock options are another great way to attract, motivate, and retain startup employees. Thousands of employees at companies such as Google, Microsoft, Facebook, and WhatsApp have become millionaires through their stock options (Harroch, 2016). The best use of stock options in a startup mode is as a message. The people who get the options are given the message from founders: Work with us, stick with us, and if we make it big you’ll make money, too.

Hence, stock options are a big part of the startup dream, they give an employee the right to buy shares of stock in the future for a price which is determined on the day options are offered to them (also called a “strike price”). The goal of the company is to grow, so that in the future the stock is worth more than the strike price. This way, employees can earn money by “exercising” the options, buying the shares of stock for the strike price and selling shares for their new worth. Schirenson (2011, para. 2) gives a practical explanation in a case:

For example, you are granted 5,000 shares of stock at $4 per share in a startup. 5 years later, the stock goes public and three years after that, it’s run up to $200 per share. You can exercise the option, paying $20,000 to buy 5,000 shares of stock which are worth $1,000,000. Congrats, you’ve made a $980,000 pretax profit, assuming you sell the shares immediately.

2.2.3 Culture

A successful startup takes a very long time - certainly much longer than most founders think at the outset. You cannot treat it as an all-nighter. You have to eat well, sleep well, and exercise. You have to spend time with your family and friends. You also need to work in an area you’re actually passionate about - nothing else will sustain you for ten years. (Altman, n.d., section Part IV, title Jobs of the CEO).
The startup culture is something that is built somehow organically, based on the nature of the venture, but also as a consequence of thought through processes that psychologically help companies achieve better results. What Lee et al. (2000, p.25) say for the Silicon Valley, that it is “not just the place, it’s a state of mind”, can be transferred to startups as well. “You feel it talking to people, looking into someone’s eyes, you know you can trust them, the energy you get is limitless.” Founders many times say that “a startup is a culture not delineated by metrics, and that a startup can remain so at all ages and sizes” (Robehmed, 2013, para. 12).

A typical startup would have a flat structure or very little hierarchy from the very beginning on. It is what improves the relationships in the team and makes long working hours together more bearable. Especially in their early stages, bootstrapping is also a big part of the startup culture. This is the situation of three entrepreneurs starting a company with very little money, only with their own personal finances or from the organic growth of the company. Compared to using venture capital, bootstrapping can be beneficial, as the entrepreneur is able to maintain control over all decisions. On the downside, however, this form of financing may place unnecessary financial risk on the entrepreneur. Furthermore, bootstrapping may not provide enough investment for the company to become successful at a reasonable or fast enough rate (Bootstrap, n.d.).

Startups are focusing on building products that a small number of users will love rather than products that a large number of users like, as this approach gives them a better platform to get more users later on. Therefore, a lot of energy is focused in building a strong community that supports the startup and their services. A more personal approach is thus very typical for startups in relation to their audience as well as among the team. Extreme internal transparency around metrics (and financials) is what they often have. It is great for keeping the whole company focused on growth. There seems to be a direct correlation between how focused on metrics employees at a company are and how well they are doing. By hiding the metrics, it is hard for people to focus on them (Altman, n.d.).

Startup founders are always looking for ways to improve the overall experience at work and some are even champions of seamlessly integrating work into their life. As a result, employees do not have absolute power to demand a higher salary or more vacation days, but they do have high expectations of the culture and environment they spend their days in. They are interested in opportunities to connect with others who will help achieve their goals and find greater satisfaction in the process. By defining the culture, startups can commit to better supporting the work itself, improve operations, make a more valuable contribution, and gain greater personal satisfaction of employees, and last but not least, to counterbalance the long hours that the startup world demands of its employees (Lazauskas, 2015).

Ambitious startups have struck a balance of "work hard, play hard" by offering employee perks that prove that founders will go the extra mile to show their teammates that they are
valued and appreciated. The best way to attract fun, hard-working people, is to let them behave as fun, hardworking people - exciting work environments are enticing, so ping pong breaks and team lunches should be encouraged, not frowned upon as unnecessary time spenders (Drell, 2012). A study made by Mashable (2012) was conducted among employees of sixteen fast growing US startups about the perks they’re offered. Results were grouped in three tiers from standard ones to extreme ones:

Table 3. A Few examples of the perks that some of the startups offer their employees

<table>
<thead>
<tr>
<th>The Standards</th>
<th>Wow, That’s impressive</th>
<th>Really? That’s amazing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free snacks, coffee and beer</td>
<td>Catered lunch every day</td>
<td>Weekly raffles for $500 cash</td>
</tr>
<tr>
<td>Branded t-shirts, cups, ...</td>
<td>Paid ‘birthday’ day off</td>
<td>Unlimited sick &amp; vacation days</td>
</tr>
<tr>
<td>Gym memberships</td>
<td>Incentive programs</td>
<td>In-office massages</td>
</tr>
<tr>
<td>Casual dress code</td>
<td>Free movie tickets</td>
<td>Yoga classes</td>
</tr>
<tr>
<td>Dog friendly offices</td>
<td>Car service or free taxi</td>
<td>Destination vacations as rewards</td>
</tr>
<tr>
<td>Ping pong &amp; pool tables</td>
<td>Fun team events</td>
<td></td>
</tr>
</tbody>
</table>

Source: Retrieved and adapted from L. Drell, *Are These the Best Startup Perks You’ve Ever Seen?*, 2012.

The primacy of work is not purely a political phenomenon, but reaches deeply into the lives of workers. High-tech professionals are expected to work over eighty hours per week as projects peak, and to place the company at the centre of their universe - becoming psychologically and physically fit to serve their work (Hayes, 1989). Therefore, it is usually normal for the CEO to “want to create a place where people are excited to come to work every day by creating a fun and productive work environment, where people are growing and doing great things while having a good time” says Neil Blumenthal (in Drell, 2012, para.3).

### 2.3 Startup growth

After getting an insightful look into a startup as a whole, the goal of this chapter is to further understand what is the motivation behind all the hard work and the long hours that the startups and their teams invest into their projects. We highlight one goal that is common to every startup, which is growth. Different startups have different approaches with this step, but ultimately, everyone wants to grow fast, disrupt the markets they are working in and build big money-making ventures. This chapter gives a brief overlook of venture capital and a few other financing options for different stages of a startup.
2.3.1 Accelerators

While a lot of startup stories started in a garage, these days another very common place to start working on a startup more seriously is to join an accelerator or an incubator. These are both environments where startups first need to be selected in and in the case of accelerators also receive the first seed funding. According to the National Business Incubation Association (NBIA, 2015), incubators shelter vulnerable nascent businesses, allowing them to become stronger before becoming independent. In both cases a startup is given a place to work in, they usually get access to industry experts, they can listen to lectures from successful people, get introduced and connected to people that are already working in industry they’re interested in. Angels on the other hand, are individual investors, or groups of individual investors, who provide seed capital and varying amounts of advice to young firms. Often, but not always, they are entrepreneurs who want to help the next generation of entrepreneurs. They also may be friends or family members who provide financial investment.

Often times accelerators, incubators and angel investors get confused by the general public but in reality these are three different institutions. Cohen (2013) differentiate accelerators to other two as that accelerators disaggregate the financial resources and knowledge resources previously offered by incubators and angel investors, and provide more advice and less money than either one, but in shorter time. The limited duration of accelerator programs is the feature that most clearly defines them. A consequence of this limited duration is that batches of firms start and graduate together; this intensely focuses the attention of the founder, mentors, and accelerator directors on the nascent ventures for the duration of the programs. Periodic graduations, marked by demo days where ventures pitch groups of investors, further distinguish accelerator programs from incubators and angel investors (Cohen, 2013).

2.3.2 Venture capital

When startups raise money, they do it with rounds of investments called the Seed Round, Series A, B, C... all the way until they either incorporate or sell. In each round, the company receives money from venture funds that focus on specific growth points at specific sizes. Griffel (2015) explains how startup funding rounds are broken into the following stages:

- **Seed Round:** This is the first money given to a company to give it the momentum it needs to produce its initial product. It usually varies between 100,000 to 1 million dollars. Normally, the company will have a concept and will know that it has potential viability on the market, but they won’t have a working prototype yet. Seed money gives the company just enough runway to move from this early conceptual phase toward a product.
• **Series A**: At the point when a company has a prototype, they can seek funding from a venture capital group to work toward bringing the product to market. The series A funding will be larger than the seed round, usually between 2 and 7 million dollars, and will be offered in exchange for a portion of the company. Startups typically use series A funding to figure out the best business model for their company and to work out the basics of moving their product into the actual marketplace.

• **Series B**: By the time they’ve reached series B, a startup has a product and a business model, and needs enough capital to bring the product to a broader market. This represents a significant increase in the funding, which starts from about $7 million up to $50 million.

• **Series C**: This is all about fast growth. In series C funding, companies might move the work they’ve been doing in series B toward international markets or focus on diversifying their product for multiple different platforms.

• Technically, startups can continue raising money for however long they would wish to, but normally it is not more than Series C or D, because with every round they’re giving up about 25% of their company, so at a certain point, there is not much more left to give up.

Private-sector venture capitalists that specialize in funding high-technology R&D will have expertise for evaluating entrepreneurial ideas, but their expertise may be rather narrowly focused, to the extent that it is difficult for an entrepreneur to find both in one potential investor, sufficient funds and the knowledge of multiple technology areas (Scott & Scott, 2015). A common VC pitch to entrepreneurs is that the firm brings much more than money to the table: it offers experience, operational and industry expertise, a broad network of relevant contacts, a range of services for start-ups, and a strong track record of successful investing. But if you asked the CEOs of 100 VC-funded companies how helpful their VCs are, some would say they are fabulous, some would say they are active but not a huge help, and some would say they do little beyond writing checks (Mulcahy, 2013).

Angel investors typically anticipate 15 out of every 20 deals they invest in going bust, three to return some capital and one (5 percent) to provide a decent return. If 1 in 20 deals turns out to be a home run, angels are ecstatic - and any angel who does better than 1 in 20 is considered a rock star (Serwin, 2015). Micah Rosenbloom (in Forrest, 2014), a venture partner at Founders Collective, agrees that historically, only one out of every 10 companies that a firm invests in with a given fund will be successful. Taking all of the above into consideration, looking for venture capital is a very serious job for startups and needs to be approached very carefully and strategically so that both sides, startups and investors, are satisfied with the end result.

### 2.3.3 Crowdfunding

While a lot of entrepreneurs face an inherent problem of having difficulties attracting outside capital at the very beginning of their entrepreneurial initiative, not all are capable or suitable to search for funding with investment funds. Given the lack of collateral and
sufficient cash flows, and the presence of significant information asymmetry with investors, some entrepreneurs have started to rely on the Internet to directly seek financial help from the general public (the “crowd”) instead of approaching financial investors such as business angels, banks or venture capital funds. This technique, called “crowdfunding”, has made possible to seek capital for project-specific investments as well as for starting up new ventures (Schwienbacher & Larralde, 2012). There are several platforms that help intermediate between crowd funders (those who invest in projects) and individuals with a project. The two examples are Kickstarter and Indiegogo as the two biggest platforms which enable startups to pitch their idea and bring it to the wide audience worldwide. The public can then fund the project but rather than getting a percentage of the company in return, it gets a “gift” in a form of the product that the company is pitching. This is also a great way for a startup to test the market and get a proof of concept for their idea.

According to Kleemann et al. (2008), companies make use of the crowd mainly for cost reduction reasons. By participating in the product design and improvement, users contribute to creating value for the company. This also brings us back to the user co-creation concepts which again prove to be of a lot of value for startups. Moreover, this allows the company to reduce the length of new product development as well as its costs, have a better customer acceptance, and increase the customer's’ perception of product newness. Within the crowdfunding activities, individuals provide needed capital to the company to make its investments such as acquire new assets or pay employees, and to cover the initial costs of production.

### 2.3.4 Exit/IPO

Startups would usually have one goal, which is to “make an exit”, or with other words, to sell the company. This way, the founder gets the money from the sale and can either exit the company or, in some cases, keeps his role in the company without being an owner anymore. Some startups are created from the beginning with only one goal and that is to sell the company to a bigger company or someone who is willing to pay for their knowledge. This may be because whatever the startup is offering would fit perfectly into their business but they have not created it by themselves and estimate that it is still cheaper for them to buy the company, or in some cases, it is just faster, so their team does not need to spend time developing the same thing. A bigger company can also buy a startup in order to gain their client base. Another goal for a startup can also be to go public, so to make an IPO (Initial Public Offering), which means they enter the stock market.

When a startup decides their goal is to sell the company, this usually brings about changes in how the company works – more attention is focused on increasing the value of the company, resulting not only just in aiming for bigger sales, but also in producing a better public image of the startup and bigger perceived value. The biggest determinant of a startup’s value are the market forces of the industry and sector in which it plays, which include the balance (or imbalance) between demand and supply of money, the size of
recent exits, the willingness for an investor to pay a premium to get into a deal, and the level of desperation of the entrepreneur looking for money.

There are very different calculations for the value of a startup, but Ge, Mahoney and Mahoney (2005) explain that an investor is willing to pay more for a company if:

- the new venture is in an industry with higher product differentiation and faster growth;
- the new venture was founded by a team of founders rather than a solo founder and, major management functions are covered by a complete management team;
- the founder(s) has top management experience and startup experiences before founding the current venture. Serial entrepreneurs can command a better valuation as a good team gives investors faith that they can execute;
- there is a functioning product;
- already having traction: nothing shows value like customers telling the investor you have value.
- the new venture has external partners.

2.4 Slovenian startup ecosystem

To put all the knowledge of startups into a context of a country, we provide a brief overview of the Slovenian startup ecosystem, where it stands in comparison to other European countries based on several different factors from the Global Entrepreneurship Monitor (hereinafter: GEM), and provide additional background to a reader for the research done in the next chapter.

Since there is very little statistics done on the startup ecosystem in Slovenia, we looked into the GEM, which learns about entrepreneurship by examining the entrepreneurial ecosystem, fundamental characteristics of entrepreneurship activities, as well as motivations and ambitions of entrepreneurs. Their surveys show the current state of affairs in individual countries. At the same time, they suggest ways to foster the development of entrepreneurship and, consequently, increase economic prosperity with the help of entrepreneurship. As GEM methodology is the same all over the world, detailed international comparisons can be made, especially because the survey comprises an extensive collection of data from more than 100 economies. Their research has shown that positive societal values concerning entrepreneurship in general also mean more entrepreneurship activity among the adult population. Thus, it is necessary to change the economic, social, and cultural environment more decisively in terms of more support for and propensity towards entrepreneurship in society. Media can offer significant support in this respect. However, it is very hard to achieve and definitely cannot be achieved in a short period of time. Some of the GEM results from 2015 study of Slovenia showed that:

- Slovenia ranks in approximately in the middle of the league table in both global and European contexts regarding the percentage of people who perceive entrepreneurship
as a good career choice (53.7 %). The top-ranking economy in Europe is the Netherlands, with almost 80 %, while Switzerland (40 %) and Finland (33.2 %) are ranked last.

- On average, Slovenian working-age adults perceived a bit higher positive media attention for successful entrepreneurship stories in 2015 than in the preceding year. The high status of successful entrepreneurs in society and, on the other hand, the perception of entrepreneurship as a good career choice, remained approximately the same as in the previous year. These results are the same for both Slovenia and for Europe alike.

- One of the deeply rooted Slovenian social norms is the prevailing opinion that all people in Slovenia should have approximately the same standard of living. This characteristic of Slovenian society, which has been recorded ever since Slovenia first took part in GEM research, in 2015 placed Slovenia at the very top of the league table of all countries participating in this part of research in both the global and European contexts. Almost 82 % of working-age adults in Slovenia believe that most people would prefer for everyone to have approximately the same standard of living.

- In 2014, slightly more than one-tenth of the adult population in Slovenia (12.3 %) stated that they intended to start a new business over the next three years; in 2015, this rate was even lower at only 10.0 %, ranking Slovenia 17th among the European countries and 51st globally among 60 GEM participating economies.

- The number of female entrepreneurs in Slovenia is still relatively low. In 2015, a drop in the rate of early-stage female entrepreneurship activity was unfortunately recorded after two years of encouraging growth (from 33.9 % to 27.9 %), which is the second lowest rate in the last five years. Despite the two encouraging years showing an improvement in the exploitation of the potential of women in entrepreneurship, the negative trend continued in 2015. In addition, there was a drop in the rate of female owner-managers of established businesses from 29.6 % in 2013 to 26.3 % in 2015.

From the perspective of investments in Slovenian startups, the Slovenian startup ecosystem flourished in 2015 in comparison to the previous years. It raised a record high of $127 million dollars of investment money, almost exactly doubling the amount from 2014. While VC investments dominate in terms of dollar value - $121.325.000 for 35 investments, we see healthy and diverse early-stage activities. We have a revival of angel investments ($1.100.000 to 12 companies) as well as another good year for governmental seed mechanisms ($2.420.000 to 24 companies). Thirty-two start-ups were accepted in accelerators all around the world ($902.000); that is as much as in all preceding years combined, from 2005 until 2015. Additionally, 23 investments were crowd funded, summing up to $1.741.975 altogether (Silicon gardens, 2016).

### 2.5 Differences in startup ecosystems: Slovenia vs. Silicon Valley

For the purposes of this study we placed our “ideal Startup ecosystem” into the area of Silicon Valley, USA, where startups are currently at their highest stage of development (Compass, 2015) and also mostly fit in the startup model we described in the 2nd chapter.
Silicon Valley is often described as a “habitat” (Lee et al., 2000) or an ecosystem (Bahrami and Evans, 2000). As a natural habitat, Silicon Valley provides a host of resources that high-tech firms require to survive and grow. This habitat includes not only people, firms, universities, research institutions, and government agencies, but also networks among those players and the modes by which they interact (Zhang, 2003).

A multitude of small firms coexist with medium-sized and big firms; and each year, many new firms are founded, which collectively are a major driver of the economic dynamics in Silicon Valley. Young startups in Silicon Valley consistently attract a large amount of venture capital. On average, it takes 11.6 months for Silicon Valley’s start-ups to complete their first round of venture finance (Zhang, 2003). Silicon Valley has a business ecosystem in which large firms and startups exist symbiotically, which provide markets for startups’ offerings, a source of human capital, and often expertise, along with startups that make the ecosystem viable (Kushida, 2015). Together with the Globally top-class research universities, Stanford University and University of California – UC Berkeley and UC San Francisco Medical Center (Zhang, 2003), the place offers an extremely broad variety of work force in which people from all over the world come to participate in.

Having the business supporting infrastructure of Silicon Valley, such as law firms, accounting firms, mentor networks, and other aspects provides value to entrepreneurs and startups beyond the direct financing or services rendered (Lee et al., 2000). And with the widely known culture of accepting failure as a positive experience if the failure led to important lessons (Zhang, 2003), the Silicon Valley offers a very welcoming and promising ecosystem, but with a big number of competitors.

3 RESEARCH ON BRANDING IN SLOVENIAN STARTUPS

The goal of this chapter is to show the structure and findings of the qualitative research taken in order to lead us to results that would enable us to answer on the stated research question. This chapter also presents the methodology behind the research and its limitations. By understanding the scope of the research, we are therefore able to present its main findings. The findings stem from in-depth interviews with Slovenian startups and Slovenian startup ecosystem stakeholders.

3.1 Research questions and hypothesis

The main goal of this qualitative research is to understand the need for branding in Slovenian startups and how branding is perceived by them and other stakeholders in the Slovenian startup ecosystem.
Our main objectives are the following:

- Identify how the Slovenian startups are perceiving branding and how is this included in their everyday marketing or business activities.
- More specifically identify where on the CBBE model falls the Slovenian startup use of branding, to know which elements of it the startups are not using.
- Identify the stakeholders in Slovenian startup ecosystem to understand with whom do startups come in touch when searching for support to develop or carry out their business model.
- Explore the understanding and perception of branding in the Slovenian startup ecosystems by stakeholders who help startups in their growth to determine the state of knowledge of branding in the ecosystem.
- Explore options on how should the knowledge of branding be incorporated in the startup itself as well as in the Slovenian startup ecosystem.
- Be able to identify, from the theoretical branding knowledge, practical recommendations on the use of branding for Slovenian startups that are lacking in the current startup ecosystem practice, and propose ways on how to incorporate this part of knowledge in the ecosystem.

With these research goals in mind, we have put together the following research question:

Are startups in Slovenia using branding as a marketing tool to communicate the unique experience of the product, or only to communicate the product attributes and are they therefore missing the branding potential?

3.2 Methodology

3.2.1 Model design and the questionnaire

In order to shape our research idea, we at first consulted through analysis of secondary resources, the theoretical literature on the marketing concept of branding and the business concept of SMB, startup and startup ecosystem. This allowed us to understand which model of branding we would like to use as a means of testing the current state of branding in the Slovenian startup environment. It also enabled us to understand how to talk about the Slovenian startup environment and who to include in the discussion about it from the startup side, and the stakeholder side.

Our data for this research was obtained through in-depth semi structured interviews held in Slovenian language. Questions were formulated beforehand according to the analysis of secondary resources on branding and startup ecosystem concepts (see Appendix). In creating our sample for the research we used the snowball sample, which is a non-probability sampling technique. This technique is used in research when the members of a population are difficult to locate.
In our case, we argue the use of this technique with the current rise of popularity of business in Slovenia terming themselves as startups. A big majority of questioned individuals clearly stated that: “If you once had a garage band to be popular, you nowadays have a startup.” At the same time, there is a lack of literature dealing specifically with Slovenian startups. Due to these 2 specifics, we found that using such an approach would be acceptable. The way the approach functions, is that we collect data on the few members of the target population we are able to locate, and then we ask those to guide us in locating other members of this population that they think fall into (Crossman, 2016).

This means that our sample cannot be said to be representative of the whole population, and the main use of it is for exploration. As we believe that branding as a marketing concept is not yet everyday practice in Slovenian startup mentality, and at the same time startup on its own is a modern business phenomenon in Slovenia, we use this approach for the purpose of as explained by Crossman (2016):

- Satisfy our research curiosity and desire to be able to understand the mentioned concept of branding, and how this is used by the subject of our curiosity, namely the Slovenian startup in the environment of our curiosity, namely the Slovenian startup ecosystem. Here at the same time we also wish to understand the environment itself.
- Test the option and need for future more extensive study, and with that already give the possible suggestion of additional research steps to develop the understandings of the concept and knowledge of branding in the Slovenian startup ecosystem and Slovenian startups.
- Develop the methods that are able to be used in the subsequent studies, as in this case, the testing of the qualitative interview questionnaire for possible further use as a quantitative research on a defined relevant probable sample stemming from the definition of the element – startup, in this sample derived from this qualitative research.

We used this sampling technique to get two groups of interview members:
- In the first case, with this technique, we derived a group of 10 Slovenian startups.
- In the second case, we derived a group of 6 Slovenian startup ecosystem stakeholders.

We started with the members of the Slovenian startup ecosystem to name the initial members of the group of startups from where the startups then named other startups. We also used members of the Slovenian startup ecosystem in connection with the startups in our group to name the members in the Slovenian startup ecosystem, which then named others for this group. From this group we also obtained some members for the first group of Slovenian startups. The fact that both groups named some of the members, adds to the argument that this study cannot be representative of the whole population of Slovenian startups in the Slovenian startup ecosystem.
Each group had a specific questionnaire, where in the case of startups, this went more in depth on their marketing practices connected to branding, and less in depth on the state of the Slovenian startup environment. In case of stakeholders in the Slovenian startup ecosystem, the questionnaire focused more on the state of the Slovenian startup environment, and went less in-depth in the practice of branding in the Slovenian startups, and more into the general state of it in the Slovenian startup ecosystem. The questionnaires are able to be found in the appendixes.

3.2.2 Data collections

The data was collected between September 25th and October 14th, 2016, through the conduction of interviews via online tool “Skype”. In one occasion, face to face interview was done, and in two other cases, the questionnaire was answered in a written form. In the case of Skype and face to face interviews, the answers were transcribed into Slovenian while the interviewed person was speaking. Average length of the interview was between 30-45 minutes. We conducted six (6) in-depth interviews with the members of the Slovenian startup ecosystem and ten (10) interviews with Slovenian startups. We assigned each interviewee a number in order to be able to reference their answers in our findings section.

All interviewees are presented in the Table 4.

Table 4. The research interviewees

<table>
<thead>
<tr>
<th>Person</th>
<th>Group</th>
<th>Company or Brand name/ Institution/ Role</th>
<th>Type of product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee 1</td>
<td>Slovenian Startup</td>
<td>Rok’s Peanut butter</td>
<td>Physical product</td>
</tr>
<tr>
<td>Interviewee 2</td>
<td>Slovenian Startup</td>
<td>Beeping</td>
<td>Service platform</td>
</tr>
<tr>
<td>Interviewee 3</td>
<td>Slovenian Startup</td>
<td>Foodko</td>
<td>Service platform</td>
</tr>
<tr>
<td>Interviewee 4</td>
<td>Slovenian Startup</td>
<td>Zkotz</td>
<td>Physical product</td>
</tr>
<tr>
<td>Interviewee 5</td>
<td>Slovenian Startup</td>
<td>Toshl</td>
<td>Mobile application</td>
</tr>
<tr>
<td>Interviewee 6</td>
<td>Slovenian Startup</td>
<td>ZoicBar</td>
<td>Physical product</td>
</tr>
<tr>
<td>Interviewee 7</td>
<td>Slovenian Startup</td>
<td>Homey</td>
<td>Mobile application</td>
</tr>
<tr>
<td>Interviewee 8</td>
<td>Slovenian Startup</td>
<td>SQWIZ</td>
<td>Software</td>
</tr>
<tr>
<td>Interviewee 9</td>
<td>Slovenian Startup</td>
<td>Visionect</td>
<td>Physical product and software</td>
</tr>
</tbody>
</table>

Table continues
3.2.3 Data analysis

In our analysis of data, we used a simple manual technique of analysing the qualitative data gathered. This means we have organized the transcribed answers, as rows into an Excel spreadsheet grouping them by the interviewee who answered them in a column. As we have developed our questionnaire for Startups according to a branding CBBE model introduced in our theoretical part, we have divided the questions into 7 different sections of our interest. This enabled us already to have a predefined categorization of data insight, and thus we had no need for the use of any advanced software. This was also due to a small number of interviewees and a direct research question guiding our analysis. We then used the simple function of finding in the Excel spreadsheet to look for terms or insights needed to formulate an answer on the area of interest. The same approach was used in both groups of interviewees.

3.2.4 Limitations

As we have already pointed out in the methodology used to gather answers, the main limitation of it, is the snowball sample approach we took in gathering the members of the groups of interviews. While this gives us the advantage of exploring the subject, it does not give us the final advantage of a definite character of the study. This means that our conclusions are not definite in character but allow us a good speculative insight into the topic. As the current state of Slovenian startup ecosystem and startup is a new and not
intensely explored topic, we acknowledge this fact with such approach. Any kind of generalization taken from our study by the reader should be avoided. As we also have stated before, our study aims to address our research curiosity, and test the option and need for future more extensive study. With that in mind, the data should be seen from the lens of gathering insights into the knowledge and use of branding by the Slovenian startups and the stakeholders in the Slovenian Startup ecosystem.

### 3.3. Results and findings

#### 3.3.1 Definition of a startup by the members of the Slovenian startup ecosystem

A startup, as a form of an economic unit, is relatively new to Slovenia, and the term and a form of business have only become popular in the past few years, yet there is a common understanding of it already among the people relevant to its existence. All interviewees agreed on startup being a newly established company with a potential for fast global growth. Two of them see startups only as a tech company. One interviewee even presented three different views on a startup and highlighted quite a few of its characteristics:

“Startup can be defined based on several different categories: by time, it is a newly established company; by type of financing, it is normally in a form of venture capital, angel investors or accelerators; by culture, it is a startup energy and mentality that represents a startup.” (Interviewee 13)

A startup needs to be solving a problem for consumers but in a unique way, either with an unseen method, or with improved user experience (Baskerville, 2015). Usually it is of better value if “[…] startup is solving a problem on a niche market. With this the potential for growth is even bigger.” (Interviewee 6)

While one person says that “[…] startup is a transition state, when a company is looking for their target market and getting the product ready to go mainstream […]” (Interviewee 11) another person says that “[…] startup can stay a startup as long as they have the culture and mentality of it.” (Interviewee 13) But then a few mentioned that “[…] because of the popularity of the term, some companies just call themselves a startup […]” (Interviewee 16) and another one agreed that “[…] a local bakery cannot be a startup because their business model does not have a potential to grow exponentially. A startup can reach 3 users or a million users with the same number of employees.” (Interviewee 5)

A big part of a startup life is the insecurity, working in unstable conditions, and with high risk of failure (K. Ruzzier & Ruzzier, 2015).

“I consider a company a startup if they are developing a completely new solution, have some traction already, their customer base is growing but they do not know exactly yet
what their business model will be, and how they will make money out of it.” (Interviewee 12)

“[…] Even though the business is unstable and environment is unpredictable, it is what gives the startup an opportunity for faster improvements and growth.” (Interviewee 8)

“There is not that much at stake as a matter of fact. You only have one goal and nothing to lose, so really you can act more freely and boldly, which usually brings better results. Unless you go bankrupt. Then you have to start all over again.” (Interviewee 15)

When asked about the biggest advantage of a startup compared to bigger corporations, all startup interviewees agreed that it is the flexibility of a team and their ability to react fast to the market needs and feedbacks. Two even exposed more media attention saying that having a startup tag is a plus when it comes to media and their interest in covering news about them.

“[…] I describe myself as a young innovative company, but the media is the one that gave me the startup tag.” (Interviewee 1)

“If others [media] say you are a startup, you are automatically part of the ‘hype’ around it, which consequently encourages you to act as one.” (Interviewee 5)

Stakeholders on the other hand, besides mentioning the agility of a startup team, also pointed out the lean methodology how it is easier for a startup to “… find a consumer’s need by going out among the people, talking with them, observing first hand…” (Interviewee 11) and mentioned that “…having a small budget can be a plus. It forces you to work faster, smarter and more efficient.” (Interviewee 16)

We found it interesting that none of the interviewees touched upon the fact that startups also have the ability to completely change their main product or service focus (Patel, 2016) and start building on a new idea which from start was not necessarily even thought of. Developing new markets with new or re-defined products, is quite common for startups. But then again, a lack of focus was also mentioned as a negative side of startups.

“Little organizational structure, not clearly defined roles and responsibilities can lead to misunderstandings in communication and unnecessary fights...” (Interviewee 7)

“If you do not have a clear focus of what it is you want to do with your startup, people can also consider you a one-hit wonder and thus will not take you seriously.” (Interviewee 5)

Additionally, interviewees highlighted the uncertainty and instability as a big burden, because “…you are not sure what the future will bring, how much new traction you will get, it is impossible to predict it …” (Interviewee 3) and “The chances of you failing are
very high.” (Interviewee 9). As a consequence, four interviewees mentioned the mental and physical stress of being in a startup can cause.

“… I know more than one founder in Slovenia that took the mortgage on their house and they ended up losing everything.” (Interviewee 15)

“… A startup lifestyle and adrenalin that comes with it can blur one’s mind. Burnouts are a common thing in startup world.” (Interviewee 13)

It is not easy to go freely about a new venture since there are a lot of other uncertainties that a startup can also come across, like not having any experience or not knowing the right people, having lack of knowledge in bureaucracy.

“Not having past experience means every next step is a risk. You can learn from others but this can often give you a wrong estimation.” (Interviewee 4)

“The biggest disadvantage I see in startups is not having a broader variety of knowledge, like in the field of law and accounting. Basically, where numbers become relevant.” (Interviewee 2)

“… I think it is easier for the founders that have a bigger network of (smart) people and connections in the industry.” (Interviewee 6)

Still the biggest threat in the uncertainty part that interviewees all agreed on, is the financing of a startup, and then executing the idea till the point it is profitable. Out of every 20 deals angels invest in, they typically anticipate 15 to get shut down, three to return some capital and one (5 percent) to provide a decent return (Servin, 2015).

“Based on my experience, 9 out of 10 startups will fail.” (Interviewee 11)

“Often especially with tech oriented teams, the development stage can go on and on forever and startups forget that it is key to have the minimum viable product (MVP) available as soon as possible and start testing it. If this process is too long, a startup can run out of money.” (Interviewee 14)

### 3.3.2 State of Slovenian startup ecosystem

We were interested in learning about the general perception of startups and stakeholders of Slovenian startup ecosystem, since they are all very much engaged with it and are not only outside observers, so they can share some first hand experience. The overall perception of the startup environment in Slovenia is positive. All interviewees agreed that there are quite some government financial grants, and especially a lot of co-working spaces and organizations that help a lot with improving general knowledge about startups, but also
teach them about very specific skills. What they are missing is more institutions that would support startup business.

“I think that it is easier to get first financial support in Slovenia than in Silicon Valley, because the government has a good offering. You can do a lot with 40,000 EUR of grant in Slovenia…” (Interviewee 7)

“In general I think the environment is ok … but we are definitely missing more specialized services – law firms, and accounting services that would focus on serving only startups.” (Interviewee 5)

On the other hand, three startups think that the environment is not encouraging enough and should be improved by governmental acts that would simplify startups to operate from the bureaucratic perspective, while also enabling foreigners to easily enter our market and invest in it. One stakeholder thinks that the environment is too comfortable.

“Slovenia is trying to become interesting for startups, but unfortunately mostly only on the level of a startup community. I miss bigger measures from the government side, with simplifying bureaucracy, simplifying the banking system and also more initiative that would attract foreign startups to come to Slovenia, rather than Slovenian startups needing to move abroad.” (Interviewee 8)

“Slovenia is too comfortable for startups. This enables founders and startups to stay here for too long and does not experience the multicultural environment and thus cannot develop an understanding of a global market…” (Interviewee 13)

More and more new startups and great ideas are coming to surface, but what is missing is more “smart money” from investors that have experience and the knowledge to guide startups, not only on development side, but also on the business side. One thing that should not be ignored is that Slovenia is a part of the European Union, and with this it belongs to that system as well, and startups should take advantage of it.

“A big problem for Slovenia is that there are not enough exits, which is also the reason why there’s not enough smart money. If there would be more exits, this would bring more money to the market and consequently an opportunity to further invest. We have everything else for a successful startup environment, now all we need is Exits.” (Interviewee 15)

The challenge for a startup is to assure itself enough financing, which will enable them to evolve the idea to the extent when it becomes interesting for the general public. There are several ways in which Slovenian startups can undergo this path. One option is the business incubators such as University incubator, which offer startups an affordable office and an environment where they can share ideas with other startups and mentors. Then there are angel investors and government support that offer money investments to startups in very
early stages. Additionally, we can find initiatives such as SEED, Hekovnik or even Technology park Ljubljana and a few co-working spaces that focus more on offering knowledge than money. In 2015 Slovenia got an ABC accelerator which is another form of financing and support for young startups that have a strong network of people also outside of Slovenia, and have high ambitions for future years with offices in Munich, Silicon Valley and India.

“At ABC we focus on regional startup environment and we are bringing foreign startups here because we believe in them and we want to invest in them. We try to put Slovenia on a map as a regional centre, as a starting point for startups to grow from here. That is also the reason why we opened offices in Munich and Silicon Valley too, to cover two big markets.” (Interviewee 12)

Based on the interviews, we learned that Slovenia presents a good starting point for startups in very early stages, but as soon as a startup starts to grow and becomes more successful, it happens that Slovenian market becomes too small to act from here or to get the next round of financing. A lot of times startups are thus driven outside of the country and most often it is to Silicon Valley. So while the country is showing some support for the early-days startups, it is not doing enough to create an environment that would work for the fast growing companies as well. Therefore, those usually do not see enough reason to stay if they want to make it big. Improvements in tax regulations should be done as well, so that more investors would be interested in entering our market too.

3.3.3 Importance of marketing activities and focus on the customer in a Slovenian startup

When it comes to branding, we have defined branding as a part of marketing, and to be able to properly determine how Slovenian startups see branding, we must first start with defining how they see marketing.

When defining of which types of knowledge does a startup need to be able to run well, half of the Slovenian startup ecosystem stakeholders defined marketing as one of the knowledge it needs.

“Marketing – from the perspective of business strategy, which as understanding includes positioning, pricing and segmentation of customers. At the same time as development and engineering. Both are necessary. But it is easier to get engineering knowledge than the marketing knowledge.” (Interviewee 12)

That marketing is of utter importance for a startup was identified by all of the interviewed stakeholders from the group of 6 Slovenian startup ecosystem stakeholders. Marketing as a knowledge “[…] is one of those skills that are lacking in Slovenian ecosystem. In my opinion this is due to the fact that in the past it was not a knowledge that would be
appreciated in Slovenia. We do not have a tradition of 500 years where it is important that you are able to sell something, but instead have one, where it is important, that you are able to make something.” (Interviewee 12)

“In Slovenia we have a lot of problems with this, as we are inclined towards optimizing the product into perfection. We think that if a product will be perfect, then also sales will be perfect [...] in the end it is important how much you sell. This is also the difference between us and Silicon Valley, which you often see also when you have an American startup with a product that if of less quality technology, they are able to sell way better than we would.” (Interviewee 16)

A very simple overview on how important marketing is to a company, is by looking into the fact if the company has a special marketing team in their startup team, or a specific person. Half of the startups in this case, due to their size and nature do not have a specific team for marketing - in seven cases the owner or the cofounder(s) are those who deal with marketing. Here, we are able see the importance of the owner for marketing, which strikes a parallel with our previous explanation of the importance of owner skills and knowledge for the success of SMB (Churchill & Lewis, 1987).

Next step is to look into the fact if the company has expressed their marketing intent by creating a marketing strategy for the year. Seven out of ten asked startups stated they do have it. This is in a way also confirmed with the observation from the stakeholder side, as half of them said that they often see a one-year marketing strategy from a Slovenian startup.

“Those which I normally mentor, create it, because this is presented to them as something of importance.” (Interviewee 13).

When we asked the group of 10 Slovenian startups about which business activity brings the biggest additional value to the company, marketing was named as the number one activity by four of them, and five of them named development of new products or services as the number one. Only one startup named sales as their number one activity that brings additional value to the company. When looking into where do startups put the majority of their time and energy, six out of ten put it in the development, three into sales, and only one into marketing activities. And when we asked where the majority of finance resources go, seven out of ten named developments of new products or services as the number one, and only three named marketing as the number one area for investing the resources of the company.

We can see here that the observation of the members of the group Startup ecosystem stakeholders resonates through the answers of the group of Slovenian startups. It is clear that development is of utter importance to the companies. But marketing in this essence should be seen as a tool for innovation and development. Marketing’s role in the
innovation of the company can be providing new concepts to create a sustainable competitive advantage (Gardner, 1991).

This is also clearly stated by one of the stakeholders who define marketing as: “[…] one of the 5 key knowledge, even more important due to the fact that through customer contact the company gets back the feedback of the users. Development of the product and the business model should be based on the information, which comes into the company through marketing. “(Interviewee 15)

This is exactly the logic of service dominant logic and relationship marketing. Instead of offering the developed products and services for the customer, these should be developed with the customer. The customer should be the co-producer and should be involved in the entire value and service chain. The more a company becomes aware of customer’s desired experiences, usage situations, and experience environments, the better value propositions and outcomes can be co-created (Vargo & Lusch, 2004; Grönroos, 2006; Prahlad & Ramaswamy, 2004).

Only one out of ten asked startups clearly defined the focus on the customer and interaction with the customer as their marketing goal. In this case this was expressed in the following ways:

“[…] We want to build the satisfaction of users through the whole story. The customer is in the centre of all activities – we have a 360-degree view on it.” (Interviewee 2)

But five out of then did define in their marketing goal the focus on growing their consumer base. “The goal is to increase the base of loyal followers – strengthening the community that supports each other, and supports us and shares the product through word of mouth. […]” (Interviewee 6)

When we actually look into their marketing practice, we are able to observe that in 7 out of ten startups, the focus of their marketing activities is actually on the customer. The activities described give attention to the customer and their feedback in refining their offering.

“Because we are a startup we work mostly with users […] We put a lot of work on customer discovery, which happens in a digital and physical way – we also do interviews with customers […]” (Interviewee 3)

“When it comes to marketing, this is very much connected with our development, we test our hypothesis in a way they confirm the business model. The main hypothesis at the beginning was if people were prepared to buy the products. We look at what we want to learn and we throw that into a campaign.” (Interviewee 7)
“From the beginning on, we are systematic in how we shape branding and how we do all the steps of marketing. We measure everything [...] and we do a lot of tests and follow ups.” (Interviewee 2)

When it comes to marketing this is seen as an important knowledge to be had in the Slovenian startup ecosystem, but it is seen by startups as less important to development of products and services. Normally startups incorporate marketing into their business via their owner and by creating a marketing strategy. The goal of the marketing strategy is in half of the cases the growth of consumer base and not just sales, which is able to explain why so many marketing activities are based on the consumer feedback.

3.3.4 Importance and understanding of branding in marketing activities of Slovenian startups

That branding is important for a startup was stated by all asked stakeholders. Branding is “[…] very important, especially in case of a product, when it is delivered to the final consumer – so B2C, also in B2B […]. In the moment when a company wants to enter the market, the brand is of crucial importance. At the beginning the recognition of the brand is low, but everybody is working on the fact that they will stay on the market for years to come. That is why it is important to put attention to building a brand.” (Interviewee 13)

“Branding is the basics for creating the relationship towards your first employees, partners in the company, the investors, the ecosystem in which the company is, accelerators, incubators – so all of the publics, may it be internal or external.” (Interviewee 14)

“It is very important, because through the whole time when you are developing your customer development model, you are in contact with your customers, where you have to constantly communicate your unique value proposition. On its customer journey the customer must be satisfied all the time and you should satisfy their needs throughout the time.” (Interviewee 11)

We have defined branding as the process of creating, establishing and communicating all the information with which the company wishes for the customers to associate the brand (Keller, 2003a). This same understanding is shared by stakeholders who recognize branding as a process of establishing the understanding, recognition and relationship with a consumer. The CBBE pyramid (see Figure 1) puts as the top building block Resonance, which is characterized by loyalty, attachment, community and engagement and answers the final fourth question of identification of the brand to the customer (the question being: What about you and me?) (Keller, 2003a).

It is interesting to see that 3 asked startups clearly explain branding close to the resonance block of the CBBE pyramid: “It is one of the really important things and that is also how
we approach it, from the whole graphical image design to values. It is a way on how we differentiate and the way we build the emotional connection with the user.” (Interviewee 2)

“It is the whole experience that the user has with our services. Branding is every experience, the happiness and sadness that the person has with the application. I would include the whole UX with it not just the logo. “(Interviewee 5)

“We work a lot on creating our own content besides the product. We try to produce content, because it stimulates the emotions in our users. “(Interviewee 7)

And one startup explains branding in terms of brand equity, meaning they are well aware of the value of it. “Using the brand to be able to sell more – or today to increase the profit margin. “(Interviewee 8)

“Almost all startups agreed on the importance of having a brand and normally stated it in terms of being recognized by consumers. “(Interviewee 5)

“We would not exit because of it, it is our basic recognition, if you are just a generic, you do not last long on a B2C market. “(Interviewee 9)

And funny enough the startup that did not agree on an importance stated that: “Now that we have moved into B2B, we do not put a lot of focus on our brand.” (Interviewee 9)

9 out of 10 startups do take care of their brand image and their activities take the whole range of the first three blocks of CBBE model, which are best described: “First we take care of the product and the whole graphic image of it, where we try for everything to have a unified feeling, we also work hard on social channels, with the content and the influencers with which we connect.” (Interviewee 7)

But when it comes to the satisfaction with the current state of the brand, majority of startups said they are not happy with the current state, and lists lack of time and resources as the reasons why is this so: “We are a company in the very beginning, so 3 out of our 4 people are dealing with the product, and only one is dealing with marketing. There is not enough time and could be better” (Interviewee 7). When asked what they would change if having more time and resources, half of them pointed out more focus on content marketing (blogs, video tutorials, PR articles) and the intensity of marketing.

In majority of cases the owner will be the one defining the brand and communicating to the team. If there will be an additional person helping out, it is normally a graphical designer or a UX person, due to the fact everyone bases their brand on a graphical imagery. Half of the asked recognized the value of a brand and three of the startups did contribute sales success to their brand.
3.3.5 Creating and measuring brand equity in Slovenian startups

As shown, brand equity is a consumer differential response due to “the consumer's’ perception of the overall superiority of a product carrying the brand name when compared to other brands” (Walfried, et al., 1995, p. 13). This happens by tying unique association to the brand in a consumer mind, giving it superiority over other brands. A complete uniqueness in association can only happen if the brand faces no competition whatsoever (Keller, 2003a).

“Branding is the recognition and equation of the product/service with the properties that the owner wishes to be recognizable for the consumer, and on the other side for the consumer to recognize them. I wish to build those properties with all the activities that I carry out. My potential buyers recognize this” (Interviewee 13)

At the same time as we have showed with the business management marketing strategy of Blue Ocean branding can also be seen as innovation marketing set of activities that led towards creating brand equity.

“Branding is very much connected to the lifecycle of the product and the market. Startup is able to choose his own segment of the market in which it wants to be the best and its own problem it wants to resolve. Startup is able to resolve problems that a small group of people have and big companies do not see it yet.” (Interviewee 13)

This notion connects with the Blue Ocean Strategy take on how innovation in a mature industry is able to change the view on the supply and create a whole new segment of users. In case of startups this ends when “A company competes with the startup or an exit.” (Interviewee 13). An exit is a case where a startup is bought by a mature company.

In our case, half of the startups defined their product as a unique one and agreed that the customer awareness of their brand has an influence on their purchase. “Those who know us, prefer to buy from us than from the competition, as they also have with us some kind of a relationship” (Interviewee 6)

When it comes to measuring the consumer brand equity, there are 8 startups who, in their opinion, do measure it. Normally they do that by being aware of the feedback and where the startup is very much involved in online presence uses analytic tools. “We use CRM, track conversions, see how remarketing words and measure all the static points” (Interviewee 2). Four startups measure their brand equity in terms of consumer based brand equity, by following customer feedback, and only three actually measure also the financial brand equity, by looking at the sales volume. Two startups do not measure brand equity at all. This connects with the practice described by Mzik (2014), where companies normally measure financial brand equity in the product market outcome, or by financial market valuation.
When it comes to creating brand equity, meaning the consumer differential response of brand knowledge, this is done by following the CBBE pyramid and answering all 4 identification questions with branding activities. In the end, this should put in the consumer mind a unique association, strong enough to create a differentiation leading to customer loyalty (Keller, 2003a).

To be able to do that, a company must be aware of its identity, or in which category it falls, which is achieved through competitive brand positioning (Keller, 1993).

“I see branding in terms of positioning, not so much of yourself as a company into a niche, but more as branding being connected with the life cycle of a product and the market.” (Interviewee 15)

All ten startups have a positioning strategy and 9 startups know the brands that are similar to them. 5 out of them also know what these brands mean to their customers.

“We communicate our advantages constantly through content, we include our customers into focus groups and talk to them, and constantly inform ourselves.” (Interviewee 2)

The way this observed difference is being measured is normally through conversions happening online, or by using analytics tools on engagement of consumer on brand content: “We measure all the channels and we also talk with the final customer.” (Interviewee 2)

3.3.6 Importance of creating a customer experience of a brand in Slovenian startups

Brand resonance is the ultimate relationship and level of identification between a customer and a brand. The way it can be described is an intense psychological bond between the customer and the brand, and we can measure it in intensity and activity. There are four categories of brand resonance: behavioural loyalty, attitudinal attachment, sense of community, and active engagement (Keller, 2003a). It is the resonance formed into a relationship - the top of the CBBE pyramid - that should be the final goal of the branding process. When this goal is reached, the consumer is able to have the full experience of the brand and is able to fully answer to all of the identification questions (Keller, 2003a).

We equate this top of the CBBE pyramid with the relationship marketing notion of establishing a relationship between the company and the consumer, and with the theory of co-creation where creating experiences for the consumer should be of primary importance (Grönroos, 2006a; Prahlad & Ramswaswami, 2008). In case of Slovenian startups, all of them clearly stated that they are thinking of the customer experience of the product or service they offer. When asked more specifically on how this experience should be, seven startups were also able to elaborate more in depth on it and describe it in the following way:
“We wish that our users trust in the safety of their data, then we wish to position our self as someone with the knowhow in the area of parenting and homemaking” (Interviewee 7)

“The experience should be pleasant and allowing the customer to think little of what the product is actually resolving. The product should give them less headaches. “(Interviewee 10)

After that, we asked more into how they describe the experience with the brand, where one startup actually defined a product lead as the one being in charge of it, while one startup defined the whole process:

“From first designs, to testing, to following our users in how they use the product, applying analytics and all the tools possible to finding out more about the customer.” (Interviewee 2)

“We enable the client to see in 30s the final product, for which the client thought it will have to wait at least 1 week” (Interviewee 8)

“It is very important the online part of the purchase. The second experience is how the client receives the product and when, how the packaging looks, how the bars are placed in the box. We give with it also a letter in which we talk to them and try to incite them to post on “Instagram”. We then ask for their feedback on the product and the whole purchase path. “(Interviewee 6)

In eight cases, the startup owner or cofounder was the one in charge of designing the customer experience, and often the supporting person would be a UX designer or a person in charge of manufacturing.

When it comes to segmentation of customers, which enables a more targeted approach to customers, and offers new ways of innovating offerings, only 6 startups have a customer segmentation done.

“We divide them according to their loyalty. We also know who our target group is, how many people it counts and how to communicate to them and create content for them. “(Interviewee 1)

The majority of startups put customer experience as a part of their business strategy, showing that they are inclined to have the top of CBBE pyramid as their business goal. Of course, if once these startups will invest more resources in their branding.

“Yes. We create time for the nicer things in life, which is our vision. “(Interviewee 2)
“Yes, definitely. We give our attention to customer in such a way, that we respond to them as fast as we can and we try to hold a friendly attitude while doing it. We wish to have a friendship relationship with our customers.” (Interviewee 6)

3.3.7 Needs and wants from branding in Slovenian startups and Slovenian startup ecosystem

Further on, we wanted to learn about the challenges that startups see in the process of branding, and which limitations would they emphasize if they had to. 6 out of 10 startups said they do not experience any challenges or problems in their branding process, which somehow worries us since many of them could not describe their branding activities in the previous questions or they limited them with only graphic image or even advertising. 3 mentioned that they are currently in the development stage and do not have enough financial strength in order to have everything done the way they would ideally wish to.

“We would really need a new person for this job. Right now our main focus is growth.” (Interviewee 2)

“Our main problem is that we do not have enough money to invest more in branding. We would like to have a better packaging but at the moment this is not possible.” (Interviewee 6)

It seems like startups do not see branding as a potential factor to help them grow, which is interesting because most of them agreed earlier in the interview that their brand is recognized among the consumers and it does affect buying decisions. When further investigating this matter, we realized that many startups understand branding very closely related to advertising and thus consider lack of money an issue.

“I think our biggest limitation is that we can reach as many people as we would wish to, because we do not have enough resources…” (Interviewee 5)

“Mostly we work with outbound marketing… so we can cover more potential customers than what the demand on the market is right now, but they are not currently searching for our service.” (Interviewee 8)

One of the startups recognized the importance of content marketing:

“We would like to reach people through more channels with different content. I think we can do a lot of improvements with our content. This way we would like to enter new markets and new audience.” (Interviewee 3)

While startups did not have many ideas how they could improve their branding activities, stakeholders on the other hand had quite a few.
“There should be more focus on education. But it is not enough to only read startup news and articles online, you have to go out there to startups that are already scaling their business and see what they are doing. [...] I recently came across a great theory of Brand touch which talks about every touch point of a customer and a brand, and it says you need focus on the ones you want to have influence on, because you can’t have control everywhere.” (Interviewee 11)

“[...] Since most of the founders have a tech background, they lack knowledge on branding. Investors should encourage them more to explore this field. [...] Startups should aim towards an emotional customer experience. [...] In production you build cosmetics but on the shelf you sell hope.” (Interviewee 13)

“Definitely they [startups] need to devote more time to branding and they need to work more on finding their target audience or rather their niche. They need to wish to be the first and the best in their niche.” (Interviewee 15)

“A wholesome approach to brand building should be focused on just as much as development of a new product. Actually, startups should be thinking about branding already while building a product or service, already at the concept stage. And simultaneously test a MVP and a brand. This way they will know from the beginning what works with consumers.” (Interviewee 14)

3.3.8 Perception of Silicon Valley startup ecosystem

Finally, we were interested in finding out what is a perception of Silicon Valley startup ecosystem as a perfect example of a complete startup ecosystem.

“Comparing Silicon Valley to Slovenia is almost impossible, since Silicon Valley has such a long tradition of startups and everything related to startups is happening there, all investors, accelerators, big exits. They are almost a self-sufficient ecosystem. As soon as a startup makes an exit, founders go back to startups but this time as (angel) investors. This way the money goes back into the system again and everybody wins.” (Interviewee 11)

Many agree that “Silicon Valley has a much longer history of startup culture, much more money and nevertheless much bigger market.” (Interviewee 4). But some also highlight the down sides as “… higher operating costs and lower quality of life, especially for us Slovänians as we are used to having more free time on hand.” (Interviewee 9).

The startups on its own are not that different in both environments, but the ones in Silicon Valley do have a different “think big” mind set, they know they need to be open to new experience and not to be afraid to make mistakes. Mistakes are a part of a startup culture as long as you learn from them (Zhang, 2003).
“The fear and pressure of failing over there is not as big as here in Slovenia. It is ok to fail. They are also more open minded. I have been in this business for 15 years and I must say that I’m noticing a positive change with this mentality also in Slovenia.” (Interviewee 14)

There were also a few concerns mentioned:

“I feel like Silicon Valley is its own ecosystem and sometimes you can get caught in not seeing out of it and not being aware of the problems that are happening everywhere else.” (Interviewee 16)

“It [Silicon Valley] is a place with lots of early adopters but at the same time this makes it an extremely competitive environment. Also the life itself is much more expensive over there.” (Interviewee 3)

Both startups and stakeholders confirmed our belief that Silicon Valley has a much more developed startup ecosystem due to their history, network, capital. We found it interesting that none of the startups mentioned that, even though they all consider themselves to be a startup, they do not aspire towards a goal of moving their startup into Silicon Valley in order to be closer to the ecosystem and potentially become a part of it. Could this be due to lack of courage or ambition that mostly stakeholders were stating as a difference between both markets?

An overall look into this research shows that Slovenian ecosystem is slowly stepping into the world of startups by their definition, but mostly they are still keeping their mentality quite humble. Same goes with their branding activities. We would say that much of this is caused by the lack of role models or successful examples where new startups could learn from and evolve the “think big” mentality as well. We also feel like startups themselves often do not see the field of possibilities for them in a sense of climbing on the CBBE pyramid and that there is much space left for the startups to further learn about, explore and improve their branding activities. We provide more research findings and recommendations for the Slovenian startup ecosystem in the following chapter.

CONCLUSION AND RECOMMENDATIONS

The study in this paper illustrates that branding is an important category in the minds of Slovenian startups, as well as stakeholders. In case of stakeholders this is even more explicitly stated than in the case of startups. This means that our focus of recommendation would be aimed at the startup, as we do not notice a very fundamental lack of branding expertise or openness to branding from the stakeholder side.

Although it is a common practice for startups to be aware of their marketing activities, we noticed that branding is often overlooked or misunderstood with either advertising or
limited to only a visual image of a brand. In one hand, startups agree that their brand plays an important role in the minds of consumers, especially when comparing between their brand and competitors, but regardless of this, they do not have people in their team responsible for their branding. Most often in smaller teams the ones that make these decisions are the owners - founders. We would take this fact as our target person in the company to approach to with branding knowledge.

To some extent startups are already implementing their branding activities in their work, but it seems like most of them do not have a clear understanding of what they would like to achieve with their brand. This means that we would suggest as the beginning point of brand knowledge the CBBE pyramid and the 4 step identification process (see Figure 1) to become a part of the marketing plan for startup owner. Not only should the owner think of marketing in terms of sales but also as a branding strategy on creating the identification process between the brand and the customer.

Further on, based on our exploratory research, we believe that majority of startups are struggling most with the fourth level of the CBBE pyramid: the resonance, which is accompanied by the question about relationship between consumer and a brand - What about you and me? Startups are aware of how to establish the basic understanding of what the brand identity is, what the brand meaning is and what the brand response is (here the focus on performance quality is a defining characteristic of Slovenian startup environment mentioned by many stakeholders in our interviews). But from the answers we are able to see that the final peak of the CBBE pyramid is not achieved, which is about the goal of loyalty of customers, their engagement, attachment and community. We do see that the community aspect is present in majority of the answers and because of this, we believe that giving a more in-depth insight on how to build the final block of the CBBE pyramid would be beneficial to the startup owners.

We believe the resonance is the topic on which more understanding should be brought upon. While our research was limited to 10 startups and 6 stakeholders from the Slovenian ecosystem, and thus cannot be directly implemented to the entire population, we do think that a more comprehensive study on a bigger sample should be made. However, based on our findings, the least unstructured approach in branding is evident in designing a customer experience, either with products, services or software. Too many startups are focused on the sell part only, and not enough on the retain part. Although here a big difference lies between the startups who have an online application as their product and those who have a service or a physical product.

These findings provided us several important insights from which we conduct the following recommendations for the Slovenian startup ecosystem:

- First, we believe that a more extensive study on the basis of this exploratory research would give valuable information for a general understanding of the Slovenian startup.
ecosystem and its level of understanding of the CBBE pyramid, which would be able to be used by general marketing practitioners in the academic or business sphere. We believe that such a quantitative approach would be a good way to show the importance of this knowledge to startup owners.

- Second, educational institutions in Slovenian startup ecosystem, such as incubators, accelerators and co-working spaces, should focus not only on distributing general knowledge to startups in very early stages, but also in spreading more specific skills on branding to deepen startups understanding of importance of branding and how to achieve best results with it. We are thinking of actual events that would give lectures and then later on, also encourage startups to talk to each other and try to “sell their idea”, because only when you are in the position of needing to explain your brand, you are able to see how much your understanding of it is not clear. And if it is not clear to the founder or employees, how can it then be clear to consumers?

- Moreover, startups should be made aware that in case of branding, a coach approach should be used. Incorporating mentors with a branding background would be beneficial. Some skills are possible to learn in lectures but some problems need a personalized approach in solving them, as branding is about developing the identity of the brand.

- Additional skills that should be taught by experts on the actual cases are how to identify your brand in the first place. And once that is clear, how to communicate it with internal and external stakeholders and how to measure the effects of your communication.

- Furthermore, the government should be more aware of the importance of foreign investors, startups and intellectual knowledge. Establishing an environment that would be interesting to more stakeholders would bring variety and experience to the local community.

Our overall recommendation is that every startup should have a branding part in their marketing strategy, which would ask the 4 identification questions from CBBE pyramid. With that, the owner would be able to categorize the future brand development and define for himself/herself which part of the pyramid is of an interest to the company. By establishing a desired goal, a measurement system would be able to be set up, allowing the owner to have a way of looking into the development of the brand. Ideally this would fall under a marketing specialist in the company, but as we have seen that the owner is the marketing specialist in the majority of cases, we believe that the owner should be “injected with this knowledge”. In a very simple format, here coming from a proposed idea by one of the stakeholders in our interview process this could be done by expanding on the business logic of lean canvas methodology. A very simple first step would be to include the graphic of the CBBE pyramid (see Figure 1) on top of the currently much used lean canvas (see Figure 3) business explanation. Such a visual representation shows branding not as a specific task but as a long term company strategy in creating its brand equity. This would also demand from the owner to have in mind answering the identification questions on a regular basis.
To start the discussion and the practice of using such phrasing of company brand, we suggest that effort should be given from the marketing society stakeholders, from student and professional backgrounds in cooperation with already established Slovenian startup ecosystem stakeholders. This effort should materialize itself in shape of education meet ups, externship in companies by current marketing students or marketing association members and demand of a more detailed marketing plan from a startup including branding.

For any of the guidelines to be actually enforced, we suggest that the nature of this exploratory research, which points to the possible fact that the need for branding in Slovenian startups does exist, be proved by a more elaborate research undertaken by the Marketing Association of Slovenia, in cooperation with Slovenian Incubators. This would lead to more definite answers that could be of use for generating strategic and systematic steps on how to incorporate such knowledge in the Slovenian Startup ecosystem.
SUMMARY

This study examines the need for branding in Slovenian startup ecosystem based on an observation that consumers are placed in a saturated environment of choice, which is making them more and more perplexed due to the fact that the products nowadays are delivering the same functional quality. What brands can do is to build up on their augmented value through the user experience creation.

In order to understand this process, we started our research by examining the evolution of the business use of marketing practices, to see how it evolved from a product management oriented marketing practice towards a customer relationship defined management marketing practice. We note the change in how users perceive value and show that the 21st century market changes in customer demand push for innovation on the consumer experience side. We name branding as the area in which a company should apply the focus to build business innovation, with marketing specialists being the ones who are able to facilitate it. Throughout this paper, we then based our explanation of branding on the Customer based brand equity (CBBE) model. Additionally, brand equity was defined by its components and by the value it holds for the company. After being able to understand this value, we were able to explain how the equity is managed by a company through the strategic brand management process, and elaborate on the goals, components and managers that should be a part of this process. Our goal was to provide a clear understanding of what it means to successfully manage brand equity and how to practically go about it.

In order to present the economic unit, we focused on in our research, we defined and clarified the nature of small and medium enterprises (SME) and explained their branding practices. We presented branding as a business opportunity of strategic differentiation through the concept of innovative marketing and showed the business application of it through the management theory of Blue Ocean Strategy. This also showed how it leads to creation of brand equity for a company. In the next step, we focused on startups as an interesting business area where unique value is especially important. We provided an explanation of differences between startups and SMEs based on their characteristics and presented a strengths and weaknesses analysis of a typical startup. We also approached branding from the perspective of a startup and looked into two additional concepts of user driven innovation strategies, Lean startup and Design thinking, as the most effective models to use in building a startup as well as with branding strategies. To provide an even deeper understanding of a startup unit we separately presented the founder, the team and the unique startup’s culture. We provided a brief overlook of the financing options of venture capital usually offered to startups, are as they have strong impact on how startups work. Additionally, we wanted to provide a brief overview of the Slovenian startup ecosystem and the Silicon Valley one.
The study was done in order to find the answer to our research question:

Are startups in Slovenia using branding as a marketing tool to communicate the unique experience of the product or only to communicate the product attributes, and are they therefore missing the branding potential?

It was of our interest to build an understanding of the current situation of branding in the Slovenian startup ecosystem through the interviews conducted with ten Slovenian startups which mostly perform on international markets or have the wish to expand to an international market, and would thus be expected to act, perform, and understand branding in a similar manner as other international startups. As marketing practitioners, we believe that for this type of businesses, a good understanding of the branding process can enable a better claim of market share and create differentiation against competition.

Our main objectives were to identify (1) how the Slovenian startups are perceiving branding and how it is included in their everyday marketing or business activities; (2) to more specifically identify where the Slovenian startups’ use of branding falls on the CBBE model, to know which elements of it the startups are not using; (3) to identify the stakeholders in the Slovenian startup ecosystem and thus understand with whom do startups come in touch when searching for support to develop or carry out their business model; (4) explore the understanding and perception of branding in the Slovenian startup ecosystems by the stakeholders, who help startups in their growth, to determine the state of knowledge of branding in the ecosystem; (5) explore options on how should the knowledge of branding be incorporated in the startup itself and in the Slovenian startup ecosystem; (6) be able to identify, from the theoretical branding knowledge, practical recommendations on the use of branding for Slovenian startups that are lacking practice in the current startup ecosystem and propose ways in which to incorporate this part of knowledge in the ecosystem.

These findings of our research provided us with several important insights from which we conduct the following recommendations for the Slovenian startup ecosystem:

- We identify that there is a need for deeper understanding of branding that can be incorporated as a marketing skill in the skill set of the startup owner.
- This skill would enable the startup owner to incorporate a branding strategy in their startup marketing strategy. It has been identified by our interviewees that a marketing strategy is a marketing term startups and stakeholders are familiar with in the Slovenian startup ecosystem.
- When it comes to the specific knowledge that would be allowing to create the branding strategy, we suggest a clear understanding of the identification process according to the CBBE model to be the starting point of creating branding knowledge in the startup. The goal of reaching the top of the CBBE pyramid (see Figure 1) should be the long term branding goal incorporated into the marketing strategy.
• Educational institutions in Slovenian startup ecosystem, such as incubators, accelerators and co-working spaces, should focus not only on distributing general knowledge to startups in very early stages, but also in spreading more specific skills on branding to deepen startups understanding of importance of branding and how to achieve best results with it. We are thinking of actual events given by lectures and then later on also encourage startups to talk among each in form of speed dating to try to “sell their idea” to simulate the more intense networking state of other startup ecosystems.

• Startups should be made aware that in case of branding, a coach approach could be beneficial by means of incorporating mentors with a branding background, because we believe that a personalized approach is needed for the unique character of every startup, as branding is about developing the identity of the brand.

• Additional skills that should be taught by experts on the actual cases are how to identify your brand in the first place. And once that is clear, how to communicate it with internal and external stakeholders.

• Furthermore, the government should be made aware of the importance of foreign investors, startups and intellectual knowledge. Establishing an environment that would be interesting to more stakeholders would bring variety and experience to the local community.

Most importantly, we found an answer to our research question, which is that startups in Slovenia are aware of the importance of branding activities, but often miss the opportunity to communicate the unique experience with their brand. In most cases, the reason they themselves indicate is a lack of either finance, time or human resource. But through the interviews conducted in our study, unfortunately a lot of startups are not familiar enough with the branding practices and possibilities. In most cases, startups are still missing the branding potential that their brands could achieve in order to get to that ultimate goal all startups have, the exponential growth.

At the end, it is important to note that this research has limitations, since we used a non-probability sampling technique of snowball, bringing us to conduct this study on 10 startups and 6 stakeholders from the Slovenian ecosystem. That is why the study findings cannot be directly implemented to the entire population or hold for the whole community of startups in Slovenian ecosystem, but we do believe that our findings on the basis of this exploratory research give ground to for a future, more extensive study on a probability sample. Such a study conducted by stakeholders from the marketing and startup ecosystem would give valuable information for a general understanding of the Slovenian startup ecosystem and its level of understanding of the CBBE pyramid. This would be able to be used by general marketing practitioners in academic or business sphere and accurately address the current state of branding practice in Slovenian startups. We also believe that such a quantitative approach would be a good way to show the importance of the need for branding in Slovenian startups to startup owners and other stakeholders in the Slovenian startup ecosystem.


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APPENDIX A: questionnaire for startups (in Slovene)

1. Je vaše podjetje startup?
2. Kako bi vi definirali, kaj je startup?
3. Kaj so prednosti tega, da je vaše podjetje startup podjetje?
4. Kaj so slabosti?
5. Kakšno je vaše mnenje o slovenskem startup okolju? Ali je Slovenija vzpodobno okolje za nastajanje startup podjetij?
6. Kako se po vašem mnenju slovensko startup okolje razlikuje od Silicon Valley okolja?
7. Po pomembnosti - katero področje po vaše mnenju naredi največ dodane vrednosti v vašem podjetju:
   a. Razvoj novih izdelkov/storitev
   b. Prodaja obstoječih izdelkov
   c. Trženje in oglaševanje
   d. Logistika
   e. Proizvodnja
   f. Drugo:
8. Po vloženi energiji - za katero področje se porabi največ časa, energije, sestankov, usklajevanj, brainstormingov,... :
   a. Razvoj novih izdelkov/storitev
   b. Prodaja obstoječih izdelkov
   c. Trženje in oglaševanje
   d. Logistika
   e. Proizvodnja
   f. Drugo:
9. Po finančni investiciji - za katero področje se porabi največ denarja:
   a. Razvoj novih izdelkov/storitev
   b. Prodaja obstoječih izdelkov
   c. Trženje in oglaševanje
   d. Logistika
   e. Proizvodnja
   f. Drugo:
10. Ali imate ekipo, ki skrbi samo za trženje? Koliko ljudi?
11. Ali imate oblikovano tržensko strategijo za obdobje naslednjega leta?
12. Kako se lotevate trženja?
13. Kateri cilj vodi vaš trženski načrt?
14. Kaj je za vas znamčenje?
15. Ali bi rekli, da v vašem podjetju skrbite za podobo vaše blagovne znamke? In kako?
16. Kdo o tem odloča?
17. Kakšna je prednost za vaše podjetje, da imate blagovno znamko?
18. Ali potrošnikovo poznavanje vaše blagovne znamke vpliva na to kako se potrošnik odzove na vaše trženske dejavnosti - vaše trženje?
19. Ste zadovoljni z vašimi aktivnostmi na področju znamčenja? Če bi imeli več časa/ ljudi/ denarja bi kaj na področju znamčenja počeli drugače? Kaj?
20. Ali je vaš produkt unikaten?
21. Ima poznavanje blagovne znamke vašega produkta vpliv na potrošnikov nakup?
22. Kako merite učinek poznavanja stranka o vaši blagovni znamki? Ali ga merite finančno ali glede na odzive stranka?
23. Ali poznate druge blagovne znamke, ki so podobne vaši? Ali veste kaj pomenijo vašemu potrošniku?
24. Ali kupci razlikujejo med vašim izdelkom in izdelkom konkurence?
25. Ima vaše podjetje narejeno strategijo pozicioniranja vašega izdelka na trgu?
26. Kako sporočate kupcem, kaj je razlika med vašim izdelkom in izdelki konkurence?
27. Kako merite kateri načini takšnega sporočanja delujejo - to pomeni, da vodijo do cilja, da se kupci zavedajo razlike?
28. Se vaše izdelke kupuje v trgovini ali na spletu? Kako skrbite za razlikovanje vašega izdelka od konkurence v enem in v drugem primeru?
29. Ali razmišljate o izkušnji, ki jo imajo stranke ob prvem stiku z vašim izdelkom?
30. Kakšna naj bi bila izkušnja z vašim izdelkom?
31. Kako oblikujete izkušnjo strank z vašim izdelkom?
32. Kdo je na čelu oblikovanja izkušnje stranke v vašem podjetju?
33. Se poslužujete segmentacijske stranke - torej ali imate stranke razporejene glede na stopnjo zvestobe?
34. Je delo s strankami v viziji poslovne strategije vašega podjetja?
35. Ali vam kakšno področje znamčenja predstavlja poseben problem?
36. Nosi blagovna znamka za vas samostojno vrednost - jo vidite kot samostojen izdelek?
37. Kako bi najlažje vpeljali celostni postopek znamčenja v vaše trženje?
38. Kje vidite omejitve pri vašem obstoječem trženjskem pristopu?

APPENDIX B: Questionnaire for startups (in English)

1. Is your company a start up?
2. How would you define a startup?
3. What are the advantages of being a startup?
4. What are the disadvantages?
5. What is your opinion on Slovenian startup ecosystem? Is Slovenia a good environment for startups?
6. In your opinion how is Slovenian startup ecosystem different from the one in Silicon Valley?
7. By importance - which field brings the biggest added value to your startup:
   a. Product development
   b. Sales
   c. Marketing and advertising
   d. Logistics
8. By energy invested in - which field takes most of your time, energy, meetings, brainstorming:
   a. Product development
   b. Sales
   c. Marketing and advertising
   d. Logistics
   e. Production
   f. Other:
9. By financial investment - which field you spend most money on:
   a. Product development
   b. Sales
   c. Marketing and advertising
   d. Logistics
   e. Production
   f. Other:
10. Do you have a team that only takes care of the marketing? How many people?
11. Do you have a marketing plan for the next year?
12. How do you do marketing in your startup?
13. What is your goal in marketing?
14. What is branding to you?
15. Would you say your startup is aware of its brand image and makes sure it looks its best? How do you do that?
16. Who makes decisions on branding?
17. What is an advantage of having a brand?
18. Does consumer’s awareness of your brand effect how he/she reacts to your marketing activities?
19. Are you satisfied with your startup’s marketing and branding activities? If you had more time/ people/ money what would you do differently with branding?
20. Is your product unique?
21. Does being familiar with your product affects the purchasing decision of a consumer?
22. Do you measure your brand awareness? Do you measure it financially or based on customer reactions?
23. Do you know any other brands similar to yours? Do you know how your consumer perceives them?
24. Do consumers differentiate between your brand and a competitor's one?
25. Does your startup have a strategy of brand positioning on the market?
26. How do you educate consumers about the difference between your and competitors product?
27. How do you measure which ways of communication work - so they bring the customer to the goal of being aware of your unique selling proposition?
28. Are your products sold in stores or online? How do you differ your products from the competitor’s in this case?
29. Do you consider customer’s user experience with your product when seeing it for the first time?
30. How should this experience be? How should it make your customer feel like?
31. How do you design user experience?
32. Who is responsible for designing user experience in your startup?
33. Do you do customer loyalty segmentation for your buyers?
34. Is working with people/ customers in your startup’s vision?
35. Is there anything in the field of branding that is of biggest challenge for you?
36. Does your brand have a value on its own? How do you perceive your brand’s equity?
37. What would be the best way to implement a coherent branding in your marketing strategy?
38. Where do you see setbacks in your current marketing approach?

APPENDIX C: Questionnaire for stakeholders (in Slovene)

1. Kaj je vaša definicija startup-a?
2. Kaj naj bi bile po vašem mnenju prednosti startup-a?
3. Kakšno je vaše mnenje o slovenskem startup okolju?
4. Kakšno je vaše mnenje o slovenskem startup okolju?
5. Ali je Slovenija vzpodbudno okolje za nastajanje startup podjetij?
6. Kako se po vašem mnenju slovensko startup okolje razlikuje od Silicon Valley okolja?
7. Kakšen je vaš pogled na znanje znamčenja (brendinga) v slovenskih startup podjetjih? Ali se le to izvaja kvalitetno?
8. Ali je vaše mnenje, da slovenski startup-i posvečajo dovolj pozornosti in energije aktivnostim znamčenja?
9. Ali ste kdaj uspeli videti enoletni trženjski načrt pri startup podjetjih (razen pri tistih, ki ravno predstavljajo poslovni načrt potencialnim investitorjem)?
10. Kaj je za vas znamčenje?
11. Kaj bi lahko storila slovenska startup podjetja, da bi lahko bila še boljša v znamčenju?
12. V čem se razlikuje delo s slovenskimi startupi in startupi iz Silicijeve doline?
13. Imate kakšen nasvet iz področja znamčenja za slovensko startup podjetje, ki je locirano v Sloveniji?
APPENDIX D: Questionnaire for stakeholders (in English)

1. What is your definition of a startup?
2. In your opinion what are the advantages of a startup as an economic unit?
3. What are the disadvantages?
4. What is your opinion on Slovenian startup ecosystem?
5. Would you say Slovenia is a supportive environment for startups?
6. In your opinion what is a difference between Slovenian startup ecosystem and the Silicon Valley one?
7. What is your perception of branding knowledge in Slovenian startups? Is it done on a high level?
8. Would you say Slovenian startups spend enough energy and time on building their brand image?
9. Have you ever seen a marketing or branding plan of a Slovenian startup?
10. What is branding to you?
11. What could Slovenian startups do in order to improve their performance and branding skills?
12. What is a difference between working with Slovenian startups and the ones from Silicon Valley?
13. Do you have any recommendations in the field of branding for Slovenian startup located in Slovenia?