Carl Eric Linn

VALUE MARKETING

A SUGGESTION FOR A REVIEWED THEORY ON MARKETING

Our outer reality can be described by natural sciences only. Economy, marketing, brands, price, and value, all are about our inner reality.
# THE VALUE THEORY OF MARKETING

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ABSTRACT

The basis of a theory

Since its introduction as a discipline marketing has generally been seen as an extension of sales, including a number of related functions and skills. This conception is revised in Value Marketing, applying a more scientific and logical approach to the subject. Not least by being founded on more recent behavioural and economic theories.

Marketing is a discipline applying to the commercial exchange of branded objects. This means that they are valued accordingly; an intangible meta value, only partly inherent in the brand itself, may constitute a substantial amount of their commercial value.

This means further that the branded objects (products) will be subjectively valued by every potential buyer. According to recent behavioural theory, the crucial concept of value is decided by factors according to evolutionary psychology.

The transaction of selling/buying occurs at the moment when the buyer is convinced that the value equals (or surpasses) the price asked. There and then.

As the price is decided and asked by the seller and the value decided by the buyer there obviously is an opportunity to represent the transaction by, in principle, an equation; the value of the buyer-appreciated benefits balanced against the features motivating the price.

This equation – the transaction equation – is thus crucial in the discipline of marketing and, consequently, the basis for marketing theory.

The following issues emphasise the differences between the traditional, rather haphazard, view of marketing and Value Marketing based on the fundamental elements that are there to be observed:

• Communication is a core activity of marketing, making branding an unyielding condition for the theory of the discipline.

• Transactions are realized when the individual buyer appreciates that the value of the object is equal to (or surpassing) the price asked.

• The valuation reflects the potential buyer’s specific needs, knowledge, preferences, tastes, psychological status, etc., and varies considerably between individuals and situations.

• Positive price elasticity is feasible for marketed objects, as price in itself may promote value (“the value of price”). This is virtually impossible for non-branded items.

• Selling is logically separated from marketing because of their basically different abilities to induce value and should consequently be seen as a complementary discipline only.
1. THE OUTLINES OF THE THEORY

1.1. Value induction – current definition
Marketing has become a wide concept, including many aspects. When does the history of marketing begin – when the term was actually invented in the mid 1900s or with the first brands?

What is the hard core of marketing, why has there been no attempt to form a real theory behind it? What is the scope for the development of a theory? The current definition is obviously what has to be challenged:

*Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*

The transaction is obviously the hub of all business. The two parties are a) the seller being the last link of the supplying chain, thus the *supplier*, and b) the *buyer* (who is not a customer as this means a returning buyer), private or professional.

The transaction is an exchange of offerings. One party offers a product (commodity and/or service), the other generally offers money in return. The supplier asks a *price* for the product, which is evaluated by a prospect who buys if he/she finds a corresponding *value* in it – there and then. Consequently, win-win is the normal condition for a regular transaction.

The main issue is the relation between price and value. In marketing mass-produced products the supplier sets the price according to the features offered, the cost of production, and the want for profits. But set at a level acceptable to a sufficient number of buyers.

To ensure sufficient demand, the supplier has to induce the sense of value to the target group. This task of *value induction* is to a large extent assigned to marketing communication, e.g. advertising.

Communication is a key issue in marketing. For four reasons:

- Communication needs an identifying name for the object communicated. Thus marketing can only deal with trademarked products.
- Communication induces value/opinion into a chosen population.
- Communication transfers trademarks into valuable *brands*.
- Value induced by communication may typically generate positive price elasticity (price increase with increased sales).

1.2 The intangible value of marketing – metaproduct and brand
The general object of marketing is to generate value by influencing development, communicating features, and availability.

The crucial difference between non-branded commodities and branded products (goods and/or services) is the opportunity to add intangible value, metaproducts, appreciated by buyers.
Consequently, (intangible) *metaproducts*, can be added to basic/tangible products, *realproducts* (re. positivism). The value of these metaproducts is confirmed by enhanced prices and profits. It is vital to realize that profits from marketing inspired activities (i.e. advertising, styling) may be comparable to those from technical product development.

The value of a metaproduct is all in the observer’s mind, and is based on associations to the past and expectations for the future.

The realproduct is the product with no differentiating identity. Its value is all utility. With styling identity and value are added. With the addition of a well-known brand, further *metavalue* is added. In most cases the value of the brand is just a part of the total metavalue. In special cases it is all.

A theory of marketing has to take off from the transaction and focus on the conditions for its realization – an up-to-date view on the opposed as well as mutual driving forces of the parties of the transaction, and, accordingly, the relation between price and value – *not* primarily supply and demand.

It should be observed that the metavalue often may increase with the price, many times most discreetly however, thus making positive price elasticity a frequent phenomenon by “the value of price”.

As a summary, marketing is defined by four aspects:

1. Applies to branded products only
2. May generate positive price elasticity
3. Price vs. value (not price vs. demand!) decides the transaction frequency
4. Transactions occur when the total perceived value of an offer is considered corresponding to the price asked

It has to be observed, though, that marketing originates from sales, which up till now has been included without questioning. But the basic idea of marketing is to utilize its scope for generating positive price elasticity, and sales normally induces negative price elasticity only. This insight rejects selling as a component of marketing, which has an important meaning in the practice of business organization.
2. Terminology and important definitions

**Value.** A distinction has to be observed between *utility value* and *exchange value*. Contrary to utility value, exchange value can be measured statistically. Consequently, the definition of the latter one is relevant to this context: “The amount of another commodity for which a given thing can be exchanged. [...] A fair return in goods, services or money for something exchanged. [...]” The exchange value is relative, expressing the value of one item in that of the other, hypothetically, until realized in a transaction.

**Transaction.** The objective of commercial activities is to exchange products for money in transactions. Parties are a seller (supplier) and a buyer, being single persons or organizations. The transaction is realized when the buyer accepts that the value matches the price.

**Product.** In current literature *products* means *goods and/or services* as they frequently appear in synergic combinations. A “product” is in reality the essence of an individual’s subjective perception.

**Supplier.** The product marketed is the result of the combined efforts of all components of the supplying chain, ending with the seller.

**Buyer.** The individual responsible for the acquisition, in order to own, to use or otherwise to be connected with it. (note that “customer” means repeat buyer.)

**Price.** The amount of money asked by the seller to realize the transaction.

**Communication.** All categories inducing buyer perceived value have to be considered.

**Product.**

**Metaproduction/realproduction.** Our perception of a product is the sum of the tangible realproduct and the intangible metaproduction. The realproduct is the momentary impression by our senses, whereas the metaproduction is the added subjective product of our experiences and associations.

**Differentiated vs. generic.** A *differentiated* product is unique, whereas a generic product is *fully interchangeable* with others from different suppliers on tangible merits only.

**Buyer behaviour.** To assess and develop metavalue a deep insight into behavioural science is of the utmost importance. Today, uniting biologic and traditional psychological aspects in *evolutionary psychology*, (Miller 2009) offers more relevant analyses than hitherto.

**Product description.** Basically, we have to consider the two balancing views:

*The Supplier’s Product.** All features and properties conceived, developed, produced, displayed, and communicated by the mutual influence of the supplying chain forming the basis for asking a price.

*The Buyers’ Product.** Benefits and properties perceived by and affecting prospects, buyers and users of this offer in total – the individual’s valuation including the social identity gained by public judgment.
3. THE FOUNDATIONS OF THE THEORY

Marketing means facilitating the development of product offers, and their potential for their sales regardless of distance. Value-creating communication is instrumental. As this demands trademarks identifying its objects, marketing refers to branded products (goods and/or services) only.

The discussion on the theory follows a logical reasoning, which decides the order of the topics.

3.1. Price and value balancing – an equation

The transaction is the undisputed hub of business. It takes place when the buyer perceives that the price is “right” thus the value of the object is established. There and then.

The principle of a deliberate transaction is win-win; both parties gain from the wanted exchange of objects – product and money.

The buyer’s money is exchanged for the features offered. The transaction should be seen as executed at the moment and place when the buyer finds the value equal to (or exceeding) the price asked. The formula is, plainly:

\[ P \leq V \]

(P is the price asked; V is the buyer appreciated value, there and then)

This evokes the picture of an equation: the supplier’s priced features weighed against the buyer’s valuing of their benefits.

The figure pictures the basic “transaction equation” i.e. applied to a generic (non-branded) commodity. The seller bases its price is on the function (e.g. nutrition, wood chopping), including the deliverance of it there, distribution.

The buyer values the utility he gets, then and there, its availability.

Including a marketing devised metaproduct complicates it considerably.

3.2. Value induction in branded products

The competitive means, how do they actually affect the buyers’ valuing? What perception of value do they induce? Evidently the efforts of all of the supplying
chain (product development, manufacturing, marketing, distribution, etc.) contribute to it by value induction.

A clear picture of the prerequisites for the transaction, i.e. actions taken on the supplier side and attentiveness and motivation on the buyer side, is compulsory to an analysis of the potential for successful transactions.

3.3. The supplier side: the new marketing mix

The traditional 4P marketing mix regards Price as a separate feature, whereas it has the capacity to change the perception of all the others when it is changed. Consequently, Price has to be in a position of its own, able to change the value of any of the other features.

The supplying, value inducing, chain includes every actor involved in developing a buyer-appreciated value up to the point of sales. There selling takes over, in principle the same procedure, regardless of branded or non-branded products.

An enhanced structure is needed to display the combined efforts of the supplying chain of the marketed (branded) product. The intention is to offer it at a price earning profits and at the same time giving buyers enough value to ensure the calculated number of transactions.

The meaning and content of the following issues should be analysed from their potential for inducing buyer perceived value. Part of the structure is according to American philosopher Daniel Dennet, who suggests that we perceive animals, artefacts and people by the physical, the design, or the intentional stance.

- **Function.** What is the basic, practical reason for the use of the product?
- **Design/style.** Do the shape and looks of the product, characteristic, etc. make it attractive to buyers – in what way?
- **Distribution.** Where/when is the product available, frequently, rarely, plainly or with quality service?
- **Communication Concept.** How can value be induced to the intended target group? All types of communication considered.
- **Brand.** Does the product connect to an accepted brand on the market, adding value to products – or has a new one to be established?
- **Price.** What price would a sufficient number of buyers accept? What does the relative price communicate on the scale cheap – luxury?

3.4. The buying side: deciding the value

No human being is capable of appreciating the real product. Marketing offers the opportunity for the supplier to evoke a metaproduct according to the decided strategy.

The intangible features forming the metaproduct are subconsciously added to the real product by the buyer, building the corresponding metavalue. It should be observed that the brand is only a part of the metaproduct, as the metavalue may also be induced by momentary perception of beauty, aroma, taste, etc., independent of the brand connected.
In the case of branded products, the buyer values the offer subjectively according not only to rational needs, but also to a large extent to social aspirations. This means that the metaproduct can often add a considerable value by far exceeding the utility value.

- **Utility.** The utility value of the product.
- **Availability.** The sacrifice in time/money to purchase the product. The social value of something rare or difficult to attain.
- **Pleasure.** The most personal, sensory experience of something tasty, beautiful, or delightful to handle.
- **Supplier Relation.** The sense of security with a reliable supplier, or pleasure of receiving generous and friendly service or guarantee.
- **Social Identity.** The appreciated pride and social effect of acquiring and/or using a certain product.
- **Value.** The resulting assessment of the amount of money wanted to acquire the product.

### 3.5. The Transaction Equation – tool for value induction

The Transaction Equation balances all value inducing features and activities by the supplier against all benefits valued by the buyer. This makes the model an efficient tool for business management.

The model exhibits a simple and logical structure for a value based development and marketing of branded products effectively expelling the traditional 4P marketing mix from business education. It states clearly that every deliberate transaction means a “win-win” situation – profit for the supplier corresponding to value for the buyer.

The strong position of the brand in the Supplier’s Product refers to the value it already has to the buyers as established in the market.

The metaphor of an equation demonstrates the way of utilising the model. Every feature added should result in an increased value to the buyer to justify its cost to the supplying chain.

This principle has to be a keystone of a marketing theory.
3.6. Relevant human cognition and behaviour

Commercial transactions are effected on the buyer’s conviction that the value of the object corresponds to the price asked. The assessment of buyer valuations demands a thorough understanding of human cognition and behaviour.

The value appreciated by a buyer not only depends on his rational, “tangible” needs and wants, but to a large extent on his psychological and social needs. This has been known and observed in marketing for years, but some of the most frequently used models and theories (e.g. Maslow) have failed to explain how, in its full scope.

My attempt to a relevant model for human behaviour is inspired by sociobiology (E. O. Wilson 1975) or evolutionary biology. It is a field of scientific study that is based on the hypothesis that social behaviour has resulted from evolution and attempts to explain and examine social behaviour within that context.

Reproduction is a prime condition for life. Consequently, mating has to be of utmost interest for all living species and most likely a dominant source of motivation in our everyday life.

A basis for a relevant behavioural model is offered by this attempt to unite biologic instincts and psychology. But it is the shape only of the Paradigm of Survival (Linn 1990) that is inspired by Maslow. The hierarchy of the instincts is not of the kind Maslow had in mind, but merely a means of putting them in an order pointing towards the end objective.

This model now offers business a versatile and relevant tool for the development of commercial offers, and it should particularly be observed that Social Identity explains much of the metavalue buyers/users put in branded products.

3.7 The moment of truth

The moment of truth in marketing is, in fact, the instant when the prospective buyer realizes that the value of the offering corresponds to the price asked. This constitutes – on complex grounds (Kahneman 2011) – the immediate reason for the decision to buy. There and then.
4. PROPOSAL FOR A NEW DEFINITION

The conclusion of the above discussion is that the establishment of value in products available to buyers is the central objective of marketing. Thus this new definition is proposed:

Marketing is functions, activities, and processes to establish buyer-appreciated value in branded goods and/or services made available in a market.

5. PRICE/DEMAND RELATION FOR BRANDED PRODUCTS

5.1. Full value in limited audience only

The full value of a branded product is referred to a limited population characterized by its awareness of the product or brand, enabling it to value the metaproduct, the valuing audience. Hypothetically this audience would have the shape of a normal distribution.

Consequently, no price/demand curve could be considered. Particularly, as the distribution would change both in appearance and position as the result of any change in the configuration of the priced offer or the market conditions.

It should be observed that price in itself is a trigger of value. The pride of expensive possessions explains the meaning of “the value of price”.

The metaproduct is to a large extent a social convention, being the result of marketing communication and intra-communication within the audience.

One-to-one communication supplier to buyer, however, does not create any intra-communication build-up of metavalue, which effectively separates the sales discipline from marketing.

Consequently, the full value of an effectively branded product only exists within a population characterised by its collective capacity to adopt the metaproduct/brand. Hypothetically, this audience may be described as a normal distribution of prospects in proportion to their knowledge and valuing of the total product. The Valuing Audience is especially useful in the analysis of the price vs. value dynamics.
The abscissa in the diagram represents money, being the common measure for value as well as price. The audience in itself is displayed as a distribution, whereas the singular seller sets the price. The distribution of buyers is thus cut into buyers and non-buyers according to their valuation relative the price line. The part of the population to the right of this, are real buyers, while the rest contains merely potential buyers, or prospects.

Buying is effected when the product is valued to its full price, there and then. The buyer’s immediate need/want for the object has affected his valuation to equal the price.

The audience consists of individuals constantly changing their evaluation depending on their situation, planning or not to buy or actually buying. They thus move within the boundaries like the molecules of a gas according to their immediate needs and wants.

The Valuing Audience is a useful model demonstrating variations in demand as the consequence of changes of awareness and valuation of the audience owing to changes of price, communication, and competition.

5.2. The value of price – crucial brand strategy

*Price positioning* is one of the most important items of a brand strategy. It is a well-known fact that price itself affects the value of a product, differentiating it more evidently than any other of its properties.

Exposing with characteristic clothes, watches, cars, etc., is vital to anyone’s social identity, consequently increasing the buyer’s motivation to pay a price. One snag is, however, that the *value of price* is not linear in its character.

Starting from the centre, the *mainstream* price level does not contribute to the social identity (status) of the buyer. A moderate rise to the *premium* price level, however, means an evident difference. Further up the *luxury* level may have the desired effect in some circles, but merely means an obvious risk of being ostentatious, again threatening to reduce the value of social identity.

A reduction from mainstream may mean two alternatives – either the buyer will lose social identity for buying cheep, or gain it from buying wise. It all depends on how the offer is marketed (and being accepted in the market). If the marketing efforts are aimed at giving the buyer the self-confidence of buying wisely, its (reduced) price will raise the social identity to the *smart buy* hump. The lowest price level, *basic*, is generally seen as a lack of money or taste.

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The “Camel hypothesis”
5.3. The dynamics of the valuing audience

It is obvious that changes of the turnover of a branded product cannot be explained or analysed by using any price/demand relation. In consequence, a convenient tool would be an analysis using different cases applied to the Valuing Audience.

A set of models derived from the “Valuing Audience” graphically demonstrates and defines eleven cases of the consequences of changed value, price, size of population, and supply in the interaction between the supplier and the behaviour of its audience (Linn, C. E., Brand Dynamics, Atlanta 1998).

This series of models is used as basis for systematic analyses of the consequences of changes in supplier strategies and tactics as well as buyer behaviour and values.

The interrelation between the two actors – between the buyers’ awareness and valuation of the products offered, and the supplier’s marketing efforts – is demonstrated. The prerequisites of this crucial concept are the application of the two-sided product description and the notion of the metaproduct.

The prerequisites

In its present form, the Valuing Audience should be seen as a thought provoking tool for education, analyses and discussions. The Valuing Audience also offers, however, a scope for further research, with the apparent possibility for the analyses of specific price/demand curves for branded products.

The correct understanding of the Valuing Audience model demands that the following conditions are observed:

- The make-up of the Group – represented by the area of the distribution – is limited to individuals aware of, or well aware of, the product/brand, thus carrying a perceived value of the product as a basis for their decision on buying or not.
"Buyers" are individuals actually buying the product – not just uncommitted telling that they judge the product to be worth the price asked. The decision to buy is the proof, that an individual estimates the product to offer value for (his) money at his particular state of need. The share of buyers relative to non-buyers may thus, statistically, be fairly stable from day to day for mass marketed products, while the actual buyers are incessantly changing their position between buying and non-buying.

5.4. The eleven dynamic modes of the Valuing Audience

This comprehensive list of eleven Valuing Audience modes assumes in the first place that the interest of the supplier is to increase his sales volume.

1. Expansion
2. Erosion
3. Price Increase
4. Price Reduction
5. Revaluation
6. Devaluation
7. Regression
8. Upgrading
9. Overpricing
10. Compensation
11. Limited Supply

1. EXPANSION. The metavalue of a branded product is, by definition, non-existent outside of its Valuing Audience. To increase the scope for sales of the differentiated, branded product, awareness of the product/brand...
may have to be increased in the market through expansion of the target group. Marketing communication may be used to accomplish this task. New members of the Valuing Audience are supposed to accept the valuation of the product already existing in the Group.

2. **EROSION.** A decrease in awareness may be caused by an insufficient intensity of market communication, but also by competitors conquering a "mindshare" from our product.

3. **PRICE INCREASE.** At a perfectly stable metavalue a price increase reduces the number of buyers. Any deviation from this causal connection has to be referred to in terms of the change of metavalue demonstrated under Upgrading or Overpricing, respectively.
4. **PRICE REDUCTION.** At a perfectly stable metavalue a price reduction will result in an increase in sales. This is, in practice, generally restricted to temporary activities. The possible consequences of a permanent price reduction are dealt with under Regression.

5. **REVALUATION.** Vitalization means an increase in metavalue (buyer perceived value) at an unchanged price level. Whether this is performed with a virtually unchanged total product is arguable. This is, though, the illustration of successful marketing activities targeted at the enhancement of the perceived product/brand.
6. **DEVALUATION.** Buyers are often lost due to a depreciation of the product's Metavalue (i.e., a reduction of the level of the buyers' valuation of the Product). This could be due to many factors (e.g., increased competition, an aging product, reduced quality of physical product, reduced quality of customer service, or ineffective or destructive marketing communication).

7. **REGRESSION.** Regression is often the result of excessive price competition. Sales may be constant, or even increase, but the net revenue is negative. Regression is mostly seen as being forced upon by competition, but often enough it is induced by the sales organization within, or associated with, the company itself.
8. **UPGRADING.** Upgrading is a more frequent phenomenon than commonly realized. Every product undergoing a price increase, but still managing to maintain sales levels, is in fact going through an Upgrading operation. An obvious Upgrading is characterized by a noticeable price increase connected with targeted marketing activities. The obvious risk of Upgrading is Overpricing.

9. **OVERPRICING.** The potentially fatal consequences of Overpricing will be clearly understood by this diagram. The added losses of customers through increased pricing and reduced metavalue is more than most products ever could stand. The loss in metavalue may be due to a price increase perceived as unfair and disrespectful (Thaler 2015). The impact on the product's metavalue is disastrous, as Overpricing also makes every minor flaw of quality stand out as a sore thumb.
10. **COMPENSATION.** The opposite of Overpricing. A price reduction alone will only in exceptional cases save a product from the disaster of Overpricing. Heavy marketing activities will be needed, but mostly, only a product re-formulation or re-specification will do the work.

11. **LIMITED SUPPLY.** All other cases of the Valuing Audience demonstrate the consequences in situations of more or less abundant supply. In this case we, however, imagine that the limited supply of products will be sold to the individuals that want them the most. In practice this happens when potential buyers metaphorically or actually line up for buying. The choice of the supplier is between keeping the buyers waiting or raising the price. Limited Supply could thus be seen as the sign of too low a price. Raising the price will, however, always invoke the risk of Overpricing, as the metavalue of the product partly has been based on the added cost of waiting for it.
6. THE VALUE SYSTEM

6.1 The three brands

As marketing has to be seen as the creation of value in branded products, the structure of the routes of actions and decisions are possible to demonstrate in a graphic model. I will show the development of it step by step.

A brand is a figment of the observer’s mind and acts in a transaction as a part of the product and its value. Analysing the different visions, we may identify the three most important aspects of a brand from the marketing point of view.

**Strategic.** In the process of creating value in branded products, we may start from the strategic decisions by the organization management: the formation of the *strategic brand*. (In traditional marketing: Profile.)

**Internal.** To realise the branded offer to the market, the organization, staff and employees, are deeply involved in the interpretation of the strategy into products and their marketing. This important phase leading their actions is the *internal brand*. (In traditional marketing: Identity.)

**Effective.** Finally, the brand has to be accepted and conventionalized by the market to become the (hopefully) valuable *effective brand*. (In traditional marketing: Image.)

These three aspects of the brand are normally more or less overlapping, but rarely identical. A high rate of overlapping should be seen as a sign of strong, realistic marketing efforts, but identical aspects also show a lack of dynamics.

*These three aspects of the brand are often mentioned in the marketing literature as “profile”, “identity” and “image”, which is an unnecessary bewildering terminology.*
6.2. The Meta Management Model

The valuable objective: the Effective Brand

In the selling/buying transaction the seller asks the price and the buyer buys if he finds that the value corresponds to it. A brand is seen as an integrated part of a product, adding value to it and making it sell in larger quantities and/or to a higher price. Then it is defined as a strong brand.

A brand offering these qualities to its owner (producer/supplier) depends on being manifest in the mind of the buying community. Being an effective component of the transaction makes its denomination: the effective brand.

The creation of the offer: the Internal Brand

The characteristics of the Supplier’s Product offered the buyer are a result of the activities and objectives of the staff and employees of the supplier. Their idea of the brand is guiding their actions and has a decisive influence on their performance. The Internal Brand, though, has to co-operate with the Effective Brand in forming the product concept offered the market.
The idea behind it all: the Strategic Brand

The management of every conscious supplier is supposed to have a strategic planning for its brand and products. This is realized in a brand strategy, which is a documentation of their essential and specific aspects of a differentiated offer to the market. Consequently, this brand strategy would be seen as the Strategic Brand of the supplier’s management. The Strategic Brand will be filtered through the Internal Brand to influence the conception of the Supplier’s Product.

The business core

The Strategic Brand obviously is the result of the ideas forming the business core, founded on the market situation in general, i.e. trends and opinions as well as competition and buyer needs. All this is taken in account, more or less consciously, when a business is founded and a brand strategy developed. This forms a natural addition to the MMM.
The detailed MetaManagement Model

The MetaManagement Model can also be shown in a detailed description of the different units, making it a practical tool for the organization of the development of metaproducts and brands, step by step. In this mode it may also be used as a structure for the training of staff and employees at different levels and with a widely differing need for details. The consistency and logic of the model is here a major asset, when addressing the staff on any level.
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