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Generating brand value in online Microfinance startups[1]

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More than one century ago, Veblen (1904, Ch. 6) pointed out the importance of intangibles, notably brand equity, in the value of an enterprise. He indicated that the value of intangibles exceeded the value of tangibles in the modern corporation. In fact, the management of operations was not the source of value creation for the men of affairs, rather it was the management of the perceived value of the intangibles. This value was based on the putative value of future earnings. Closer to our time, authors like Lev (2004) still use this "cutting edge" method in valuing intangibles such as brand equity.

Within the microfinance brick and mortar industry, we have seen the importance of brands with the names of Grameen, Accion, Opportunity and a host of others blooming with franchises all over the world. Even when some of these would be non-governmental organizations, the earning power through franchise of being associated with their names is huge. Thus, brand management is as important in Microfinance as in conventional financial institutions such as banks. Just as brand name in banks is important to have the trust of the individual saver, brand names even in non-savings based Microcredit institutions is important for the borrower to take a loan and to repay it in the hope of getting a bigger loan next time. If the borrower felt the institution would not survive, he would not return the loan (Armendariz & Morduch, 2005).

More specifically, Veblen (1904) indicated that corporations first start as partnerships and go public once brand value has been built unless their owners already have some kind of goodwill. In a recent Microfinance case (Rosenberg, 2007; Ashta & Bush, 2008), we have seen a Mexican NGO named Compartamos, convert itself to a private company in 2000 and then go public in 2007. The initial 2000 share capital of $ 6 million was worth $ 1500 million at the time of the issue and 32% higher two days later. A large part of the value added is the value of future expected growth. The value of Brands is therefore important in money terms even in the Microfinance industry.

Brands have even resisted to the emergence of the Internet which was supposed to be a space of commodities. Low barriers to entry on the Internet at least on the technical ground, conducted to an extraordinary growth in the number of sites to choose from. The average confused and frustrated Internet users looked desperately for landmarks. Perplexed customers turned often to the familiar brands to do business with repeatedly (Carpenter, XXX). Even, for brands such as Amazon, eBay and Yahoo!, the cost of sustaining brand awareness and image remains high by conventional standards of marketing and communication budgets.

Under these conditions, the Internet startups had little chance of taking off without awareness of and confidence in their brands. Building a brand, despite its costliness, became doubly inevitable for startups: they need to attract not only customers, but also shareholders and investors. Accordingly, in the virtual space of the Internet, intangible assets turned to be more important than the tangible assets that appear conventionally on corporate balance sheet. Many Internet branded startups have been acquired at considerably high prices.

In accordance with the practical experiences, a myriad of literature on value of brands for both sellers and buyers has bridged the time between the analysis of Velben and that of many other in our times. However, this literature, highly prolific on Internet brands, has almost ignored the impact of a new technology - despite its importance - on the making of brand equity: Web 2.0. The current literature studies both the Internet brands and the revolution caused by the Web 2.0 tools, but rarely the impact of the former on the latter.

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