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Brand Equity: An Overview

Introduction

This note provides a resource to aid in understanding brand equity: its creation, maintenance, measurement, and value. There are many different perspectives on brands, and we will not attempt to fully integrate these views. We do, however, hope to provide a broad summary of current thoughts on the subject. According to David Aaker, marketing professor at the Haas School of Business and chairman of Prophet Consulting:

> Far more than a name and a logo, it is an organization's promise to a customer to deliver what the brand stands for not only in terms of functional benefits but also emotional, self-expressive, and social benefits. But a brand is more than delivering on a promise. It is also a journey, an evolving relationship based on perceptions and experiences that a customer has every time he or she connects to the brand.

What Is a Brand?

> *The capitalized value of the trust between the company and the consumer.*
>
> —James E. Burke, CEO, Johnson & Johnson

In tangible terms, a brand is a name, logo, jingle, slogan, package design, spokesperson, color, or shape that consumers associate with a specific product. A successful brand is much more than that, however. It is a promise made to the consumer about the good or service they are purchasing. This promise, like any, is not immediately credible but reinforced over time as the relationship between a business and its consumer is built. This relationship between brand and consumer, therefore, must be recognized, respected, and nurtured for a brand to achieve and sustain success.

The promise associated with a brand is particularly important when consumers cannot verify important attributes before purchasing. The brand equity gives the product sufficient credibility in the case of what Neil H. Borden called "hidden values" that are not available or possible for consumers to inspect at the point of purchase.[1] Examples of such hidden values might be the calcium content of orange juice, the product origin, and the manufacturing process (organic farming, for example, or even the promise that athletic shoes were not produced by child labor). Other types of promises might be verifiable but require unrealistic efforts by the consumer and longer periods of experience (e.g., appliance energy consumption and the expected lifetime of a

[1] Neil H. Borden, *The Economic Effects of Advertising* (Chicago, IL: Richard D. Irwin, Inc., 1942).

This technical note was prepared by Paul W. Farris, Landmark Communications Professor of Business Administration, with contributions by Eric A. Gregg (MBA '03), Brandon Chinn (MBA '15), and Mariela Razuri (MBA '14). It is based on an earlier technical note, "Perspectives on Brand Equity" (UVA-M-0668), by Eric A. Gregg (MBA '03); Paul W. Farris, Landmark Communications Professor of Business Administration; and Ervin R. Shames, Lecturer in Business Administration.

light bulb). A 2003 Shell campaign promised higher gas mileage, but would consumers ever really have been able to test and verify this promise? Some promises extend to the distribution channel and how the product is treated ("guaranteed fresh").

Brands are particularly important when benefits require experience to be judged or credibility to be accepted as present. If the costs of making a mistake are high and there is a perceived difference between the performances of suppliers, brands will be important. Finally, if it requires time, effort, and expense to acquire and evaluate brand-related information, reliance on a brand (and brand loyalty) will be higher.

Brand Associations

Brands live in minds and hearts. Brands are the collective perceptions of an organization's key constituents (customers, suppliers, investors, employees, etc.) and are defined more by deeds than by words. Brand is how those constituents experience your products and services and the communications around them. See the many ways in which General Electric's (GE's) brand is experienced by its customers and the many things it brings to mind (see **Table 1**).

Table 1. GE brand touch points.

Aviation Engines: Used in commercial jets, business aviation, and general aviation for small- and large-cabin corporate jets; turbofan engines used in smaller aircraft	**Diesel Engines:** Used in work boats, ferries, tugs, locomotives, etc. **Diesel-Electric Engines:** Used in freight and passenger trains	**Health Care:** Transfer switches used for critical care and other facilities; medical equipment (i.e., mammography workflow stations, anesthesia delivery systems, radiological equipment, etc.)
Military Engines: Gas turbines used in patrol boats, frigates, destroyers, commercial cruise ships, jets, etc.	**Renewable Energy:** Wind turbines, solar panels on car ports **Products:** WattStation electric vehicle chargers	**Appliances:** Refrigerators, stoves, double ovens, washers and dryers, microwaves, etc.
GE has partnered with multiple companies in the creation of some of its engines: Snecma, Honeywell International Inc., Pratt & Whitney, and Motor Power, Inc. (MPI).		

Data sources: Commercial, Military, B&GA, and Marine subheadings of GE Aviation's website, http://www.geaviation.com; "Locomotives and Services," GE Transportation website, http://www.getransportation.com/locomotives#locomotives; and the Wind Energy and Solar Energy subheadings of GE's Renewable Energy website, https://renewables.gepower.com/ (all accessed Feb. 5, 2015).

The goal of the marketer, then, is to build and maintain a brand through marketing activities that will move target customers along a continuum of commitment. Understanding when the brands come to mind is an important aspect of understanding brand equity associations. See **Table 2** below.

Table 2. Brand equity associations.

Brand	Trigger Example	Trigger Type
amazon	Amazon.com	Name
	NIKE Swoosh	Logo
JELL-O	Bill Cosby	Spokesperson
Coca-Cola	Green glass Coca-Cola bottle	Package
TARGET	Red-and-white bull's-eye	Color
Goldfish	Pepperidge Farm's Goldfish crackers	Shape

Source: Created by case writer.

Brand Vision

Building a strong brand starts with developing a compelling brand vision. Brand vision is the way a brand wants to present itself; it is what the brand wants to be.

David Aaker has defined brand vision as an articulated description of the aspirational image for the brand: what you want the brand to stand for in the eyes of customers and employees. That description drives the brand-building component of the marketing program and greatly influences the rest of the brand's activity.

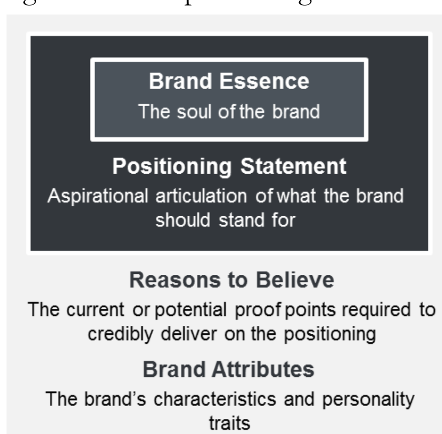
> When the brand vision clicks, it will reflect and support the business strategy, differentiate the brand from competitors, resonate with customers, energize and inspire employees and partners, precipitate a gush of brand-building ideas, and generate consistent, "on-brand" brand building over offerings and segments.[2]

Brand Positioning

Building a strong brand is analogous to building an architecturally superior house. It requires a well thought-out blueprint for success, a solid foundation, and a unique design. A clear brand essence and positioning statement are the foundation of a brand (see **Figure 1**).

The following format for a positioning statement was provided to us by Richard Helstein, who served for many years as VP of advertising for Kraft Foods Group, Inc.

Figure 1. Brand positioning framework.



Source: Created by case writer.

[2] David Aaker, "The First 7 Steps in Building a Brand," Prophet.com's Inspiratory, October 27, 2014, https://www.prophet.com/theinspiratory/2014/10/27/the-first-step-in-building-a-brand/ (accessed Feb. 20, 2015).

For [*insert target market*], [*insert brand*] is the [*insert frame of reference (FOR)*] that [*insert point of differentiation (POD)*], because [*insert reason to believe*]. As an example, let's consider a potential positioning statement for the Crest brand of toothpaste. For *mothers who care about their children's dental health, Crest* is the brand of *toothpaste* that is *unsurpassed in protecting against cavities,* because *it contains fluoride and is endorsed by the American Dental Association.* Of course, the same five concepts (target market, brand, FOR, POD, and reason to believe) may be combined in many ways.

The following positioning statement was used by Amazon.com in 2001, when it sold books almost exclusively:

> For World Wide Web users who enjoy books, Amazon.com is a retail bookseller that provides instant access to over 1.1 million books. Unlike traditional book retailers, Amazon.com provides a combination of extraordinary convenience, low prices, and comprehensive selection.[3]

The POD, or key benefit(s), describe(s) how your brand or product benefits customers in ways that set you apart from your competitors. The FOR is the segment or category in which your company competes. The reason to believe is just what it says: this is a statement providing compelling evidence and reasons why customers in your target market can have confidence in your differentiation claims.

Positioning requires that a marketer understand the following environmental factors: the good's target audience (segmentation), the product's or service's uniqueness compared with other brands in the marketplace (differentiation), and the product's relationship to other brands that are already familiar to consumers (frame of reference).[4] Another way to think about frame of reference is market definition. Ultimately, these three elements should connect the tangible attributes of your product to the emotional needs of consumers.

The target market for your brand should be the subset of consumers whose needs match what the product offers. Examples include families who choose Volvo for the safety features and teens who choose Mountain Dew for its extreme image. By targeting a specific consumer segment, the marketer can tailor the brand's message to speak directly to the product's ability to fulfill that segment's specific needs.

Differentiation refers to the unique benefits that the brand offers to the targeted market segment and is critical to successfully building a brand. If the product's attributes (both tangible and intangible) do not offer a point of differentiation that is relevant and desirable to consumers and defensible against competition, the brand will struggle to achieve long-term success.

Charles Schwab has used differentiation extensively to build its brand. During the online discount brokerage boom, Schwab, like others, offered such a service; but as new Internet brokers continued to lower fees to compete with one another for customers, Schwab marketed its online services by focusing on the benefits of an online brokerage supported by high-end research and brick-and-mortar access. The brand went on to differentiate itself through its research, focusing on the brand's strength: objective research that is not based on commission. Other examples of sustainable points of differentiation are Wal-Mart's commitment to "everyday low prices," Energizer's long-lasting batteries, and Visa's widespread network.

Marketers often speak of "establishing a point of difference" as a key part of articulating the intended differentiation strategy. Durable, sustainable points of difference that are also important to consumers are naturally more valuable than those that do not have these qualities. Some marketers believe that brands are more valuable when the point of difference is more abstract and hence, more difficult for competitors to duplicate. Consider for example, the BMW slogan "The ultimate driving machine"; Federal Express's "When

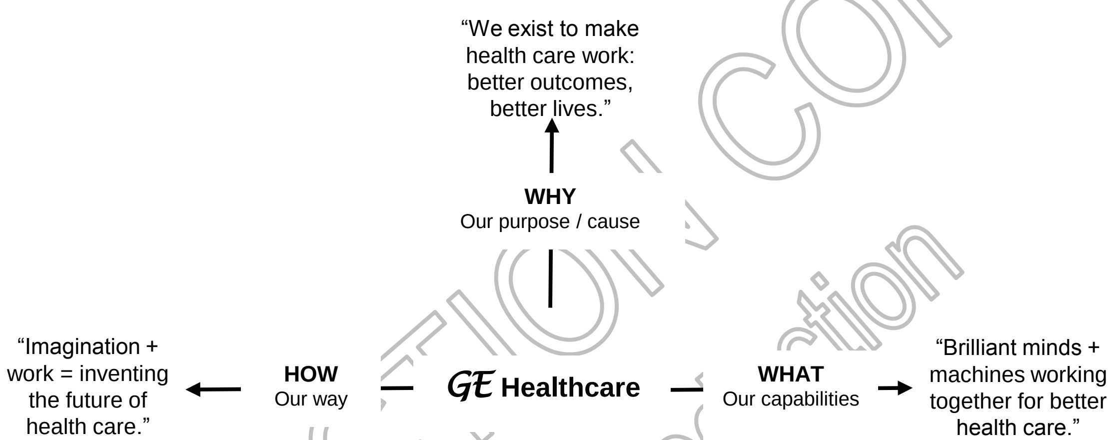
[3] Doug Stayman, "How to Write Market Positioning Statements," *eCornell Blog* (blog), March 10, 2014, http://blog.ecornell.com/how-to-write-market-positioning-statements (accessed Feb. 5, 2015).
[4] Kevin L. Keller, *Strategic Brand Management: Building, Measuring, and Managing Brand Equity* (Upper Saddle River, NJ: Prentice Hall, 2002).

it absolutely, positively has to be there overnight"; and Hallmark's "When you care enough to send the very best." Which of these is more concrete and which is more sustainable?

After the brand's positioning has been developed, the goal of the marketer is to create and strengthen the relationship between the brand and the target consumers. There are two components to doing this: brand image and brand awareness.[5]

Recently, many companies have opted for a purpose-based positioning statement for their larger corporate brand rather than the traditional positioning statement, which was developed for products. As an illustrative example, consider GE Healthcare. Only a high-level, purpose-driven brand positioning can capture the brand in a way that works across the many categories and products it offers to its wide range of complex stakeholders (see **Figure 2**).

Figure 2. Hypothetical example of purpose-driven brand positioning.



Source: Created by case writer to illustrate concepts; not from company documents.

Brand Image

Brand image is simply the way consumers view a brand—the perceptions a brand creates in the mind of the consumer.[6] Everything related to the brand helps form the image people associate with the brand. Using Advil as an example, consumers' perception of the brand relieving aches and pain is reinforced every time Advil is present in a situation where aches and pain exist. Harley-Davidson consumers are perceived to be hard-core bikers who love freedom and the open road. This perception reinforces the image that Harley-Davidson is trying to build and maintain with its target market.

The brand vision is aspirational and can be different from the brand's current image. Marketers must actively manage the image of their brand to ensure that the references and uses of the brand remain true to the desired brand image. Of course, to manage the brand image, it is necessary to have a clear understanding of what that image is or should be. Further, that understanding has to be communicated to those in the organization who undertake marketing activities that affect the brand image.

[5] Keller.

[6] David A. Aaker, *Building Strong Brands* (New York: The Free Press, 1996); David A. Aaker and Erich Joachimsthaler, *Brand Leadership: Building Assets in an Information Economy* (New York: The Free Press, 2000).

The Zyflan (a fictional company) brand team uses the conceptual device in **Figure 2** to communicate the essence of their brand in a consistent way across many cultures. Through extensive internal and external research, Zyflan has found the recognizable and differentiable features of its brand in the eyes of consumers (see **Figure 3**).

Figure 3. Hypothetical example of global brand identity guidelines.

Source: Created by case writer.

Marketing departments will often use persona archetypes to help the company's internal constituents understand what their brand is. They treat their brand as if it were a person, making it more relatable, and then describe that person according to an archetype such as "the intellectual" or "the servant." **Figure 4** displays several others.

Figure 4. Persona archetype examples.

THE INNOCENT –
The Saint, Goody-Two-Shoes, Angel

Attributes
Wholesome, pure, forgiving, trusting, honest, happy, optimistic, enjoys simple pleasures

Goal/method
To achieve a simple, pure life by always doing the right thing

Brands
IKEA, Google, Apple, Dove, Lysol, MasterCard, Aveda

People
Mr. Rogers, Gandhi, Boy Scouts, Oprah

THE MAVERICK –
The Rebel, Outlaw, Rogue

Attributes
Rebellious, shocking, outrageous, disruptive, feared, powerful, countercultural, revolutionary, liberated

Goal/method
To achieve freedom from the establishment through defiance, disobedience, and nonconformity

Brands
Harley-Davidson, Virgin Atlantic, MTV, Rimmel, Steve Madden, Urban Outfitters

People
Henry David Thoreau, Sid Vicious, George Washington

THE ENTERTAINER –
The Clown, Jester, Performer, Trickster

Attributes
Impulsive, spontaneous, lives in the moment

Goal/method
To make friends (and avoid making enemies) through humor and fun

Brands
Budweiser, Fanta, Jack in the Box, Hulu, Woot.com, Taco Bell, Doritos

People
Robin Williams, Bob Hope, Jeff Foxworthy

THE EVERYMAN –
The Good Old Boy, The Regular Guy/Gal

Attributes
Not pretentious, straight shooter, reliable, practical, down-to-earth; values routines, predictability, the status quo

Goal/method
To bond with others by being humble, hardworking, and friendly

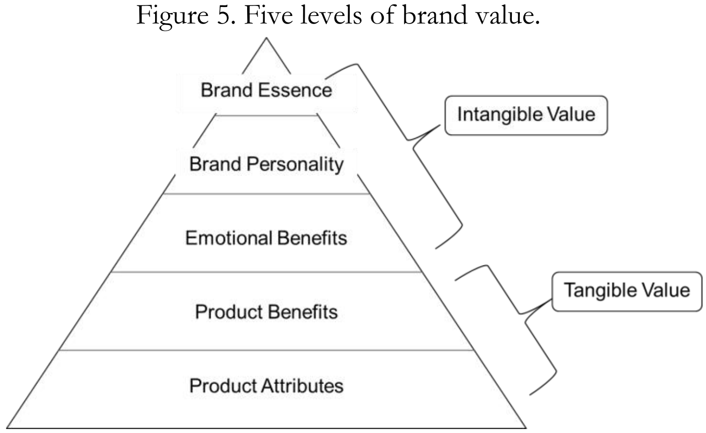
Brands
Miller High Life, Sonic, Wal-Mart, Lowe's, Walgreens, Southwest Airlines, Visa, CoverGirl, Hollister

People
Homer Simpson, Tom Hanks, Princess Diana

Source: Created by case writer.

Given the importance of brand image and vision, it is imperative to rigorously examine what the brand will mean to its target consumers, connecting the tangible and intangible value the brand delivers. There are generally five levels of value delivered by a product or service and its brand (**Figure 5**).

Figure 5. Five levels of brand value.



Source: Created by case writer.

To explain the use of the pyramid to define a brand, let us consider a possible view of the corporate brand Southwest Airlines. The two lowest levels of the pyramid form the tangible value delivered by the good or service. At the lowest level are the specific *product attributes* such as point-to-point flights, low prices, and downtown airports. These attributes create, at the next level of the pyramid, *product benefits* such as convenience and reliability. From a product standpoint, these are the key differences and their associated benefits. Yet the name Southwest means much more.

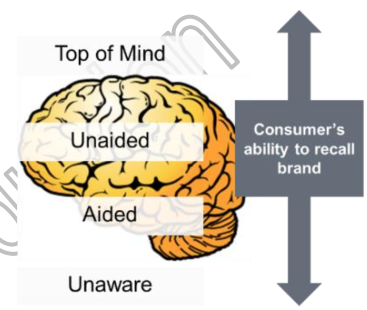
At the next three levels of the pyramid are the brand's intangible benefits. The pyramid's third level contains the brand's emotional benefits such as a feeling of less hassle to travel or that the airline is committed to serving its customers. Based on these perceptions, the brand develops a personality in the minds of the consumers that is included in the pyramid's fourth level. Think of it in terms of how you would describe the brand if it were a person. In the case of Southwest, the brand has built a personality which is fun, simple, and friendly. At the top level of the brand pyramid is the essence of that brand. Freedom is the essence of Southwest in the minds of its consumers. When done well, the brand appeals to a much higher need than the individual products or services it represents.

Brand Awareness

The first and lowest level of awareness is simple recognition (aided awareness). Using NIKE as an example, if you can associate NIKE with athletic shoes when prompted with the brand, then the NIKE brand has achieved recognition. Once recognition has been achieved, brands strive to become a member of the consumer's consideration set. Simply put, this occurs when a target consumer mentions the brand when prompted with the product category (e.g., when prompted with "athletic footwear," someone's consideration set may include NIKE, Adidas, and Reebok). This higher level of awareness is also known as unaided awareness.

Finally, value is highest when a brand is the first one that comes to mind (top of mind) within a product category. If NIKE is the first brand consumers think of when they think of athletic shoes, then the brand has attained top-of-mind awareness. **Figure 6** shows the relationship between brand awareness and brand performance.

Figure 6. Brands in the consumer's memory.



Source: Created by case writer.

Brand awareness is typically discussed in terms of "aided" and "unaided" awareness. Aided awareness refers to a consumer's familiarity with a brand when it is shown or read from a list. Unaided awareness connotes a stronger relationship with the brand as it is defined by a consumer's ability to name the brand when asked about a product category. Whether aided or unaided, awareness is essential to the situation. For example, aided awareness is probably a strong enough relationship to persuade someone to buy Budweiser in a bar where signs are prominent. But in a different purchase environment, customers may have to request their brand from the bar staff without the point-of-purchase reminders. "We don't bring the product to the people; we bring the people to the product. We make it available, and those who love our style come to us," said Red Bull founder Dietrich Mateschitz.[7]

Brand Loyalty

Brand equity is also a function of the strength of attachment or loyalty consumers have to a brand. Therefore, it is important to understand the depth of consumers' loyalty to a brand. Market share data and sales figures alone do not provide a complete measure of the loyalty consumers have to the brand. Following is a list of statements commonly used to determine the depth of a consumer's loyalty to a specific brand:

[7] "Selling Energy," *Economist*, May 9, 2002, http://www.economist.com/node/1120373?story_id=1120373 (accessed Feb. 16, 2015).

- I am very familiar with this brand.
- Compared to alternative brands, I highly respect this brand.
- I consider this brand to have the best quality of all brands in its category.
- This brand is different from alternative brands in the same category.
- I have a high regard for this brand.
- This is a brand for me.

The importance of loyalty has received a great deal of emphasis in recent marketing literature, much of which uses the term "loyalty" as synonymous with one of two measures: customer retention or share of requirements. Other authors view loyalty as a multidimensional relationship that evolves over time.

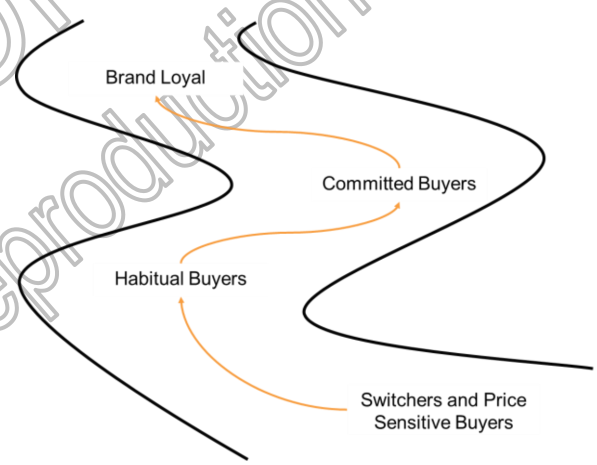
At the start of the path to loyalty are consumers with low levels of this trait. These consumers switch brands often and shop based on price. Habitual buyers are those who prefer a specific brand, but these customers can be tempted to try other brands through promotional activities such as a coupon or a temporary price reduction. Committed buyers view themselves as normally loyal to a brand and settle for a Coke only if Pepsi is not available at the moment.

An important distinction between brand preference and brand loyalty is that measures of loyalty often require some form of a "test." Will customers pay more? Search? Resist competitive promotions? When a consumer will not buy a product other than the brand they prefer, they are said to be brand loyal. The stronger the degree of brand loyalty, the stronger a corporation's power to command a price premium, control channels of distribution, and extend the brand into other categories.

Brand equity consultant Millward Brown believes consumers arrive at brand loyalty through stages of commitment (**Figure 7**).

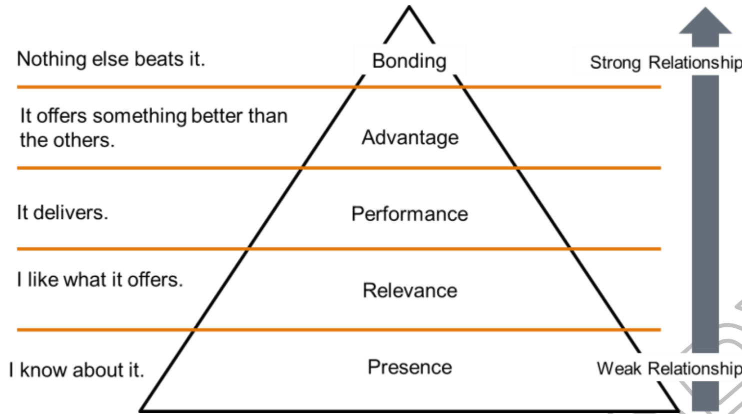
In Millward Brown's view, the relationship between customer and brand intensifies as loyalty increases—creating a bond between brand and consumer that results in the brand's receiving a higher share of consumer spending within the category. The Millward Brown view of loyalty (see **Figure 7**) is often also portrayed as a pyramid (see **Figure 8**).

Figure 7. Brand loyalty.



Source: Created by case writer based on Millward Brown, "Marketing in Uncertain Times," September 2011.

Figure 8. Millward Brown's Brand Dynamics Pyramid—journey to loyalty.



Source: Created by case writer based on Millward Brown, September 2011.

The pyramid might be compared to the series of questions Barbara Kahn has adapted from Hoeffler and Keller.[8] She suggests that a brand should help consumers answer the following four questions about the product (**Table 3**):

Table 3. Four product questions.

1	Who are you?	Awareness, association
2	What are you?	Image/values, including performance and image dimensions
3	What about you?	Emotional response—judgments about superiority, warmth, security, social approval, and self-respect
4	What about you and me?	Loyalty, attachment, community, engagement

Source: Created by case writer.

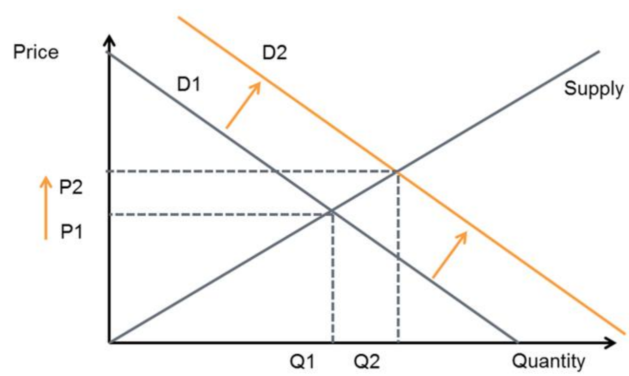
Most brands do a better job answering some of the questions than answering others. New brands might be more focused on attributes and benefits, whereas older, more established brands may have richer associations and more deeply embedded emotional ties.

Price Premium

Brand preference and loyalty can be leveraged to charge customers a price premium, further increasing the value of a brand. The economic effects of the prime premium can be seen in a basic supply-and-demand curve in **Figure 9**.

Essentially, the brand increases the demand for a product, which shifts the entire demand curve out and to the right, raising the price from P1 to P2.

Figure 9. Prime premium from brand preference.



Source: Created by case writer.

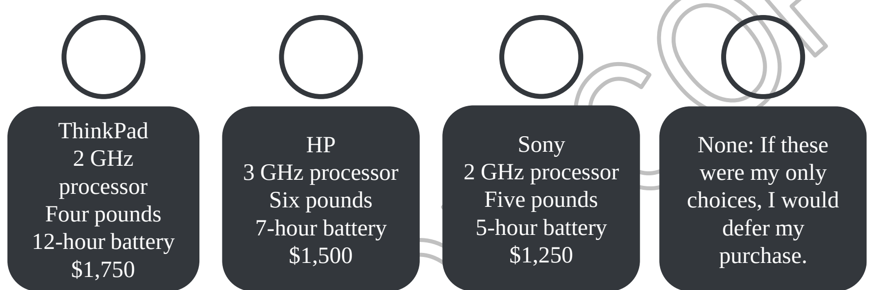
[8] Steve Hoeffler and Kevin Lane Keller, "The Marketing Advantages of Strong Brands," *Brand Management* 10, no. 6 (2003).

Choice-based conjoint analysis offers a reliable way to reveal the demand curve for a branded product. Bryan Orme explains:

> Choice-based conjoint analysis presents respondents with varying product configurations and asks which they would purchase or choose. Each brand is presented in various prices throughout the interview. The percentage of times respondents choose each brand at each price point reveals preference and price sensitivity for the brands. Compelling demand curves result when we plot the profitability of choice by price and connect the points with smooth lines.[9]

An example of one of the choices a participant would be asked to make around laptop brands can be seen below. The participants would be asked several rounds of questions similar to the one below, but with different combinations of prices, brands, weights, and the like (see **Figure 10**).

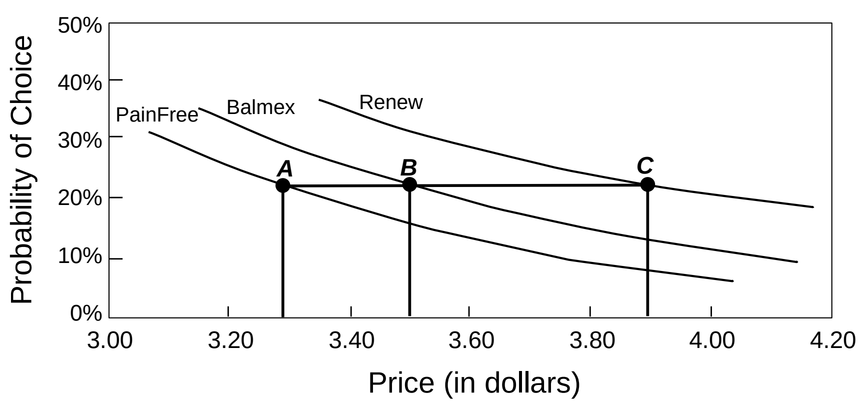
Figure 10. Which of the following laptop computers would you purchase?



Source: Created by case writer.

Orme also offers an example of the demand curves that could be derived from such a conjoint analysis for pain relievers. Notice that each brand can capture the same probability of choice, but at different prices. Renew can command the highest price premium ($3.90) while achieving the same probability of choice as the other brands (20%) (see **Figure 11**).

Figure 11. Probability of choice.

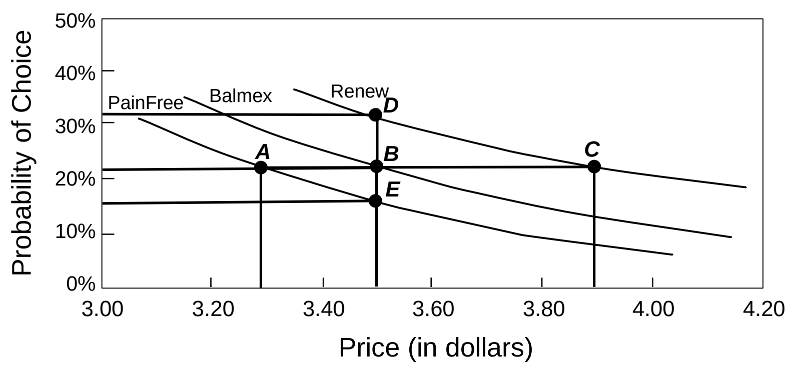


Source: Adapted by case writer from Orme.

[9] Bryan K. Orme, *Getting Started with Conjoint Analysis: Strategies for Product Design and Pricing Research*, 2nd edition (Madison, Wisconsin: Research Publishers, LLC, 2010).

Brand managers can choose to price their product along various points of the demand curve and achieve higher or lower probabilities of choice. Orme offers a scenario in which these same three brands offered their product at the same price and the resulting probabilities of choice they could each expect (see **Figure 12**).

Figure 12. Three brands, same price, probability of choice.



Source: Adapted by case writer from Orme.

One can easily see how the various probabilities of choice would translate into different volumes and therefore market shares, should the three brands all offer products at the same price.

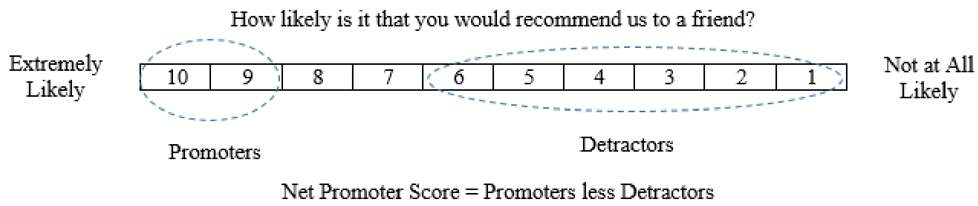
Net Promoter Score

As consumers interact increasingly with brands online, many companies are beginning to look at various metrics to evaluate the strength of their digital brand, such as unique visitors, conversion rate, and bounce rate. One metric that addresses websites' strong viral potential is the Net Promoter Score. Netpromototersystem.com explains it best:

> Net Promoter System is based on the fundamental perspective that every company's customers can be divided into three categories. "Promoters" are loyal enthusiasts who keep buying from a company and urge their friends to do the same. "Passives" are satisfied but unenthusiastic customers who can be easily wooed by the competition. And "detractors" are unhappy customers trapped in a bad relationship. Customers can be categorized based on their answer to the ultimate question.
>
> The best way to gauge the efficiency of a company's growth engine is to take the percentage of customers who are promoters and subtract the percentage who are detractors. This equation [provided in **Figure 13** below] is how we calculate a Net Promoter Score for a company.[10]

[10] Bain & Company, "Measuring Your Net Promoter Score," http://www.netpromotersystem.com/about/measuring-your-net-promoter-score.aspx (accessed Aug. 20, 2014).

Figure 13. Net Promoter Score methodology.



Data source: Bain & Company, http://www.netpromotersystem.com/about/measuring-your-net-promoter-score.aspx.

Brand Extendibility

One of the greatest benefits of a strong brand is the potential to leverage the positive perceptions associated with the brand to new customers (well expressed by Oliver Wendell Holmes, who wrote, "The great thing in this world is not so much where we are, but in what direction we are moving"). This is generally accomplished either by launching a product in a different category with the brand association or extending the brand name to reach a slightly different target market within the same product category.

Before extending a brand, marketers should consider several questions.[11] First, will the brand extension make money? A rigorous industry and financial analysis should be conducted to determine whether the brand extension will improve the corporation's financial performance in a meaningful and positive way. As part of this financial analysis, the firm must determine how much of the potential financial gains from brand extension comes at the expense of current products in the portfolio. It must also determine how, as well as how long, the new brand extension is likely to last.

The second question to examine is how good a fit there is between the image associated with the brand and the potential product extension. Are there associations with the current brand that do not transfer well to the new brand? For example, Crest has strong brand associations for its toothpaste products. Would an extension into mouthwash be a good fit? How about a Crest gum? The degree to which the current brand image fits what target consumers desire in the new product category will determine much of the value the brand adds to the new product.[12] In a 2011 study, Timothy B. Heath, Devon DelVecchio, and Michael S. McCarthy show that for a middle-quality brand, higher-quality brand extensions improve overall brand evaluations far more than lower-quality extensions can damage them. These effects occur because although lower-quality extensions can produce negative-quality brand associations, they can be offset by the positive variety effects that are also created and valued by customers.[13]

Finally, what is the risk of the brand extension to the core brand? A market opportunity may exist in a product category that may benefit from the image of the current brand; however, if by creating the extension the core brand is damaged, it may not be worth the risk. For example, it is feasible to think the Microsoft brand would add value to manufactured computers. But if the Microsoft brand is used to sell cheaply made computers, the damage to the core brand may more than offset any gains made due to the extension.

Simply put, a brand should be extended when the extension is beneficial to the core brand as well as the new product. For example, Listerine PocketPaks benefited from the clean, antibacterial associations of the

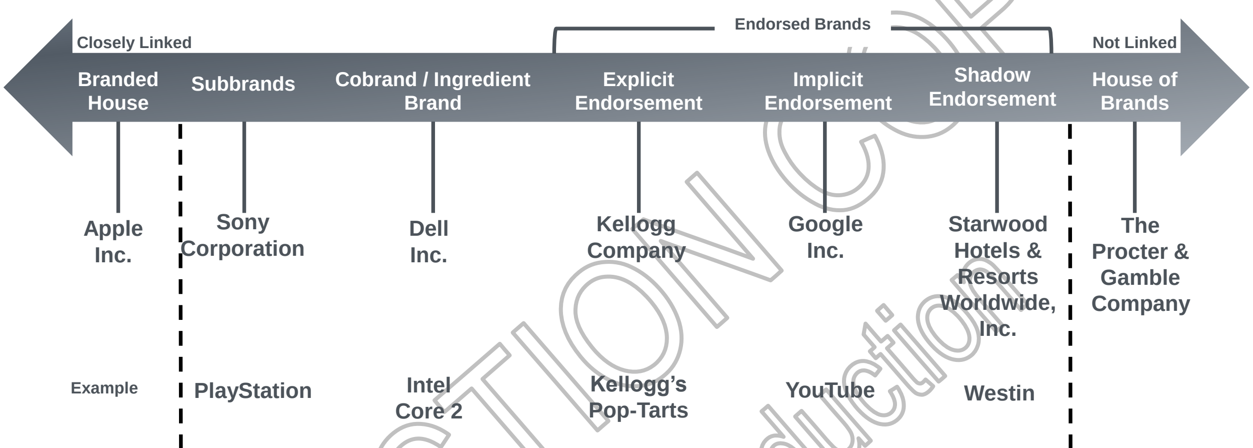
[11] Jon Berry, "Brand Equity (The Value of Corporate Branded Products Are Analyzed by Four Marketing Experts)," *Brandweek* 34, no. 26 (1993): 20.
[12] David A. Aaker and Kevin L. Keller, "Consumer Evaluations of Brand Extensions," *Journal of Marketing* 54 (1990): 27.
[13] Timothy B. Heath, Devon DelVecchio, and Michael S. McCarthy, "The Asymmetric Effects of Extending Brands to Lower and Higher Quality," *Journal of Marketing* 75, no. 4 (2011): 3–20.

Listerine brand. When PocketPaks became successful, the sale of the Listerine core mouthwash product also increased in volume. Marketers should be careful during brand extensions not to dilute the meaning of the core brand. If a brand is extended too far, its message becomes too diverse and does not effectively reach its target consumers.

Brand Architecture

Marketers distinguish among several different types of brands and branding architecture strategies. There is a wide variety of terms used to describe the way a company's different brands relate to each other. **Figure 14** shows a spectrum of brand architecture options.

Figure 14. Brand architecture spectrum.



Source: Created by case writer.

Other brand architecture terms include the following:

- Corporate brand: The corporation name used to brand individual products (e.g., NIKE)
- Parent or umbrella brand: The original brand in a family of branded products (e.g., Advil)
- Private label or control label: A brand "controlled" by a retailer or distributor and usually only available through its channels (e.g., Safeway Select)
- Generic brand: A product not associated with a private or national brand

Brand Portfolios

As brands have become more important to a company's value and strategy, companies have developed brand portfolios. A good portfolio should create or exploit synergies—the brands should be worth more as part of a portfolio than as individual brands. The logic that underlies a particular portfolio of brands might mix both global brands and local brands in order to provide marketing flexibility. Alternatively, a brand portfolio might encompass multiple market segments, such as the high-price segment, the low-price segment, the sporty segment, and the family segment. Such a portfolio might encourage consumers to trade up without leaving the corporate fold. For example, consumers who trade up in the American automobile market might trade a

Chevrolet for an Oldsmobile or an Oldsmobile for a Cadillac. In Germany, Volkswagen, Audi, and Porsche might form a trade-up sequence.

A portfolio of brands can also provide leverage with sales channels by offering completeness of category coverage facilitating the brand's becoming the category leader. Other sources of synergies are possible when a brand portfolio enables economies of scale in advertising, merchandising, and distribution. For example, the manufacturers and distributors of dominant brand portfolios might negotiate discounts from radio and magazine advertisers.

Companies also strive for portfolios that balance brands that are growing with those that are declining. Finally, a brand portfolio provides marketing options for an uncertain future. If the market shifts, a portfolio makes it possible to switch marketing emphasis toward the newly popular brands.

Brands and Product Innovation

Although some companies may be accused of using strong brands to avoid competition, we hope this is the exception and not the rule. Many marketers and economists believe that brand equity and R&D investment form a system of positive feedback in which they reinforce one another over longer time periods. The brand equity permits faster and lower-cost introduction of new products to consumers, resellers, and purchase influencers. When brands help companies earn higher prices and profits, more funds are available to invest in R&D.

Further, with strong brands available to lower the time and cost of product introduction, the perceived risk of investing in R&D is lower. This is especially true when windows of technical superiority are shrinking (because the pace of innovation is increasing). Intel Inside is a good example of this on technical performance. Dell, Wal-Mart, and Southwest Airlines, on the other hand, have excellent reputations for delivering good quality and low-priced products. Their investments in their brands leverage and reinforce the process and product innovations that reduce costs and selling prices to consumers.

Brand Revitalization

What happens when a brand fades from the minds of consumers? Or when a corporation loses sight of what was attractive about its brand in the eyes of its customers? When examining the prospect of attempting to revitalize a brand, it is important to first determine what caused the brand to disappear from consumers' minds.[14] If it was due to a major failure on the part of the brand, it is unlikely that revitalization efforts will succeed. If the brand simply lost its focus, however, or became irrelevant to its target consumers, there may be an opportunity for the brand to make a comeback.

Another opportunity for revitalization exists when a strong brand competes in a product category that wears out for that particular brand. For example, Motorola's brand became lost in the television and radio product category. And yet the brand itself still carried an image of technological innovation and quality. Motorola executives recognized this and applied the brand to a new product category, cell phones, where it did quite well.

[14] Rogier van Bakel, "The Art of Brand Revival," *Business 2.0*, September 2002, 45.

There are several advantages to revitalizing a faded brand. It is often much easier to create "buzz" about a brand that is being brought back to life.[15] Consumers are often nostalgic, and a brand they recognize often has preconceived positive associations with a simple, happy time in their past. Such positive associations increase interest in the relaunch of the brand and therefore boost the effectiveness of marketing communication efforts.

Although revitalizing a brand offers some substantial benefits to the corporation and marketing team, there are also challenges associated with the relaunch of a brand. For example, Volkswagen revitalized the Beetle brand, which was wildly popular in the 1960s and 1970s and lost its way during the following two decades. The brand's essence of simplicity, reliability, and free spirit had faded with consumers, and the brand had become largely irrelevant to the new era of potential owners. Volkswagen redesigned the Beetle to meet the needs of the early 21st-century consumer, but it also stayed true to the Beetle's original reason for being. The energy, mystery, and nostalgia surrounding the launch no doubt helped the new Beetle achieve its success. But Volkswagen also understood the most important principle in branding: give the consumers what they want.[16]

Global Brands

There are many good reasons for designing your brand to be globally strong in today's environment. A large and growing proportion of the world's population lives outside the United States, so cultures are converging. International trade is becoming a more realistic option for many companies. To position a brand for global success, the marketer must plan and implement a brand- building strategy transferable to multiple countries and cultures. One crucial decision in branding is what brand name to use, especially in a global context where meanings of names may vary. In their 2012 study, authors Valentyna Melnyk, Kristina Klein, and Franziska Völckner show how foreign branding—using brand names that are spelled or pronounced in a foreign language—can evoke foreign associations that affect consumer evaluations differently for different types of products. In most cases, consumers are disappointed if they discover that brands that "sound" like they are made in one country are in fact made in another. (Is Grey Poupon made in France? Sometimes.)[17]

Douglas Holt, John Quelch, and Earl Taylor offered the following criteria for building a strong global brand:

- Build and maintain the brand's strength in its home market.
- Strive for geographically balanced sales (i.e., no single dominant market).
- Maintain the brand's essence and positioning across countries and cultures.
- Address similar consumer needs worldwide.
- Be agnostic in terms of country unless consumers value the country of origin.
- Focus brand involvement on the product category it is most known for.
- Utilize the corporate name as the brand name for maximum efficiency.[18]

[15] van Bakel.
[16] David Kiley, "A Rolls by Another Name," *Brandweek* 39, no. 14 (1998): 29.
[17] Valentyna Melnyk, Kristina Klein, and Franziska Völckner, "The Double-Edged Sword of Foreign Brand Names for Companies from Emerging Countries," *Journal of Marketing* 76, no. 6 (2012): 21–37.
[18] Douglas B. Holt, John Quelch, and Earl L. Taylor, "How Global Brands Compete," *Harvard Business Review* 82, no. 9 (2004): 68–75.

Brand Equity, Brand Value, Brand Health

The term "brand equity" is used to describe the value added to a product because of the brand associated with that product or the value of the branded product less its value as an unbranded product.[19] Although the brand equity cannot be found on the financial statements of U.S. corporations, the value of brands is widely recognized. The value added by the brand manifests itself differently depending on the point of view taken. Consumers benefit from brand equity because of the enhanced experience provided by the familiarity, trust, and psychological benefits they associate with the brand.

Corporations benefit from brand equity through increased performance of their business. A strong brand justifies a price premium over other similar products due to the intangible benefits associated with the brand. A strong brand also increases the market share of the product through increased purchases, brand loyalty, and increased barriers to entry for potential competitors. When a brand stands for more than a specific product, there are opportunities to extend the brand into other product categories, leveraging the brand associations that already exist to make entry easier and success more likely.[20] Strong brands create value for both the consumer and the corporation. For the customer, identification reduces search costs; assurance of quality reduces perceived risk; and status and prestige reduce psychological risk. For the corporation, identification helps prompt repeat purchases, permits promotion, and allows for premium pricing; familiarity helps new product introductions; positioning helps market segmentation; and trade benefits improve trade push and corporate profitability (e.g., increased distribution, more and better shelf space, and less expensive store features/displays).

As Sunkist Growers, Inc., CEO Russell L. Hanlin explains, "An orange is an orange…is an orange. Unless…that orange happens to be Sunkist, a name 80% of consumers know and trust."[21]

How to Measure Brand Equity

There is a great deal of debate over how brands should be valued. Methods include consumer-driven brand diagnostic tools (loyalty, repeat purchase intent, etc.), and financially driven brand-valuation techniques (net present value of future cash flows derived from the brand, comparable brands that have been sold, etc.). Randall Beard mentions that "the problem with brand value is really simple: no one agrees on it." Beard gives the example of the GE brand being estimated to be worth between $30.5 billion and $50.3 billion using three different methods; he states, "None of the firms estimating brand value agree on the same value for a given brand. And if none of them agree on the value of brands, how can CMOs and CFOs begin to understand the brand value they're creating with their Marketing spending?"[22]

In this section, we examine three popular brand diagnostic techniques and one method of brand valuation.

Young & Rubicam (Y&R), a diversified marketing communication agency, has developed a brand diagnostic tool called the BrandAsset Valuator (BAV) to measure and track brand value (**Figure 15**).[23]

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[19] David A. Aaker, *Managing Brand Equity* (New York: The Free Press, 1991).

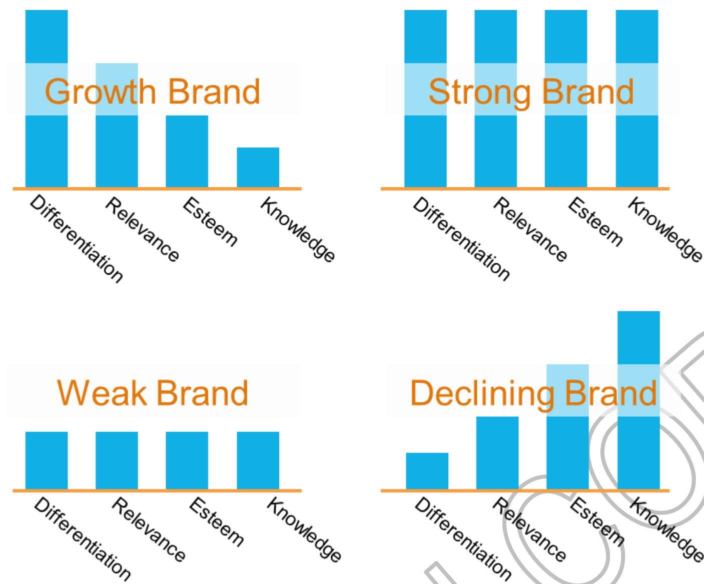
[20] Keller.

[21] Philip Kotler, "Brands: Kotler on Marketing," MaRS, December 6, 2009, http://www.marsdd.com/mars-library/brands-kotler-on-marketing/ (accessed Feb. 20, 2015).

[22] Randall Beard, "The Problem With Your Brand Value and What You Should Do About It," Marketing Executives Networking Group, October 15, 2014, http://mengonline.com/blog/2014/10/15/problem-brand-value/ (accessed Feb. 5, 2014).

[23] "BrandAsset Valuator," Young & Rubicam Tools & Knowledge, http://young-rubicam.de/tools-wissen/tools/brandasset-valuator/?lang=en (accessed Feb. 20, 2015).

Figure 15. Five levels of brand value.



Data source: Y&R BrandAsset Valuator.

Brands are rated using the following four criteria:

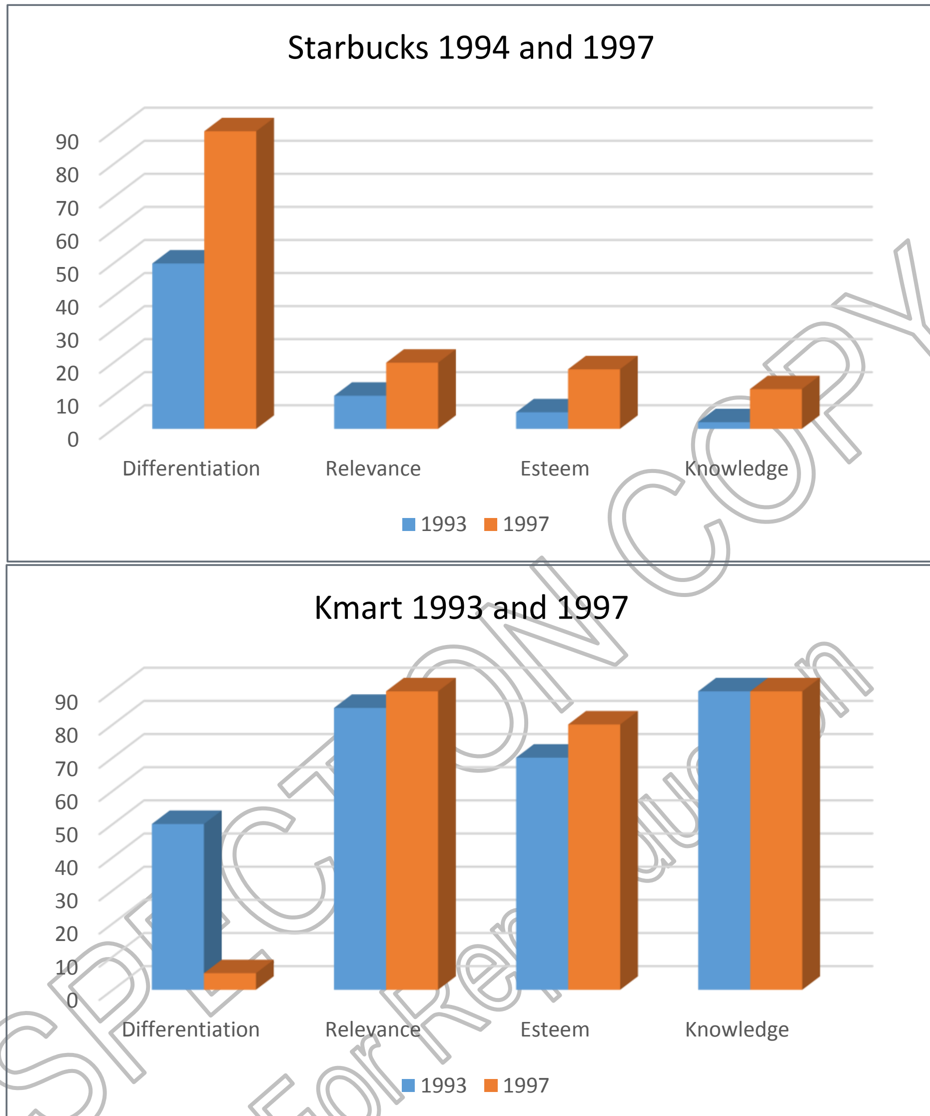
1. Differentiation: The defining aspect of a brand and what distinguishes it from all others
2. Relevance: The personal appropriateness of the brand to consumers (usually correlated with market share)
3. Esteem: The extent to which consumers like a brand and hold it in high regard
4. Knowledge: The extent to which consumers are aware of the brand and understand what it is for[24]

According to the Y&R methodology, the degree to which a brand is both differentiated and relevant to consumers drives the brand's strength in the marketplace. The brand's stature is determined by the relative performance of the brand in terms of the Esteem and Knowledge measures. Finally, the brand's power with consumers is the culmination of the brand's strength and its stature.[25]

Y&R presents evidence that a pattern of high differentiation and relevance relative to Esteem and Knowledge indicate a young, growing brand (differentiation is the engine that drives the train). On the other hand, higher values for knowledge and esteem relative to differentiation and relevance indicate a declining brand—one losing strength and equity. Loss of differentiation may be a signal of trouble down the road. For example, examine the brand equity trends of Starbucks and Kmart over the four years between 1993 and 1997 (**Figure 16**). Starbucks is a young and growing brand, whereas Kmart experienced a drop in differentiation in 1997—foreshadowing its later troubles.[26]

[24] http://young-rubicam.de/tools-wissen/tools/brandasset-valuator/?lang=en (accessed Feb. 20, 2015).
[25] http://young-rubicam.de/tools-wissen/tools/brandasset-valuator/?lang=en (accessed Feb. 20, 2015).
[26] "The Story of the Y&R BrandAsset Valuator Investigation, http://ruby.fgcu.edu/courses/tdugas/ids3332/acrobat/bav.pdf (accessed Feb. 20, 2015).

Figure 16. Y&R brand equity examples.



Data source: http://ruby.fgcu.edu/courses/tdugas/ids3332/acrobat/bav.pdf (accessed Feb. 20, 2015) and Y&R BrandAsset Valuator.

David Aaker has established a tool comprising 10 criteria for diagnosing the strength of a given brand's equity. Unlike other methods, the use of Aaker's tool does not net a single number or "score" for comparing relative brand values. Aaker's belief is that any weighting of the individual components of his model would be arbitrary. Therefore, he recommends individually tracking the 10 brand attributes shown in **Figure 17**.[27]

[27] Aaker, *Building Strong Brands*.

William Moran has argued that brand equity is best understood as the product of three factors: effective market share, relative price, and customer retention (loyalty).[28] Each of these factors, it might be argued, captures one aspect of a strong brand. On the other hand, there are tradeoffs among the factors. For example, increasing price might decrease retention and share. Over time, how would a brand know whether the net effect of these changes is positive or negative? One approach is to look at year-to-year changes in the value of brand equity as the product of these factors. How might this be done, specifically? **Figure 18** is our attempt to capture the essence of Moran's approach.

Figure 17. David Aaker—the brand equity 10.

Loyal Measures
- Differentiation
- Satisfaction / Loyalty

Perceived Quality / Leadership Measures
- Perceived Quality
- Leadership / Popularity

Association / Differentiation Measures
- Perceived Value
- Brand Personality
- Organizational Associations

Awareness Measures
- Brand Awareness

Market Behavior Measures
- Market Share
- Market Price and Distribution Coverage

Data source: Aaker, *Building Strong Brands*.

Effective market share is the share in each relevant segment weighted by the percentage of the brand's sales in that segment. For example, let's say that Red Bull hypothetically has a 20% share of the late-night-club-scene market (market 1) for energy drinks and a 35% share of the sports energy drinks segment (market 2). If 80% of Red Bull's sales are in market 1 and 20% in market 2, then the effective market share is (**Equation 1**):

$$(0.80 \times 0.20) + (0.20 \times 0.35) = 0.16 + 0.07 = 0.23. \tag{1}$$

If Red Bull sold for $1.25 per can and the average price in both markets 1 and 2 above is $1.50, then Red Bull's relative price would be $0.80 ($1.25/$1.50).

In this example, Red Bull has a loyal and long-lived customer base. Seventy-five percent of the people who consumed Red Bull this year are expected to purchase it next year. Retention rates are 0.75.

Multiplying these three factors together yields

	0.23 effective share
×	0.80 relative price
×	0.75 retention rate
=	0.138 brand equity index.

Figure 18. Moran's brand equity methodology

	Effective Market Share*
✖	Relative Price
✖	Durability (loyalty index)
	Brand Equity

* Effective Market Share is the share of the segment, weighted by the segment's percentage of sales

Source: Adapted by case writer from Moran.

Some have suggested that multiplying this index times the size of the dollar market in which the brand competes would provide a better estimate of value. Because pricing strategies vary among brands, a strong case has been made that the brand equity is better assessed by looking at the revenue premium over an equivalent private label.[29] This means taking into

[28] William T. Moran, "Marketplace Measurement of Brand Equity," *Journal of Brand Management* 1, no. 5 (1994), http://moranonmarketing.com/images/File_11.pdf (accessed Feb. 20, 2015).
[29] Kusum L. Ailawadi, Donald R. Lehmann, and Scott A. Neslin, "A Product-Market-Based Measure of Brand Equity" (working paper, Marketing Science Institute, 2002).

account not only the additional price per unit sold enabled by the brand but also the additional quantity that is sold at that price. In some cases, the price premium commanded by the brand has been estimated through conjoint analysis (a technique for estimating consumer utility for a combination of product features).

Although these two methods are especially helpful for the internal marketer in terms of strategy and decision making, they do not put a hard dollar value on the brand, and thus are less helpful for the external evaluator, who may be considering purchasing the company or brand. Brands are also a valuable asset:

- Brand-guided companies, on average, have profit margins nearly two times their respective industry average.
- The top 100 most powerful brands outperformed the S&P 500 by 37 percentage points between 2006 and 2011.
- On average, brands account for more than one-third of shareholder value.[30]

Aaker makes the case for a hard-number valuation method: "As branding becomes strategic and earns a seat at the executive table, the CEOs and CFOs of the world…will ultimately need proof that value actually exists."[31] This is easier said than done. Sinclair and Keller explain that according to the global accounting standard-setting bodies, brands cannot be recognized on the balance sheet until they have been bought and sold through an arms-length transaction such as an acquisition. They also state, "We admit that…there is, at present time, no single acceptable method for valuating brands but we suggest that the foundation is firmly laid for such an approach to be developed."[32]

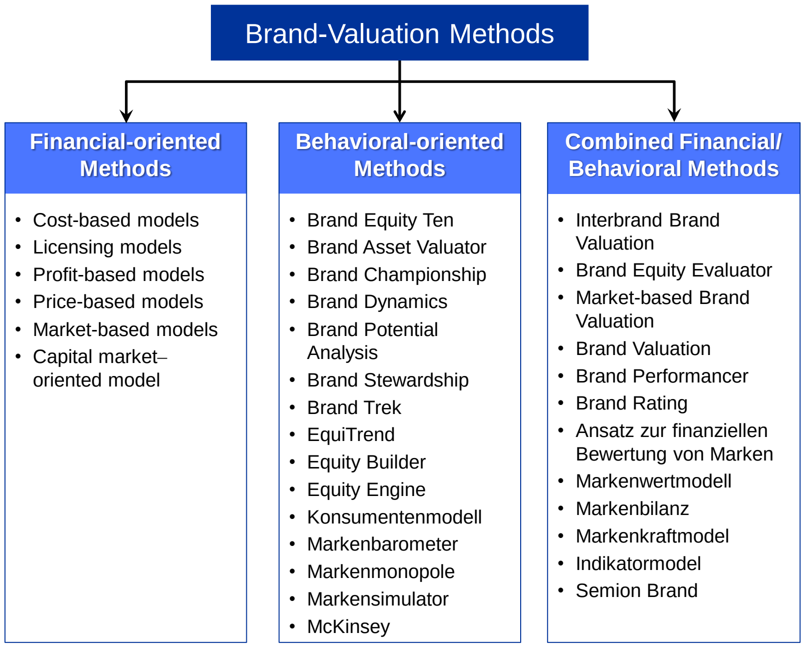
Interbrand's method is perhaps the most ubiquitous, but is still widely challenged. A summary and classification of the many brand-valuation methods can be seen in **Figure 19**.

[30] Adapted by case writer from Prophet Consulting, "Brand Building That Inspires People and Impacts the Bottom Line," Prophet.com, https://www.prophet.com/sites/strongbrands/ (accessed Feb. 20, 2015).

[31] Robert Neville Sinclair and Kevin Lane Keller, "A Case for Brands as Assets: Acquired and Internally Developed," *Journal of Brand Management* 21, no. 4 (2014): 386–302.

[32] Sinclair and Keller.

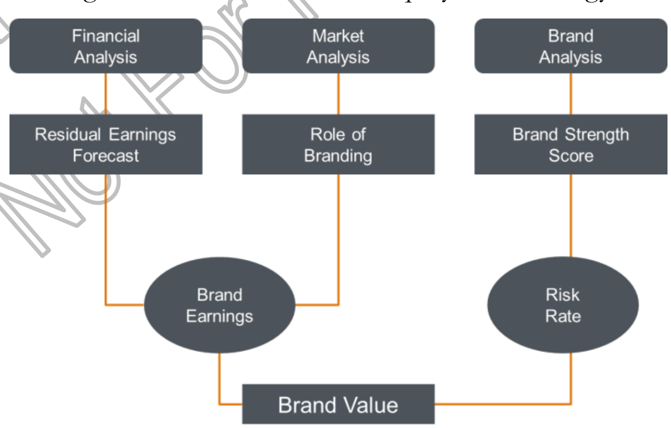
Figure 19. Summary and classification of brand-valuation methods.



Source: Adapted by case writer from Sandra Klute, "Brand Equity," *Controlling: Zeitschrift für Erfolgsorientierte Unternehmenssteuerung* 18, no. 4/5 (2006): 259.

Interbrand, a global brand-strategy agency, has developed a model for determining the value of a brand that separates the tangible (product) value from the intangible (brand) value (**Figure 20**). The process begins with subtracting expected earnings from the tangible assets to find the intangible cash flow or residual earnings. Future forecasts of these residual earnings are computed based on financial projections for the company and the business environment. In addition, the role of branding in the product or service category is measured to determine the percentage of intangible earnings attributable to the brand. For example, if branding is responsible for 78% of customer demand, the earnings are multiplied by 78%.

Figure 20. Interbrand brand equity methodology.



Data source: "Applications for Brand Valuation," Interbrand, 2014, http://www.bestglobalbrands.com/2014/methodology/ (accessed Feb. 20, 2015).

The riskiness of the brand (discount rate) is determined through a brand-strength composite score made up of the measures and relative weights (**Table 4**). The higher the brand strength, the lower the discount rate (to represent the lower risk of a strong brand). The discount rate is then used to determine the net present value (NPV) or current value of the brand.

Table 4. Interbrand—brand strength.

	Max
Market	10
Stability	15
Leadership	25
Trend	10
Support	10
Geography	25
Protection	5
Total	100

Data source: Interbrand information published in Wendy Lomax and Adam Raman, *The Official CIM Coursebook 07/08 Analysis and Evaluation* (Burlington, MA: Butterworth-Heinemann, 2007).

Each year, Interbrand ranks the top 100 global brands. Listed in **Table 5** are the top 10 brands based on Interbrand's criteria, and their current value.

Table 5. Interbrand's top 10 global brands, 2013.

Place	Brand	Value (in millions of dollars)
1	Apple Inc.	$98,316
2	Google Inc.	$93,291
3	The Coca-Cola Company	$79,213
4	International Business Machines Corporation (IBM)	$78,808
5	Microsoft Corporation	$59,546
6	General Electric Company	$46,947
7	McDonald's Corporation	$41,992
8	Samsung Electronics Co., Ltd.	$39,610
9	Intel Corporation	$37,257
10	Toyota Motor Corporation	$35,346

Data source: Interbrand, "Best Global Brands 2013," http://interbrand.com/assets/uploads/Interbrand-Best-Global-Brands-2013.pdf (accessed Feb. 4, 2015).

There are many consulting and research firms that offer different methods for valuing brands. We will not attempt to review them all here, but will briefly review two others that offer somewhat different approaches compared to Interbrand: Brand Finance and BrandZ.

Brand Finance

Brand Finance is a UK consultancy that focuses on valuation of firms' intangible assets. One of its methodologies is the Royalty Relief method, which estimates the fees that a firm would have to pay a third party to license its brands if it did not own them itself. Brand value is calculated as follows: estimate the brand's future sales; then, using the royalty rate (selected from a range of comparable royalty rates for brands that have similar brand ratings), calculate the net present value of after-tax royalties. Brand ratings "are derived from the

Brand Strength Index which benchmarks the strength, risk and future potential of a brand relative to its competitors,"[33] per Brand Finance's internal research.

BrandZ

BrandZ is Millward Brown's brand equity database, which contains data from more than 2 million consumers and professionals across more than 30 countries and 10,000 brands. It is used to estimate brand values and since 2006, it has been used to generate a list of the top 100 global brands.

BrandZ's objective is to peel away all financial determinants of brand value to see what the brand itself contributes to corporate value. BrandZ conducts worldwide consumer research and constructs appraisals of brands by category and by country. BrandZ uses these three "pillars" to estimate brand valuation:

- *Meaningful*: In any category, these brands appeal more, generate greater "love" and meet the individual's expectations and needs.
- *Different*: These brands are unique in a positive way and "set the trends," staying ahead of the curve for the benefit of the consumer.
- *Salient*: They come spontaneously to mind as the brand of choice for key needs.[34]

Here is how Millward Brown's valuation process works. The first step is to calculate financial value. In order to do that, we have to find a firm's total corporate earnings from its entire portfolio of brands. Then we analyze financials to determine the brand's "attribution rate." Multiply corporate earnings by attribution rate to determine "branded earnings"—earnings attributable to that particular brand. Estimate future earnings and choose an earnings multiple for the firm using data from Bloomberg; this is the "brand multiple." Then multiply branded earnings by brand multiple to get the financial value of the brand to the firm. The second step involves calculating "brand contribution" by looking at influences on the branded business: price, convenience, availability, and distribution. Also in play are brand uniqueness and loyalty. The final step in calculating brand value is to multiply financial value by brand contribution to obtain the dollar figure for the brand's value to a firm.

Summary

Brand equity is an important marketing and financial concept. Unfortunately for marketing students and marketing managers, it is also a difficult concept to define and measure. Because it is difficult to measure, it is also difficult to monitor.

These difficulties and ambiguities do not diminish the immense importance of branding to the marketing and financial success of a business or the rewards to the marketer from mastering the practice of branding.

[33] "Explanation of the Methodology," Brand Finance website, http://brandirectory.com/methodology (accessed May 11, 2015).
[34] "Methodology," Millward Brown website, http://www.millwardbrown.com/mb-global/brand-strategy/brand-equity/brandz/top-global-brands/methodology (accessed May 11, 2015).