# Capitalizing on Brand Potential

All you can ask of a brand is that it reaches its potential. The brand's long-term brand value depends on how well a firm understands and recognizes its potential and capitalizes on it in the marketplace. Let's consider all the different aspects of how long-term brand value gets created. See Figure for a schematic summary.

### Processes Affecting Long-Term Brand Value

Long-term brand value depends on two basic processes: brand vision (the ability to see the brand's inherent potential) and brand actualization (the ability to actually capitalize on the brand's potential to derive maximum revenue).

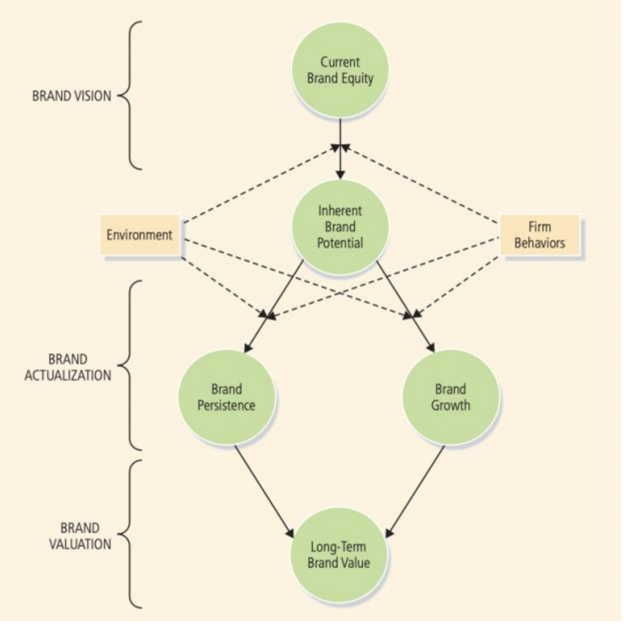
**Brand Vision.** Brand vision requires defining the potential of a brand. ***Inherent brand potential*** is the value we could extract from a brand via optimally designed marketing strategies, programs, and activities. In other words, it reflects what brand value *could* become if, for example, we introduce different products, enter new markets, and appeal to different customers in the future. There are many different ways to expand a brand across products and markets.

Brand potential is in effect the "option value" of a brand if we recognize and capitalize on its assets. For publicly traded companies, it manifests itself in the premium a stock commands over the value explainable from cash flows in its current businesses. Viewed this way, acquiring a brand makes sense and will bring a positive return only if the acquiring firm has a better vision or ability to execute than the prior owners.

**Brand Actualization.** While brand vision means under- standing the brand's inherent potential, ***brand actualization*** means achieving that potential. Not surprisingly, due to differences in firm resources and management skill, firms vary in their ability to formulate a vision of what brand potential is and then capitalize on it to activate the brand's inherent brand potential.

### Components of Long-Term Brand Value

Brand actualization (or potential actualization) depends on how successfully a firm can translate brand potential into the two key components of long-term brand value: brand persistence and brand growth.




**Achieving Long-Term Brand Value**

**Brand Persistence.** ***Brand persistence*** reflects the extent to which the current customer franchise and their spending levels can be sustained over time. Without continued investments, brands can decline in value for myriad reasons. Even traditionally well-funded, high-equity brands such as Kodak, Levi-Strauss, and Borders can be vulnerable to a change in fortunes or even bankruptcy.

The endurance of a brand's position and equity depends primarily on three factors:

1. The strength, favorableness, and uniqueness of key brand associations;
2. The likelihood these characteristics will continue into the future; and
3. The firm's skill in developing and implementing marketing programs and activities that help preserve them over time.

Some brand associations are more enduring than others. For example, quality can be a relatively timeless attribute, while many imagery associations like trendiness and youthfulness often fade badly over time. Perhaps the biggest challenge to brand persistence, however, is the ability of the brand to sustain differentiation. Competitive responses, marketplace changes, and other external factors all conspire to make it difficult for a brand to be as unique as it once was.

**BRAND GROWTH**. The requirements to grow thus implicitly include the ability of a brand's sales to persist and resist decay. **Brand growth** reflects the extent to which current customers actually increase their spending and new customers are attracted to the brand, with either existing or new products.

**FACTORS INFLUENCING BRAND PERSISTENCE AND GROWTH**

Finally, brand persistence and growth—and thus long-term brand value—depend on the risks evident in the marketing environment, the brand's vulnerability to those risks, and what the firm does to handle them.

**RISKS IN THE MARKETING ENVIRONMENT**

A number of factors in the environment work for or against the creation and realization of inherent brand potential. Broadly, the marketing environment consists of seven components: competitive, demographic, economic, physical, technological, political-legal, and social- cultural. Changes or shifts in the nature of competition; age or cultural make-up of a market; the income and tax base; the supply of natural resources; government policies and regulations; and social trends, to name just a few, can all profoundly change the fortunes of a brand and test the skills of marketers.
Long-term brand value is more predictable. It rises when firms are less vulnerable to competition and other environmental changes and are therefore better able to capitalize on their inherent brand potential. Greater consumer loyalty and high switching costs improve the odds of retention in the face of difficulties or challenges for a brand. Barriers to entry can also provide insurance against competitive actions.

Brand persistence and growth also depend on how effectively competitors operate. A key question is how equipped a company is to anticipate, withstand, and capitalize on changes and shifts that occur in the marketplace. Firms such as IBM, Microsoft, and Corning have evolved considerably through the years, building on the brand value they have accumulated, although not always smoothly or easily.

**FIRM BEHAVIORS**. Brand visioning and potential actualization will depend on the motivation, ability, and opportunity of a firm to recognize and maximize brand potential in the face of possible environmental changes. First, the firm must be motivated and committed to take advantage of the brand and its potential. Many brands, even after acquisition, can become neglected or forgotten, especially if the firm has an expansive set of brands.

The ability to maximize brand potential will depend in large part on the skills of the firm to recognize and define the brand's potential to begin with. If that assessment is done properly, then the question is whether the firm has—or has access to—the resources, skills, and other assets needed to cash in on the identified potential.

Finally, a firm must have the opportunity to formulate and activate the brand potential. Diverting resources, skills, and other assets to other areas makes it difficult or even impossible to achieve a brand's potential. Many best-laid plans are abandoned given the twists and turns in marketplace performance and corporate decision-making, and resulting changes in budget allocation.

## A KEY IMPLICATION

We've seen that achieving the brand's long-term value is a function of recognizing and realizing its potential through brand vision and brand actualization activities. One important implication is that a brand has different growth prospects de- pending on which firm owns it. Given the difficulty of cutting costs, the only real justification for M&A activity is a bet that the acquiring company is smarter, more knowledgeable, more creative—or has access to resources at a lower cost—than the current brand owners. Given that current owners of a brand are generally more likely to be knowledgeable about the brand than those who intend to acquire it, however, many acquirers may overestimate growth potential and overpay for the brand.