The Value of Brand Equity

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Many companies jealously guard the equity in their brands and continually burnish their brand images. Yet an equal number virtually ignore the power in their brands. The author maintains that brand equity generates considerable value for a company and suggests an approach to determine this value.

Through the 1960s and early 1970s, Schlitz beer was a strong number-two beer brand supported by the well regarded gusto campaigns, such as the "You only go around once in life—so grab all the gusto you can." In the mid-1970s, Schlitz converted to a fermentation process that took four days instead of 12 and substituted corn syrup for barley malt to gain a strategic cost advantage. The result was a beer that became flat or cloudy after time on the store shelf; Schlitz developed an image of being a "green" beer with "cheap" ingredients.

The image problem was compounded when Schlitz began promoting heavily and a competitor, Anheuser-Busch, announced that it would retain premium ingredients. A series of advertising campaigns, including five live taste tests in 1980, could not undo the damage even after company executives decided to return to the original product formula.

The destruction of the perceived quality of Schlitz resulted in sales falling steadily from over 17.8 million barrels in 1974 to 1.8 million in 1984 and a decrease in stock value (linked to the Schlitz beer business) of $1 billion from 1975 to 1980.

WordPerfect Corp., which entered the word processing arena in 1983, became the industry leader in part by building brand loyalty in two ways. First, it offered customers an unlimited access, toll-free phone-in user support service, which became one of their points of differentiation. Second, it featured regular product improvements that were always backward compatible.

In contrast, WordStar Corp.—the industry pioneer that dominated word processing as late as 1984—lost its position by turning its back on a loyal customer base. As late as 1987, WordStar was deservedly known as being indifferent to its customers. Clients who called WordStar at their own expense often could not get through or were placed on hold. Perhaps worse, a key follow-on product, WordStar 2000, shipped in late 1984, was incompatible with the original program. Users who were comfortable with WordStar had to learn a new program, and they could as easily switch to WordPerfect. While WordStar stock was worth under $10 million in 1990, WordPerfect was estimated to be worth well over $1 billion.

In the late 1970s, the H.J. Heinz Co. bought the Weight Watchers program and the Weight Watchers frozen dinner business for approximately $120 million. In 1989, Weight Watchers had revenues of $1.3 billion and its operating income was over $100 million. The key was the Weight Watchers name—its associations with professional weight control.

Heinz first improved the quality in its frozen food entree area, upgraded its packag-

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Why didn't Schlitz managers realize that decisions to alter the product's ingredients would destroy the equity in the name; why didn't someone step in and protect the brand?

ing, and generated new advertising complete with a spokesperson (Lynn Redgrave) and a slogan ("This is living, not dieting"). It then drew upon the power of the brand name to become the market leader in frozen foods and extended the name to over 200 items.

These examples illustrate the potential value of brand equity. Why didn't Schlitz managers realize that the decision to alter their product's ingredients would affect the equity in the name; why didn't someone at Schlitz step in and protect the brand? Why didn't WordStar recognize that investments in retaining customer loyalty would pay off? Why don't more firms recognize the value of investments in brand equity?

Most managers will be quick to affirm that their brand equity is a key asset. However, the actions of key managers are often inconsistent with their verbalized beliefs, in large part because of pressures to deliver short-term results. As a result of this focus on quarterly earnings, brand-building activities are cut back because they have little impact on short-term performance. Further, declines in brand equity are not obvious, partly because systems to measure brand equity are not in place.

In contrast to brand-building activities, sales promotions, whether they involve soft drinks or automobiles, succeed because they affect sales in an immediate and measurable way. Because they appear to be "effective" (i.e., sales respond), they are used extensively and more and more sales volume is tied to promotions. Cost-reduction programs show similar short-term results, while the immediate impact of any resulting decline in quality may be hard to detect.

The inevitable result of a reliance on sales promotions and cost-reduction programs and a reduction of brand-building activities is an increase in the role of price and a decrease in the role of brand associations in the purchase decision. At the extreme, the product class starts to resemble a commodity. A number of studies have documented an erosion in brand loyalty and an increase in price sensitivity over the past 10 years in a variety of product types.[1]

How can managers justify investing in brand equity, especially when short-term performance measures are sacrificed? What is the value of brand equity, and how can it be determined?

HOW BRAND EQUITY CREATES VALUE

Just how brand equity creates value is shown in Exhibit 1. As defined here, brand equity:

- Is a set of brand assets and liabilities.
- Is linked to the brand's name and symbol.
- Can subtract from, as well as add to, the value provided by a product or service.
- Provides value to customers as well as to a firm.

Five brand equity assets are the source of the value created. As shown in the exhibit, these assets include:

1. Brand loyalty.
2. Brand name awareness.
3. Perceived brand quality.
4. Brand associations in addition to perceived quality.
5. Other proprietary brand assets—e.g., patents, trademarks, channel relationships.

Brand associations or brand image is perhaps the most accepted aspect of brand equity. The final category, other proprietary brand assets, is included for completeness and is usually of lesser importance. The following outlines the rationale behind the inclusion of the first three dimensions.

Brand loyalty is a key consideration when placing a value on a brand because loyalty translates into a profit stream. A loyal customer base, for example, can be expected to generate a predictable sales and profit

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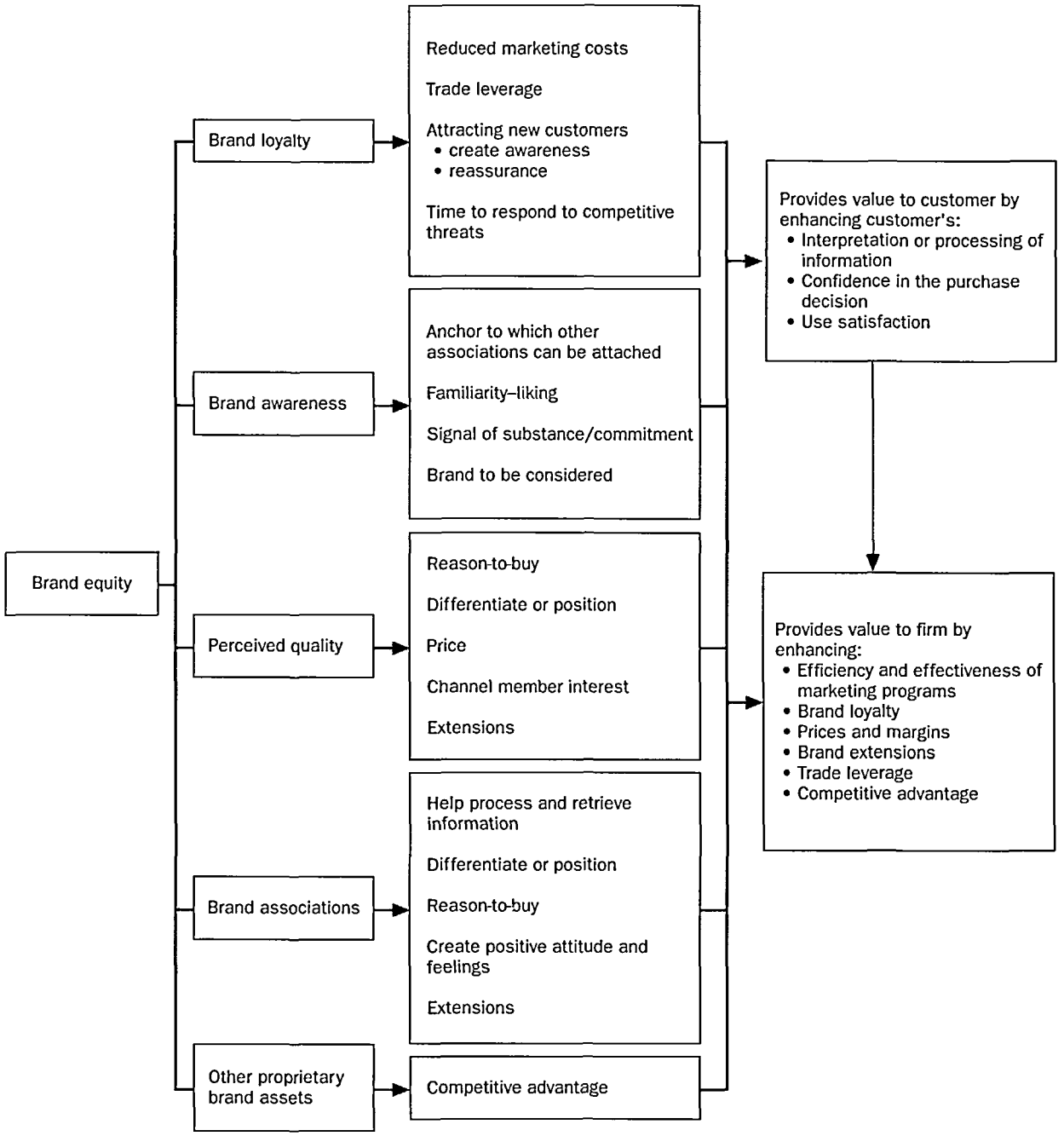
EXHIBIT A How Brand Equity Generates Value



stream. In addition, focusing on brand loyalty is often an effective way to manage equity. Customer satisfaction and repeat buying patterns are often indicators of a healthy brand, and programs to enhance them will build brand strength.

Perceived quality is included as an asset distinct from brand associations for several reasons. First, perceived quality has become an important business thrust for many firms and can be the motivation for programs designed to enhance brand equity. Second, research from the Strategic Planning Institute's PIMS data base (empirical analysis of the financial and operational data on 3,000 businesses) has shown that perceived quality

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It is difficult for competitors to communicate to satisfied brand users because they have little motivation to learn about alternatives.

is the single most important contributor to return on investment among the PIMS variables measured.[2] Third, in a study of 250 business managers who were asked to identify the sustainable competitive advantage of their firm, the top-rated asset was perceived quality.[3] Thus, perceived quality is a sufficiently important and accepted strategic consideration to merit including it as a separate dimension.

Brand awareness is often not elevated to the status of a brand asset. Yet, in the study of 250 businesses, awareness was actually the third most mentioned asset. For many companies, brand awareness is pivotal, and it underlies the strength of successful brands.

The exhibit illustrates that each brand equity asset generates value for the customer or the firm in a variety of ways (17 are actually listed). The implication is that in managing brand equity, it is important to be sensitive as to how value can be created in order to manage brand equity effectively and to make informed decisions about brand-building activities. A host of ways in which value can flow from the assets are easily overlooked.

The right side of the exhibit first summarizes how value is created for the customer and second, how value is created for the firm. Explicitly including the customer value provides a very different perspective from a focus on the ability of a brand to generate marginal cash flow to the firm.

VALUE-CREATING ASSETS

A brand equity asset creates value in many ways. Brand loyalty—which can reflect a range from the habitual buyer to the satisfied buyer to those that like the brand to the truly committed—generates value mainly by reducing marketing costs; it has been stated many times that retaining existing customers is much less costly than attracting new ones. It is also difficult for competitors to communicate to satisfied brand users because they have little motivation to learn about alternatives. The burden on the competitor brand is substantial. A common mistake is to grow sales by enticing new customers to the brand while neglecting existing ones. Loyal customers, in some cases, can also entice others by using the product or advising others to use it.

Brand awareness, even at the recognition level, can provide the brand with a sense of the familiar and a signal of substance and commitment. In a taste test, over 70% of consumers selected a known brand of peanut butter from among three choices, even though another brand was superior (according to the results of a blind taste test) and even though they had neither bought nor used the known brand.[4] Just being a known brand dramatically affected their evaluations. Even when the decision involves choosing a product like a computer or selecting an advertising agency, it is reassuring to buy the well-known alternative.

Awareness at the recall level further affects choice by influencing what brands get considered and selected. A University of Toronto researcher illustrated the power of recall in a study.[5] He showed that the mention of a brand a few minutes earlier substantially increased the probability that a customer would select that brand, even though the degree to which the person liked it remained unchanged. Purchase intention also increased when a secondary brand in the same product subcategory (local fast-food restaurants) was mentioned because it increased the chances that a fast-food option would be considered.

Perceived quality provides value by providing a reason to buy, differentiating the brand, attracting channel member interest, being the basis for line extensions, and supporting a higher price. In particular, the PIMS studies showed that perceived quality leads to higher prices (and higher prices act as quality cues). The price premium can increase profits or provide resources to reinvest in the brand.

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Brand associations include product attributes, customer benefits, uses, users, lifestyles, product classes, competitors, and countries. Associations can help customers process or retrieve information, be the basis for differentiation and extensions, provide a reason to buy, and create positive feelings.

For example, the Wells Fargo stagecoach captures a host of beliefs and feelings about a bank and organizes them into a coherent whole. Associations such as Ronald McDonald can create a positive attitude or feeling that can become linked to a brand. Associating a use context, such as heart attack prevention to a brand of aspirin, can provide a reason to buy that will ultimately attract customers. The link of the Hershey's brand name to chocolate can be exploited by introducing an extension, such as Hershey's chocolate milk.

Value to the Customer as Well as to the Firm

The exhibit shows that brand equity provides value to the customer as well as the firm in at least three ways. In addition, the resulting customer value becomes a basis for providing value to the firm.

First, brand equity assets can help a customer interpret, process, store, and retrieve a huge quantity of information about products and brands. Second, the assets can also affect the customer's confidence in the purchase decision; a customer will usually be more comfortable with the brand that was last used, is considered to have high quality, or is familiar.

The third and potentially most important way that brand equity assets, particularly perceived quality and brand associations, provide value to the customer is by enhancing the customer's satisfaction when the individual uses the product. For instance, knowing that a piece of jewelry came from Tiffany can affect the experience of wearing it; the user actually can feel differently because of Tiffany's perceived quality and associations.

Six Sources of Value for the Firm

The exhibit lists six ways that brand assets create value for the firm. First, brand equity can enhance the efficiency and effectiveness of marketing programs. A promotion, for example, that provides an incentive to try a new flavor or new use will be more effective if the brand is familiar and if the promotion does not have to influence a consumer skeptical of brand quality. An advertisement announcing a new feature or model will be more likely to be remembered and stimulate action if the potential consumer has a high-quality perception of the brand.

Second, brand awareness, perceived quality, and brand associations can all strengthen brand loyalty by increasing customer satisfaction and providing reasons to buy the product. Even when these assets are not visibly pivotable to brand choice, they can reassure the customer, reducing the incentive to try other brands. Enhanced brand loyalty is especially important in buying time to respond to competitor innovations.

Third, brand equity will usually provide higher margins for products by permitting premium pricing and reducing reliance on promotions. In many contexts, the elements of brand equity serve to support premium pricing or to resist price erosion. In addition, a brand with a disadvantage in brand equity will often have to invest more in promotional activity just to maintain its position in the distribution channel.

Fourth, brand equity can provide a platform for growth by brand extensions. The Heinz Co.'s Weight Watchers unit has been expanded and leveraged to produce a host of food products; this has created business areas that would have been much more expensive to enter without the Weight Watchers name.

Fifth, brand equity can provide leverage in the distribution channel as well. Like customers, channel members have less uncertainty dealing with a proven brand name that has already achieved recognition and has established strong associations. Further, by having a strong brand like Dole or Coca-Cola play a lead role in marketing across product lines, companies have the potential to gain efficiencies and synergies by use of the product's visual impact on the store shelf and in promotions.

Finally, brand equity assets provide a firm

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with a significant advantage: a barrier that prevents customers from switching to a competitor. For example, it would be difficult for a competing department store to make a claim that it has surpassed Nordstrom's or Harrod's on service. Such a firm may be forced to find another, perhaps inferior, basis for competition.

Achieving parity in name awareness can also be extremely expensive. A loyal customer base provides economies of scale and the freedom from aggressive customer conversion efforts.

Brand loyalty is one of the six ways that brand equity provides value to the firm because loyalty can be influenced by the other major dimensions of brand equity, awareness, perceived quality, and associations. Loyalty in some cases could be largely due to a brand's perceived quality or attribute associations. However, in other situations, loyalty can be very independent of the other brand equity dimensions.

It is possible, for example, to like and be loyal to a brand with low perceived quality (McDonald's) or dislike a brand with high perceived quality (i.e, a car like a Toyota). Further, loyalty can be largely based on habit. Thus, brand loyalty provides an important basis for brand equity that is sufficiently distinct from the other dimensions to be included separately.

JUSTIFYING THE INVESTMENT IN BRANDS

Investment to build or maintain strong brands can be difficult or impossible to justify when considering the short-term financial outlook. What is required is a vision and a belief that such investments will pay off. Weight Watchers and WordPerfect had such visions, made substantial investments, and were patient. The result was strong brand equity that did pay off.

A key to developing a vision and having faith in it is to understand the ways in which a brand can generate competitive advantage. Will awareness, perceived quality, loyalty, or associations be a key success factor for some businesses in your market? Exactly how?

With a vision established, it is necessary to be vigilant with your brands. The temptation is to put a priority in other areas, such as to correct a market-share problem or to pursue a cost reduction program; as a result, brand equity gets temporarily put on hold. This temptation is particularly strong when the organization's structure and reward systems do not protect brand equity. But building and maintaining strong brands is a full-time job.

Notes

[1] For example, Paul M. Schmitt in "Research Tools for the Nineties" (Chicago, Nielsen Marketing Research 1989) reports that loyalty levels for 50 major supermarket brands declined meaningfully from 1975 to 1987 and that a survey of adult department store shoppers involving 11 product categories showed that 41% waited for a sale and 16% more bought discounted merchandise not on sale. Further, the percentage of consumers who indicated that available brands for 13 product categories were more or less the same varied from 52% for cigarettes to 76% for credit cards ("Focus: A World of Brand Parity," report published by BBDO Worldwide, 1988).

[2] Robert Jacobson and David A. Aaker, "The Strategic Role of Product Quality," *Journal of Marketing*, October, 1987, pp. 31–44.

[3] David A. Aaker, "Managing Assets and Skills: The Key to a Sustainable Competitive Advantage," *California Management Review*, Winter, 1989, pp. 91–106.

[4] Wayne D. Hoyer and Steven P. Brown, "Effects of Brand Awareness on Choice for a Common, Repeat-Purchase Product," *Journal of Consumer Research*, September, 1990, pp. 141–159.

[5] Prakash Nedungadi, "Recall and Consumer Consideration Sets: Influencing Choice without Altering Brand Evaluations," *Journal of Consumer Research*, December, 1990, pp. 263–276.

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