The basics of brand equity

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What is brand equity?

In simple terms, brand equity refers to marketing effects that can be attributed to the brand. Suppose the mean purchase-intent rating received by a soft-drink in a blind taste test is 7 (on a 10-point scale). If the same soft-drink received a rating of 8 when the brand is identified, then - other things being equal - the difference of one point can be attributed to the equity that a brand has in consumers' minds.

Exhibit 1
Purchase intent of Brand A

Blind	* * * * * * *	7
Branded	* * * * * * * *****	8
	(***** Brand equity effect)	

As a consequence, brand equity has an impact on a company's balance sheet and has economic implications.

Brand loyalty can be seen from different perspectives. Of particular interest to marketing researchers is customer centred loyalty. (Customer in this context would include consumers - current, past and potential.)

Customer-centred brand equity

What do brands mean to customers? How do customers respond to the brand? What differential effect does brand knowledge have on customer response?

You will note that brand equity refers to the 'differential effect' of brand and not necessarily to the 'positive effect'. This is because, brand effect is not always positive. A brand that rates high on a blind test can score low when the brand is identified. Customer centred brand equity can be either positive or negative.

So three basic elements define customer-centred brand equity: brand knowledge, differential effect and customer response: Customers must have some direct or indirect knowledge of the brand, should respond differently on the basis of this knowledge and this response should be reflected in the way they perceive the brand and evaluate their preferences.

Brand knowledge affects brand image - the associations evoked by the brand. These associations result in brand images.

Brand awareness and brand image

Brand awareness is the first step in creating brand image. Awareness is created not only through advertising but also through other devices such as logos, packaging and associations (such as community sponsorship).

Positive brand image is created through favourable brand associations. There are three considerations here.

First, the brand associations should be salient: they should be aimed at increasing the probability of buying, repeat buying or recommending the brand to others.

Second, the brand associations should be strong. Do the associations come to mind readily? It is not enough if positive associations exist in customers' mind. They should be strong enough. Customers do not choose a brand from a set of all known brands. Rather, they choose a brand from a small set of brands that come to their mind unprompted when they think of a brand. This set, known as the 'evoked set', is considerably smaller than the 'elicited set' of brands, like brands that customers know about and can rate when prompted to by the researcher. The evoked set generally consists of brands with strong associations.

Third, at least some of the brand associations should be unique. For instance, reliability may be a good association for a computer. But if most brands are considered sufficiently reliable, then this association does not benefit one brand over another. It provides no rationale for choosing one product over another. Therefore, associations should not only be strong, but at least some of them should be unique if we are to create brand equity.

Why build brand equity?

Brand equity increases the value of a company that owns the brand. This is the result of several intervening factors.

Increased brand loyalty

Research by Ehrenberg and others shows that well-known brands have stronger positive associations compared to lesser-known brands. The intention to "stick to well-known brand names" has been evident for nearly 20 years (60% + or - 3%, according to DDB Needham Lifestyle Studies). We can infer from this that one main benefit of brand equity is increased loyalty. Strong brand loyalty can also make a brand less vulnerable to competitive efforts to lure customers away from the brand.

Increased margins

In Exhibit 1, we noted that the difference in purchase intent levels between the same blind and branded product can be attributed to brand equity. Another way of looking at brand equity would be to look at the premium a customer would pay to purchase a branded product compared to the same unbranded product.

Exhibit2
Price differential

Blind	* * * * * * * * * *	$10
Branded	* * * * * * * * * *	**$12
	(**$12** = Brand equity price differential)	

If we ask customers a question like "What incremental price would you be willing to pay for the following computers over an equivalent no-name brand?" and provide different brand names such as IBM, Compaq, Dell and Apple, the differences in price between the generic and the branded products can be viewed as the result of brand equity.

In many price sensitivity studies different brands are presented to the customer at the same price. Once a customer chooses one of the brands, the price of that brand is increased and the customer is asked to choose again. How much more would a customer pay for a given brand before considering switching? Using this method, equivalent prices are obtained for all brands. If a customer would pay up to $12 for brand A before switching to brand B at $10, the $2 difference needs to be accounted for. Some of the price differential could be attributed to other factors such as higher quality (if it is not simply a perception). Whatever difference cannot be attributed to other known brand differences can be inferred to be the result of brand equity.

For many innovative products, customers are willing to pay huge premiums for a trusted brand at the initial stage. However, as more and more competitors come into the market, the willingness of customers to pay a high premium decreases. This is the result of the brand having no unique associations (except as a reliable innovator at the beginning) that can be sustained over a period of time. Personal computers are a case in point. While initially some companies such as IBM were regarded as dependable and thus commanded higher premiums, in recent years most computers are considered to be equally reliable and therefore the premiums have declined. Even so it should be noted that some brands do command higher premiums even in a crowded commodity-like market. Brand equity almost always commands a premium although it may not always be large.

Increased marketing support

Because a brand with higher equity is in greater demand, retailers are likely to promote the brand more vigorously and provide shelf space more readily; distributors are likely to place their orders in advance, and provide other forms of marketing support to the brand more readily thereby increasing sales of an already popular brand.

Moreover, customers are more likely to notice and respond to offers and messages from a well-known brand than to respond to a lesser-known brand. Research studies show that promotion effects favour brands perceived to be of higher quality compared to brands perceived to be of lower quality. (For instance, refer to R. C. Blattberg et al., How promotions work, Marketing Science, 14, G122-G132.)

Increased marketing opportunities
Brand equity brings with it several marketing opportunities: brand extensions, brand upgrades, cross-sales, and name licensing, to name a few.

Customers who use a high equity brand are more likely to upgrade to a higher-priced version of the same brand. Customers tend to vest the brand name with such positive associations that they transfer these associations to other products carrying the same brand name. For example, many designers of ready-to-wear clothes tend to market other products such as perfumes based on their success as clothing designers.

Licensing opportunities arise when a company which has high equity brands (e.g. Mickey Mouse or Garfield) licenses these brands to other companies which in turn market their products under these brand names.

Exhibit 3
Benefits of Brand Equity:

- Increased Loyalty
- Increased Margins
- Increased Marketing Support
- Increased Marketing Opportunities

Exhibit 4
Brand Equity Framework

- Brand Equity Creation
- Brand Equity Measurement
- Brand Equity Management

Brand equity framework
Given that brand equity contributes to the bottom line, builds strong loyalty, resists competitive pressures, commands a premium, provides the basis for line extension and licensing opportunities, it becomes important for marketers to know how to create, measure and manage brand equity. Our primary focus as researchers will of course be on the measurement of brand equity, although our framework should include all aspects of brand equity.

Creating brand equity
As suggested earlier, brand equity is based on positive brand associations that are salient, strong and unique. So, creating brand equity depends on (1) creating a brand profile; (2) creating a marketing support program; and (3) transferring positive associations to the brand. (The framework and exposition I have adopted here are loosely based on the ones suggested by K.L. Keller in his recent book *Strategic Brand Management* , published by Prentice-Hall, 1998.)

1. Creating a brand profile
Creating a brand profile is the act of choosing brand elements that make up the brand. It is the selection of salient, strong and unique aspects that a marketer wants a brand to be associated with. There are five main considerations in creating a brand profile should cover five aspects: *memorability* (can the name be easily remembered and recalled?), *meaningfulness* (does the name imply credibility and create suitable imagery?), *transferability* (can the name be generalized across product categories and different cultures?), *adaptability* (can it be updated and easily adapted to contemporary standards?) and *predictability* (is the name legally secure and competitively protected?).

Exhibit 5
Five aspects of brand elements
1. Memorability
2. Meaningfulness
3. Transferability
4. Adaptability
5. Predictability

Keller points out that the first two criteria - memorability and meaningfulness - are offensive criteria whose objective is to create and build brand knowledge. The last three criteria - transferability, adaptability and protectability - are defensive considerations to maximize and protect the value of the knowledge structures created.

2. Creating a marketing support program
The brand profile created above needs marketing support. For instance, we cannot create a high quality image and yet have an inferior looking package, low price and poorly worded communication campaign. A good marketing support program would consider *product strategy* (does the brand possess the attributes to support the required brand associations?), *price strategy* (does the price support the required associations such as exclusivity or competitiveness?), *channel strategy* (are the outlets, point of purchase promotions and the actual channel design in line with the intended brand associations?), and *communications strategy* (do the media and advertising strategies augment and extend the positive brand associations?}

Exhibit 6
Marketing support strategies
1. Product strategy
2. Price strategy
3.Channel strategy
4.Communication strategy

Managing brand equity
Managing brand equity involves brand extension strategies, brand portfolio strategies, brand hierarchies and managing brand equities in a changing environment. These are basically marketing issues and we will not discuss them at great length in this series of articles, although we might touch upon these issues when they overlap with brand equity measurement strategies.

Measuring brand equity
Our main focus will be on measuring brand equity - the sources of brand equity, the outcomes of brand equity, conducting a brand audit, developing a tracking and management system. The next few articles in this series will concentrate on these aspects of measurement.

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