

Brand Equity and Brand Value

Companies must be realistic in what constitutes loyalty: A company is doing well if it receives over 30% of the purchases made by heavy users in its product category.

—Tom Duncan and Sandra Moriarty¹

LEARNING OBJECTIVES

In this chapter, you will learn the following:

- About the “pyramid” from brand awareness to **brand loyalty**
- How consumer allegiance to a brand becomes the brand’s “equity”
- How the revenues from this equity become the brand “value” to the firm
- How to measure **brand equity** and **brand value**
- About the **lifetime value** of brand loyalty
- About the trade-off between reach and depth

In Chapter 1, we explored some of the benefits of strong brands to consumers and to the firm. But what exactly is a “strong” brand?

¹Tom Duncan and Sandra Moriarty are cofounders of the Integrated Marketing Communications graduate program at the University of Colorado. The quote is from Duncan and Moriarty (1997, p. 42).

In this chapter, we identify what makes a brand strong and lay out a framework for how firms can build strong brands. Generally speaking, strong brands are brands with a high degree of recognition and affinity in at least one significant market segment. That is, there is some depth of affection on the part of the customers for the brand. But the brand also has to have a significant number of such customers. Some brands have a few dedicated fans, sometimes gathered in brand communities, but are also-rans in the market at large. Examples include Saturn, the GM brand discontinued in 2009, and Indian, the old motorcycle brand. Even the infamous car Trabant (see Figure 2.1) from East Germany has a dedicated following (Kelsey, 2010). But these are not strong brands.

Brands with loyal customers and with many customers will be considered strong. They have both high brand equity and high brand value. Brand equity comes primarily from a high level of customer affection and loyalty. It is the “depth” of **brand allegiance**. Brand value is the dollar value of a brand and depends critically on reaching many customers. It is the “reach” of the brand. Brand value can be seen as the “monetization” of the brand equity across markets. As we will see, the two criteria of depth and reach sometimes go counter to each other. It is easier to kindle affection among few, and reaching out to many customers can weaken the bond with the few. Whether to spend promotional dollars on existing core customers or on attracting new customers is a constant managerial problem.

BRAND EQUITY DEFINED

There are several definitions of brand equity in the branding literature. According to an online business dictionary, brand equity is “the brand’s power derived from the goodwill

Figure 2.1 A 1962 Trabant 601, Made in (East) Germany



Source: <http://vinson.hagleyblogs.org/2012/09/the-trabant/>

and name recognition that it has earned over time, which translates into higher sales volume and higher profit margins against competing brands” (<http://www.businessdictionary.com/definition/brand-equity.html>). It can also be thought of as that added value from a brand that makes a customer prefer one product over another product even though the products are otherwise indistinguishable. For example, Keller (2013, p. 41) viewed customer-based brand equity as the differential effect that brand knowledge has on consumer response to the marketing of that brand. The brand provides the tipping point in favor of one product.

In some branding treatments, the concept of brand equity has been used for all the positive associations that a brand name will gradually acquire over time. For example, Aaker (1991, p. 4) defined brand equity as “a set of assets such as name awareness, loyal customers, perceived quality, and associations that are linked to the brand and add value to the product or service being offered.” This added value from high brand equity will presumably translate into a competitive advantage.

In this book, brand equity is viewed as a measure of allegiance to the brand from its target segment. A brand with high equity will generally have a deep relationship with its customers, with favorable attitudes and high brand loyalty. The existence of fiercely loyal Coca-Cola drinkers and Apple fans mean that both brands have high brand equity. Of course, some cola drinkers might drink Pepsi when Coke is not available, and some Mac fans may still consider a PC model for work. But on average, brands with high equity can count on the allegiance from its loyal customers.

The equity for a given brand will typically vary across markets. The allegiance to a brand will usually be stronger in its home market than abroad. Lenovo, the Chinese PC maker, is strong in China but less so in the United States and Europe. Acer, the Taiwanese PC brand, is stronger in Europe than in the United States. Even inside countries there are differences. The Corona beer brand has higher equity in the American South and West than in the Northeast. For a brand manager aiming to raise brand equity, one major decision is whether it is better to focus on building increased loyalty in an already strong market segment or try to reach out to improve equity in another segment. This issue will come up later in several places in this book.

BRAND VALUE DEFINED

Brand value is the value of the brand as a business asset. It is based on the equity of the brand in each of the markets where the brand is available. It can be seen as the dollar price that one would pay to acquire the brand name and logo. In some interpretations it is the intangible “goodwill” embodied in the brand, accounting for its value on the balance sheet. In some countries, such as Great Britain, the brand value can be recorded separately as an asset on the balance sheet. In the United States, this happens only when a brand is newly acquired.

When branding professionals declare that the “brand can be a company’s most valuable asset,” they think of the brand value in monetary terms. Because these values are quite openly quoted and discussed—the Coca-Cola brand is supposedly “worth” close to

\$70 billion, for example—corporate management are starting to pay increasing attention to their brand value rankings. For example, when Korean Samsung overtook Japanese Sony in the **Interbrand** Top 100 Global rankings in 2005, Samsung's corporate management could proclaim that a major goal had been achieved (Quelch & Harrington, 2008). Since brand values tend to rise when the brand is extended across markets, many corporations have been focusing their marketing resources on establishing one or two “flagship” brands with multinational and even global presence (e.g., Johansson, 2012).

Brand equity and brand value are sometimes used interchangeably to identify “strong” brands. In general, this is not a big problem. Many global brands also have a loyal following in many countries—McDonald's, Nike, Apple, and Toyota are examples. These are strong brands. But for managerial purposes, it is important to recognize the difference between equity and value. Brand equity involves customer allegiance, loyalty, affinity, and other emotional ties. Brand value is a matter of dollars (or euros or yuans). A brand can have high loyalty but still not bring in much money. You might “walk a mile for a Camel,” as the old slogan went, but this might not be enough to bring in revenue to the brand. Another brand can have relatively low loyalty and still make a lot of money. Many convenience goods, for example, rely more on being easily available at an affordable price than worrying about brand loyalty. Dasani and Aquafina, the water brands from Coca-Cola and Pepsi, respectively, are world leaders but might not score particularly high on loyalty and affinity in any one market.

THE BRAND EQUITY PYRAMID

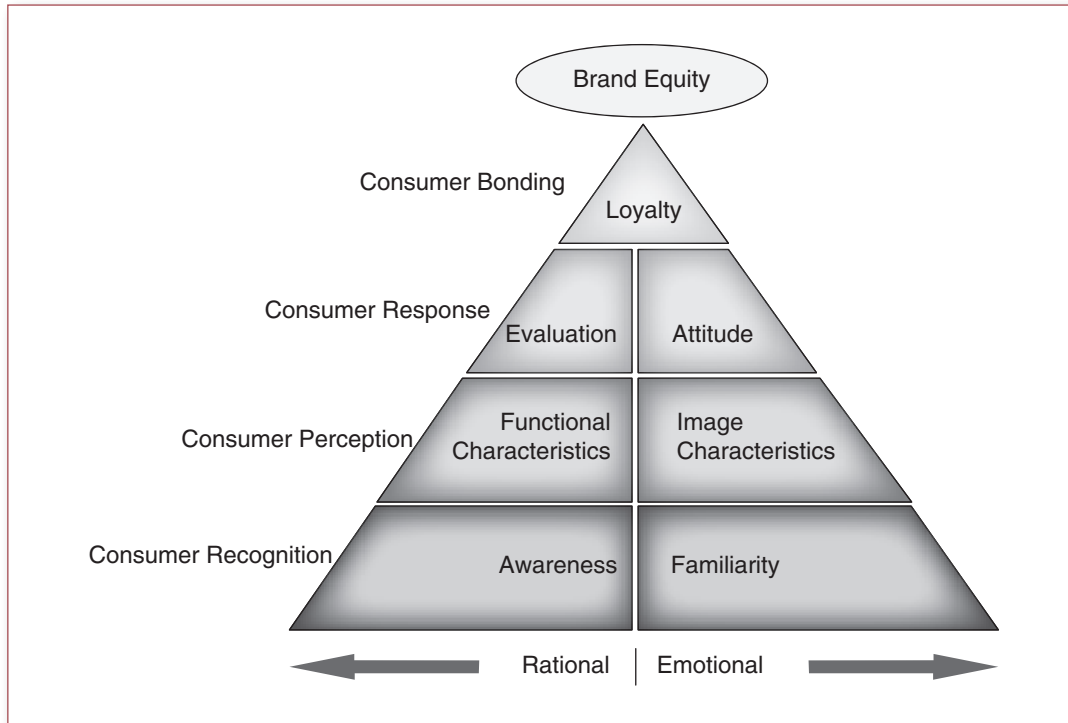
Managing a brand involves growing brand equity. But to grow brand equity, several stages of consumer acceptance need to be passed through. There is an initial stage when the brand has to create awareness and recognition of its name. Then follows the further development of knowledge and assessment of the brand, which leads into the stage where consumer attitudes and preferences enter. Finally, the brand may reach the stage of loyalty and trust.

The stages of increasing consumer allegiance can be shown as a pyramid with both rational and emotional factors (see Figure 2.2).

Consumer Recognition

A certain level of awareness and familiarity with a brand is necessary before a consumer can use the brand as a cue or information signal. At the most basic level, consumers are aware the brand exists. This level of recognition is not useful, as it does not allow the consumer to consider the brand as a solution to a problem. For this, a higher level of recognition is required. Specifically, consumers must come to recognize the brand as providing a solution for a specific problem. In other words, consumers must recognize the functional risk the brand promises to help remove.

Awareness of this sort can be built through promotional campaigns that create exposure, interest, and attention to the brand as a viable solution for the problem it promises to help

Figure 2.2 The Brand Equity Pyramid

Source: Adapted from Keller (2001); <http://www.knowledgenetworks.com/accuracy/fall-winter2010/shutterfly-pharma-fa112010.html>

remove. The basic information defining the brand identity drives the promotional messages, aiming to make the brand memorable and accessible in memory. This is the stage where the consumer starts feeling the brand more or less “familiar.” Reaching a high level of consumer awareness and familiarity can involve considerable promotional expenditures for a new brand.

Consumer Perception

The next level involves more in-depth knowledge of the product and service behind the brand and also the kind of image that the brand wants to convey. This is where the consumer develops a better understanding of the psychological benefits of selecting the brand. In particular, the consumer comes to believe that selecting this brand will help remove psychological risks associated with choices in the category. Naturally then, the consumer comes to understand what the brand stands for and begins to develop an internal image for the brand. The building blocks of this image are provided by promotional messages and

possibly product trials, but now the aim is the presentation of the value proposition of the brand and its positioning. The brand identity is still the basic driver of the perceptions, but gradually the messages attempt to highlight the superiority of certain attributes and points of parity (POP) with competing brands.

Consumer Response

In the next step, the attitudes and preferences of the consumers in the market come strongly into play. The response of the consumer has to be positive in terms of rational evaluation but also in terms of the attitude toward the brand. Creating the right associations and inducing trial and repeat is typically what brand management focuses on. If some of these associations have personality elements, the consumer may start to assign a personality to the brand. Segmentation plays a major role in brand management decisions—it is crucial to choose the right message, the right spokesperson, the right media, for the specific target segment. Tough decisions have to be made about whether the brand should be **niche brand** or a mainstream brand.

Consumer Bonding

The final step in the pyramid captures the sense that a consumer's allegiance to a brand can become a bonded relationship. When a brand provides functional risk reduction, psychological risk reduction, and opportunity for self-expression, it has all the necessary elements to forge a strong bond with its consumers. Brands that have personalities provide a unique value proposition in that they encourage the consumer to acquire, use, and display the brand to project the elements of the brand's personality onto themselves. Some writers have compared this level of bonding to that of a love relationship. For example, the well-known Hello Kitty brand from Japan's Sanrio company is one that is reputed to inspire some quite impassioned sentiments among its fans (see Figure 2.3). The "charm" is said to lie in the avoidance of giving the character a mouth, which then allows the owner to impute any comforting emotion to the doll (Johansson & Nonaka, 1996, p. 70).

One writer has coined the term *Lovemarks* to transcend the whole idea of a brand (Roberts, 2005). A Lovemark is a product, service, or entity that inspires "loyalty beyond reason" in this version. Not all writers go this far, but it is clear "bonding" in some form can be seen as a "marriage" between the consumer and her brand.

As the pyramid shape in Figure 2.2 suggests, the brand will appeal to an increasingly narrow segment at the highest level of allegiance. Empirically, the final bonding segment tends to be a relatively small part of the total market. The brand with such a fiercely loyal group of customers will also tend to have a strong brand personality, colored by those users. As will be discussed next, the choice between a narrow positioning appealing to a smaller segment with deeply loyal customers or leaving the positioning broader to capture less loyal customers as well is a critical managerial question that has to be decided after careful analysis.

In the pyramid, the brand equity of a strong brand seems to come from the top only, but the fact is that company will also benefit from positive judgments and feelings of a brand even among consumers who are not completely loyal.

Figure 2.3 The Hello Kitty Logo

Source: <http://lesleyanneyp.com/2013/02/what-is-the-hello-kitty-story/>

Brand management beyond the creation familiarity with the brand name and logo is a steep challenge. The brand manager needs to understand not just the functional strengths and weaknesses of the product behind the brand but also the underlying consumer motivations and attitudes and also how different media can be used to reach and persuade the target consumers. Strong brands have a deeper meaning to consumers far beyond simple awareness and knowledge. They have great presence in the marketplace, and they will usually appeal to more than just a loyal segment.

MEASURING BRAND EQUITY

Because of the importance attached to brand equity and brand value, several independent research agencies are in the business of assessing a brand's relative standing. Although each agency uses its own proprietary method, the equity approaches are generally customer-based and rely on survey responses from representative samples of consumers. Most agencies track many brands and product categories, showing how a brand and its competitors are perceived in different markets at home and abroad. In contrast to brand equity, brand value measurements are typically based on the financial reports with the

brand as an intangible asset of the firm. The brand value is then the return the company can expect from the brand asset over time. We will deal with the customer-based equity measurement first.

The basic assumption behind customer-based measures is that the equity of a brand resides in the consumers' attachment to the brand. Brand equity is related to higher perceived quality and lower functional risk but involves also a more emotional attachment to the brand itself. Accordingly, while the respondents to the typical questionnaire may be asked about the quality a brand, the questions attempt to cover questions about attitude and liking; image associations such as trustworthy and competent; semantic opposites such as warm or cold, active or passive; and so on.

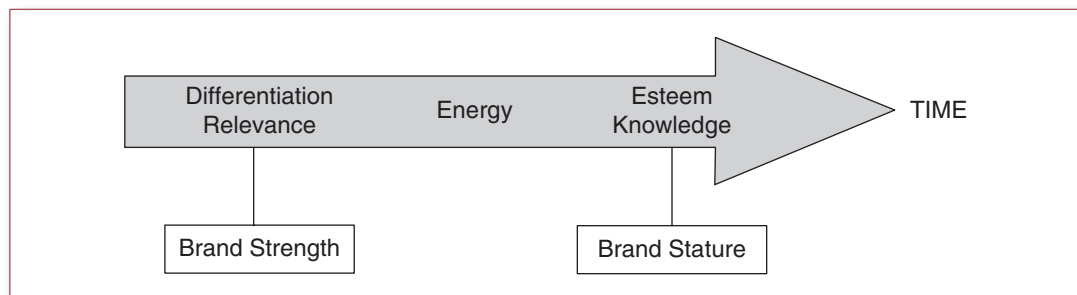
These various questions relate to the perceptions a respondent has to each particular brand. The responses are then grouped together using statistical analysis techniques—typically factor analysis—to identify the most basic dimensions that together constitute brand equity.

Brand Asset Valuator Model

One example is the approach used by Young & Rubicam, an advertising agency, to derive its **Brand Asset Valuator (BAV) model** (Aaker, 1996, pp. 304–309). This model sees brand equity as consisting of brand knowledge and esteem, summarized as brand stature. To arrive at a high level of brand stature, a brand needs to begin by building differentiation and relevance, which together constitute the two dimensions of brand strength. A simplified version of the BAV model is depicted in Figure 2.4.

The BAV “stature” of a brand emerges only over time. Relevance and differentiation are achievable relatively quickly through advertising, promotion and early trials. It takes longer

Figure 2.4 Young & Rubicam's Brand Asset Valuator Model of Brand Equity



Source: Adapted from Gerzema and Lebar (2008).

to establish a brand's stature, where the brand commands esteem and high familiarity. "Knowledge" here should be interpreted broadly. Knowledge is more than the traditional awareness of a brand, or share of mind. It measures whether there is a true understanding of what a brand stands for, what its products and services are, its positioning, and its values. The "energy" component has recently been added to reflect the momentum that a dynamic brand has. Energy is the dynamism in a brand. It is the consumer perception of motion and direction in a brand.

How to combine the scores on the "pillars" of BAV's brand equity model is not obvious. A brand with high equity will generally have both stature and strength. But one cannot simply sum up the scores on each of the four dimensions. For example, a highly differentiated brand might not be able to score very highly on relevance, since it likely targets only a niche in the market. Therefore, most companies use the BAV model to diagnose on what dimensions the brand is strong and where the brand needs more support (Gerzema & Lebar, 2008, pp. 44–49). A familiar brand scoring high on knowledge might concentrate promotional spending on raising its esteem score, for example.

EquiTrend

An alternative customer-based brand equity measure is the one provided by **EquiTrend** from Harris Interactive, another research firm. In EquiTrend, the brand equity is computed as a product of three factors: (1) familiarity, (2) quality, and (3) purchase intention (Johansson, Dimofte, & Mazvancheryl, 2012).

To calculate brand equity, the familiarity score is first weighted, giving more weight to the very familiar consumers. The mean of quality and purchase consideration is then multiplied by the weighted familiarity measure. The result is translated into an index from 0 to 100 (Johansson et al., 2012). Table 2.1 shows the top EquiTrend brands and their scores in 2012.

EquiTrend also measures overall relevance by averaging the equity score across all respondents, regardless of familiarity. Similar to the BAV model, EquiTrend also provides measures of a brand's distinctiveness. The EquiTrend data are used by companies to assess not just brand equity but also the degree to which the brand is unique and without direct competitors. This means that for EquiTrend a high score on brand equity can still be found for a brand that is relevant to a relatively small market. For example, Yuengling is a comparatively small brand (mainly distributed on the U.S. East Coast) but has the allegiance of its customers and a favorable ranking in terms of brand equity at 65.60. For comparison, among the larger brands Heineken came in 9th place with a score of 54.48 and Corona in 10th place at 53.93. Bud Light beer, the leading brand in the United States, scored a low 49.43, below the beer category average of 53.91.

MEASURING BRAND VALUE

The financial value of a brand is the amount that a brand is worth in terms of future revenues. The projected revenue stream depends naturally on the level to which the brand

Table 2.1 Top EquiTrend Brands in 2012*

1.	Amazon.com	79.09
2.	Google	76.27
3.	Hallmark	74.51
4.	Craftsman (Sears)	74.47
5.	Microsoft	74.04
6.	Lay's Chips (PepsiCo)	73.95
7.	Subway	73.07
8.	Home Depot	72.81
9.	Coca-Cola	73.30
10.	Rubbermaid	71.80

Source: <http://www.harrisinteractive.com/Insights/EquiTrendRankings.aspx>

*Not including candy and chocolate brands.

attractiveness and consumer allegiance can be maintained going forward, but at the heart the brand value is the net present value (NPV) of the expected cash flow. When a company is acquired, its brands may be worth more than any other assets.

The specific details of the brand value measures are less transparent than the survey methods. Nevertheless, the main features of the approach can be identified. The objective is to convert the value of the brand into dollars and cents. To do this, the approach attempts to identify how much of a company's revenues and profits are due to the brand itself.

The share of revenues and profits due to the brand requires an assessment of how much the company would make without the brand. This is akin to asking how much a generic brand would make—for example, how much would Coca-Cola make if it were just another cola? The answer is typically derived in two steps. First, for the product category, how important is the brand? Second, how strong is the brand in question? Thus, for the cola example, how important is the brand in the choice of colas? Then, how strong is Coca-Cola relative to competition? Those two factors together are assumed to explain how much the brand is worth.

To get the actual dollar figures, the starting number is often the intangible earnings of the company. The actual computations are complex and are proprietary as well. But for management it is useful to at least have a sense of what is involved. The approach used by Interbrand is instructive (see Calculating a Brand's Financial Value box).

Calculating a Brand's Financial Value

Interbrand's calculation of a brand's value can be broken down into eight distinct steps, as follows (Lindemann, 2004):

- Step 1. Identify the separable markets/market segments where the brand is sold.
- Step 2. Estimate intangible earnings in each market as brand revenue less operating costs, taxes, and cost of capital employed.
- Step 3. Assess the role of the brand in intangible earnings to get a "branding index." First ID the demand drivers (e.g., price, advertising), then the role of the brand in the drivers' effectiveness (e.g., lowering the price elasticity). The closer this index is to 1.0, the more important is the brand for the product category. A value close to zero here means that the brand has no impact for this category.
- Step 4. Calculate present earnings due to the brand by multiplying the intangible earnings in Step 2 by the branding index.
- Step 5. Estimate the competitiveness of the brand to derive a "brand strength score" that indicates the long-term viability of the brand.
- Step 6. Calculate the appropriate discount rate as a function of the brand strength score—stronger brands have lower discount rates.
- Step 7. Compute the NPV of the projected future earnings attributable to the brand, using present earnings and the applicable discount rate.
- Step 8. The total brand value is the sum of the brand's NPV in each market.

Note that the calculations focus on the intangible earnings, which can be derived from the annual reports. From a branding perspective, the two key steps are Steps 3 and 5. In Step 3, a "branding index" is estimated. This is a measure of the share of intangible earnings due to the brand. In Step 5, the calculation involves how the brand will fare in the future. The brand strength score goes higher (and the discount interest rate lower) if the brand can easily defend itself against newcomers.

The brand strength scores typically vary across segments and markets. Microsoft is a company whose brand strength is very high, since the company has such a dominant share of the market. But what might happen in the future is also important. Apple, for instance, may have a lowered brand strength score because its future will depend very much on how the company will fare after Steve Jobs. A consequently higher discount rate means future sales are less certain.

For the top brands, the resulting brand value rankings for the top brands become a source of “bragging rights” for company CEOs. Interbrand releases its annual “Top 100 Global Brands” in *Business Week* while its main competitor Millward Brown releases its “BrandZ Top 100” report in *The Financial Times*. The brand values reach remarkably high levels. Table 2.2 offers a comparison between the top 10 Interbrand (<http://www.interbrand.com/en/best-global-brands/2012/Best-Global-Brands-2012.aspx>) and BrandZ from Millward Brown (http://www.millwardbrown.com/BrandZ/Top_100_Global_Brands.aspx).

As can be seen, there is also some disagreement in exactly how valuable some brands are. For example, the large difference in dollars attributed to the Apple is surely a reason for caution. Things may have changed somewhat between May and September but hardly much. The Samsung brand’s strong showing in Interbrand rankings with \$32.9 billion is not really reflected in BrandZ, where Samsung is worth \$14.1 billion, with a rise of 16% but in 55th place. As the agencies readily acknowledge, these numbers do not really reflect brand equity (customer allegiance) but sometimes monopolistic market power (China Mobile), simple reach (Google), and possibly temporary advantages (AT&T and Verizon with the iPhone).

Two things should be pointed out. One, most of these brands are global, with reach into major markets in the world. Second, one might have expected the well-known luxury brands to score higher. They do score well but are still behind more mundane products. In

Table 2.2 Top 10 Global Brands in Value, Interbrand and BrandZ Rankings 2012

Interbrand (September 2012)			Millward Brown’s BrandZ (May 2012)		
Brand	Value \$M	Change	Brand	Value \$M	Change
1. Coca-Cola	77,839	8%	1. Apple	182,951	19%
2. Apple	76,568	129%	2. IBM	115,985	15%
3. IBM	75,532	8%	3. Google	107,857	−3%
4. Google	69,726	26%	4. McDonald’s	95,188	17%
5. Microsoft	57,853	−2%	5. Microsoft	76,651	−2%
6. GE	43,682	2%	6. Coca-Cola	74,286	1%
7. McDonald’s	40,062	13%	7. Marlboro	73,612	9%
8. Intel	39,385	12%	8. AT&T	68,870	−1%
9. Samsung	32,893	40%	9. Verizon	49,151	15%
10. Toyota	30,280	9%	10. China Mobile	47,041	−18%

Source: Interbrand (www.interbrand.com) and Millward-Brown (www.millwardbrown.com).

the Interbrand rankings, Louis Vuitton comes in at number 17, with a value of \$23.6 billion. In BrandZ, Louis Vuitton is also the highest, at number 21 with \$25.9 billion. In beer, with many global brands, the highest ranking brand is Budweiser. It comes in at number 31 in the Interbrand list, with \$11.9 billion, a decline of 3% from 2011. Corona comes in as number 89 with a worth of \$4.1 billion, a rise of 3%. Heineken is at number 92 with \$3.9 billion and also a 3% rise. In the BrandZ listing, Budweiser is at number 48, with a value of \$15.9 billion—no increase. Of this total, Bud Light is valued at \$8.4 billion, rising 17%. Heineken (at \$6.1 billion and minus 8%) and Corona (at \$5.1 billion and minus 6%) are not ranked among the top 100 brands.

REACH VERSUS DEPTH

As we have seen, a strong brand does not only have deep “vertical” allegiance among consumers but also a wide “horizontal” reach into many markets. The issue of *depth* of consumer attachment versus great *reach* of the brand is particularly critical in measuring the equity and value of global brands. In an effort to rank the most powerful global brands, Forbes decided in 2012 to develop a measure that combines both the value of the brand and its customer equity.

To determine the best global brands, Forbes started with a universe of more than 200 global brands (Badenhausen, 2012). The chosen brands had to have more than a token presence in the United States, which eliminated some big brands like China Mobile, the world’s largest mobile phone provider.

First the brands were ranked on financial metrics, and earnings over the past 3 years were averaged. Next, similar to Interbrand, a percentage was used to derive earnings due to the brand based on the role brands play in each industry. Brands were considered crucial for beverages and luxury goods, less for airlines, for example. This resulted in a final sample of 130 brands each valued at more than \$2.5 billion. The earnings were indexed so that the top score would equal 100.

To get at the brand equity and consumer allegiance part, a sample of 2,000 global consumers was surveyed on their perceptions of the brands on 13 attributes such as the following: “invests in innovative ideas and research,” “positively impacts the everyday lives of its customers,” “maintains high standards of quality in its products,” and “understands and addresses my unique needs.” Ratings were averaged and the scores were added to derive a sum score for each brand. The sum was indexed so that the top score would equal 100.

Forbes then averaged the two scores to determine the world’s most **powerful brands**. The result is listed in Table 2.3. It is the combination of financial value and positive consumer sentiment, which puts the Apple brand on top of this inaugural list of the most powerful global brands. But the brand value ultimately carried more weight because of the wide disparity in values, which range within the top 100 from Apple at \$87.1 billion to Armani at \$3.1 billion.

Note that in terms of consumer perceptions, Apple is not at the top of the list, getting beaten by Microsoft, Intel, Google, and BMW. McDonald’s in particular seems to receive

Table 2.3 Forbes' 2012 Rankings of the 10 Most Powerful Global Brands

Rank	Brand	Brand Value	Consumer Perception	Revenue (\$Bil)	Advertising (\$Mil)	Industry
1	Apple	87.1	11	108.2	933	Technology
2	Microsoft	54.7	1	73.7	1,600	Technology
3	Coca Cola	50.2	29	22.8	3,256	Beverages
4	IBM	48.5	20	106.9	1,373	Technology
5	Google	37.6	7	36.5	1,544	Technology
6	Intel	32.3	6	54.0	2,100	Technology
7	McDonald's	37.4	85	85.9	769	Restaurants
8	GE	33.7	49	124.7	-	Diversified
9	BMW	26.3	5	73.7	-	Automotive
10	Cisco	26.3	15	46.1	325	Technology

Source: Badenhausen (2012).

surprisingly low consumer allegiance scores, but this is probably a reflection of its wide reach. The larger the brand is in terms of reaching different consumers, the more difficult it is to maintain a unique consumer allegiance.

Both brand equity and brand value measures have their proponents. Brand equity measures are sometimes seen as “soft” measures since they are based on perceptions and attitudes, not easily translated into revenues and profits. The financial brand value measures by contrast are “hard” measures, clearly identifying the expected revenue streams. But the precision in these dollar figures can also give the misleading impression of accuracy. Managers need to remember that they are just projections into an uncertain future—and the differences in the two listings show the uncertainty of these projections.

There are very few published studies directly comparing customer-based and financially based brand measures. One recent study of global brands in the 2008 financial crisis does shed some light on which measure seems better (Johansson et al., 2012). The study found that the share prices of top value brands (from Interbrand) fell 32.9%—even more than the stock market as a whole (the S&P 500 dropped about 30.3% in the 4-month September-to-December 2008 period). At the same time, the shares of the brands with the highest equity (from EquiTrend) fell significantly less than the market (29.5%). The customer-based equity measure outperformed the financially based brand value measure. The article concluded that in an economic downturn, customer allegiance to the brand is a better predictor of brand strength than a possibly over-optimistic financial projection of future revenues.

Regardless of what measure is used, it is important to track brand equity and brand value over time. According to the BAV model, a strong brand needs “momentum,” for example,

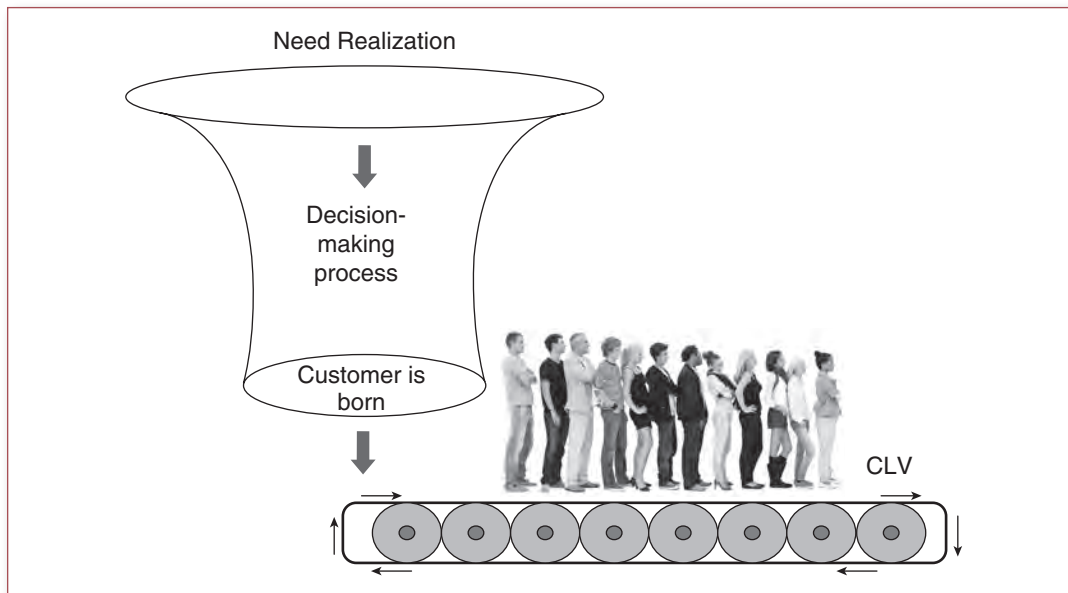
and rising equity over time is important (Gerzema & Lebar, 2008). A strong brand also needs to best competition, making brand equity a matter of comparative advantage. This means brand equity and brand value measurement needs to be repeated over time and also cover major competitors. Such measurement is expensive. This is why measuring brand equity and value has become an attractive business opportunity for independent research agencies that can syndicate their periodical reports and sell them to all firms in an industry.

LOYALTY AND CUSTOMER LIFETIME VALUE

One hears a lot about the intense devotion of some consumers to their favorite brands. It is perhaps most prominent among Apple users, Harley-Davidson bikers, BMW (and now Audi) drivers, and Coca-Cola loyalists. The brand has to generate excitement, happiness, and involvement and, yes, even love. Instead of attracting many and perhaps new customers, the brand manager should focus on building relationship with existing customers (Reichheld & Sasser, 1990)

The stress on brand loyalty is often couched in terms of the lifetime value of a customer (known as CLV, or customer lifetime value). The CLV is the net present value of a customer over his or her expected life span with the company. Figure 2.5 shows the basic idea of a

Figure 2.5 The Customer Lifetime Value



Source: Istockphoto.com/Yuri

Note: CLV = Customer Lifetime Value

customer being “born” and then how that customer generates value for the firm over his or her lifetime.

Studies have demonstrated the advantages of focusing on customers with high CLV (Blattberg & Deighton, 1996; Gupta et al., 2006). One particular case where CLV becomes prominent and obviously beneficial is where brand loyalty is based on “stickiness.” Stickiness refers to the case where an initial investment by the consumer necessarily leads to further purchases in complementary products. A typical case is where a consumer opts for an iMac Desktop, for instance. Later purchases of applications and accessories and upgrading will more likely involve other Apple products. The required complementarity makes the brand loyalty a matter of stickiness, convenience, and learning rather than brand allegiance as such. In these kinds of cases, the recruiting of a new customer from a competitor can be exceedingly expensive, justifying the typical CLV argument about the relative cost of attracting new customers (Reichheld & Sasser, 1990).

For many smaller brands, however, sales and profit results are not usually sufficient to allow the company to focus on retaining existing customers. A niche strategy with smaller market share does not have enough customers to support a full branding program. The few loyal customers do not buy enough to justify the spending. Brand management also has to see to it that the brand reaches a larger market and moves into new markets. Empirically, the data show that in many cases marketing resources are better spent on attracting new customers. This alternative strategy becomes increasingly preferable the smaller the brand’s market share is.

To grow a small brand, the brand manager should focus more on increasing **brand reach** than **brand depth**. Widely known brands reap the benefits of being the “second choice” regardless of loyalty levels. On any one purchase occasion, situational and other factors (brand availability, gift buying, variety seeking are examples) could derail the loyal choice. Then a widely known brand that is not the one the buyer is committed to is often chosen. As data analysis has shown, the probability of a brand being chosen as a “backup” choice is almost proportional to its market share (Sharp, 2010, claims this is one of the few “laws” of marketing).

The fact is that in most product categories, most buyers are only light users. Light users are usually not as bonded and loyal as heavy users. Loyalty programs do not usually attract new customers or light buyers; these customers generally see less value of the programs. In addition, many customers participate in several competing loyalty programs. Empirical data show that even when most brands feature loyalty programs, there is a lot of brand defection (Sharp, 2010). This means that loyalty programs become mainly a necessary defense against losing customers. In addition, the evidence shows that for at least low-involvement products such as most consumer packaged goods (CPG), convenience and availability often dominate any feeling of loyalty.

GROWING A STRONG BRAND

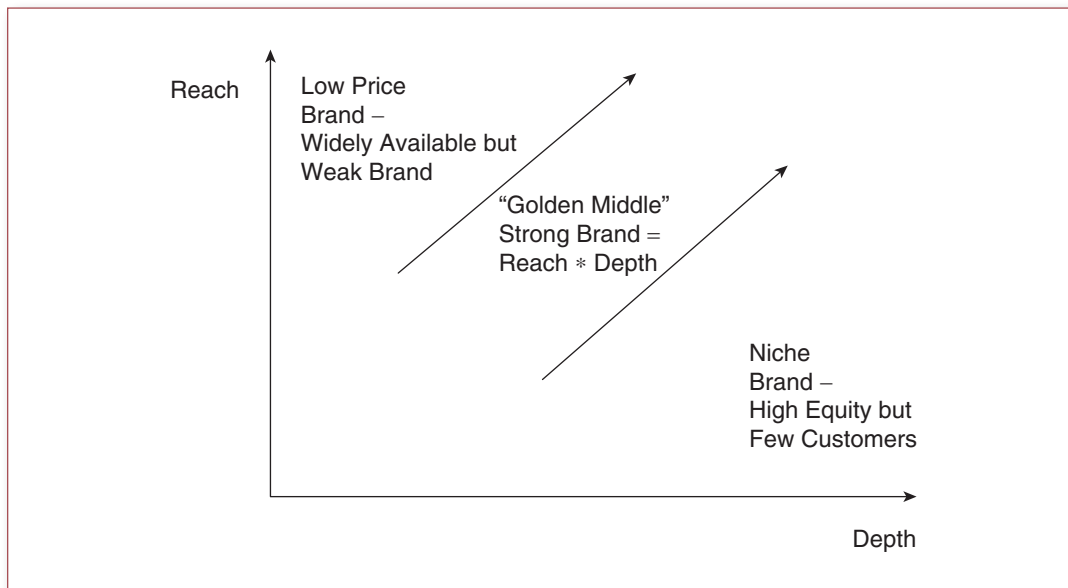
The basic brand strategy suggested by the consumer-based **brand equity pyramid** model is to move each customer from awareness to positive affect to loyalty. This is useful insofar

it goes. Customer relationship marketing and loyalty programs are examples that fit into this strategy framework. But a strong brand grows not only with depth of allegiance but also with reach across a market. A strong brand is one that has both great depth and great reach (see Figure 2.6).

The strategy to increase depth is more readily appreciated. It is the one that refers to the Harley-Davidson aficionados, Apple communities, and Virgin's frequent-flier patrons. It fits well with the so-called customer-based measures of BAV and EquiTrend, and with the awareness-to-bonding pyramid. But a strong brand also involves reaching out to a significant share of the market. This does not mean discounting prices and mass merchandising. Low prices and mass outlets will more likely reduce brand equity without a compensatory rise in brand value, as companies such as Casio, Dell, and Reebok have learned the hard way.

"Reaching out" entails letting many consumers know about the brand and making the brand acceptable, liked, and, if not becoming the first choice, at least to be in the consideration set. It a strategy is to attract the light and more fickle consumers. Such a strategy focuses on making the brand easy to find, safe to choose, and simple to purchase. It is less concerned with exclusive commitment and more concerned with being physically and mentally available.

Figure 2.6 The "Golden Middle" Where Strong Brands Have Both Reach and Depth



Of course, everything else the same, getting any one consumer to progress from brand awareness and knowledge to affinity and bonding is useful and beneficial for sales. The idea is that loyal brand bonding does the selling job. But courting one customer at a time can be too expensive—the amount of sales generated by one customer is simply too small. This is why some high-end companies like Mercedes-Benz, Giorgio Armani, and Martha Stewart try to introduce slightly lower-end model versions. One might think that among the so-called heavy users the purchase frequency and amounts ought to justify focused marketing expenditures. Again, however, the data show how mistaken this strategy can be. Even in cases where the 20% of “heavy users” account for 80% of total sales—cases in point are colas and beer—there is still a large number of sales to light users. As research shows, the so-called Pareto share in most categories is only about 50% in a year, meaning just half of the sales come from the top 20% of the customers (Sharp & Romaniuk, 2007). The 50% light users also contribute revenues.

A successful branding strategy should certainly involve making existing customers more loyal. However, the strategy should also aim to make the brand more distinctive, widely available in a cluttered store environment (physical availability) and with easily recognized name, logo, and coloring. The stress should be on distinctiveness; with true product differentiation difficult to maintain, for many categories, the consumer makes decisions quickly and without much premeditation. This is why brand loyalty also still is important; from the consumer’s viewpoint, it simplifies the choice, even without necessarily engendering a passionate outburst.

SUMMARY

Customer-based brand equity represents the culmination of the effort to connect the brand into a meaningful relationship with the customer. The new brand moves from awareness and familiarity to positive customer perceptions and attitudes and ultimately bonding. The dollar value of the brand increases with the depth of allegiance for a high equity brand but also rises as the brand expands into many markets. Even if the new customers do not become loyal to the brand, the increased exposure and availability boosts the brand value. The available financial measures of brand value show the highest scores for the largest brands, a reflection of the importance of growing the brand by reaching new markets, making global brands particularly valuable in monetary terms.

Extensive customer relationship programs are useful in raising loyalty scores among existing customers and increasing CLV. However, the expense of loyalty programs is often not justified for smaller brands with few existing customers—partly because even loyal customers may defect for lack of brand availability and other reasons. In addition, many loyalty programs reward customers for purchases they would have made anyway. This is why the manager of a small brand is often better off growing the brand by expanded reach.