Managing Brand Equity

• Why is branding important?
  • improves efficiency of marketing
  • improves leverage with trade
  • intensifies loyalty
  • basis of price premium (on average, prices of strongest brands were 19% higher than weakest brands in category)

• How do brands work?

• What makes a brand strong?
  • ownership of a single, relevant benefit in the consumer’s mind
  • perceived superior quality
Benefits of Branding

Attributes
- Awareness (aided)
- Top-of-mind
- Positive associations
- Distinctive value proposition (brand promise)
- Consistent delivery

Benefits
- Traffic
- Consideration
- Loyalty
- Premium price
- Increased leverage opportunities

Brand
- Personality
- Presence

Name

Power Brand
(Sony, Xerox, Coke, Mercedes, Virgin, Disney)
Benefits of Brands to Consumers

- Simplifies choice process
- Enhances confidence in choice
- Reduces perceived risk – recognition of consistency of quality
- Provides emotional benefits – signal of status, taste, or affiliation

Implication: Brand equity is built on the continuity of a relationship – not a series of transactions
How Do Brands Work?

Customer Retention

- Credit
- Confirmation
- Pre-purchase activities
- “In-store” experience

Customer Acquisition

- Consideration
- Conversion
- Post-purchase activities
- Ownership experience

Trigger → Purchase

Source: Peter Farquhar
Building Strong Brands

- Is there a meaningful point-of-difference?
- What is the value proposition/brand promise?
  - associations
  - personality
- Are all parts of the organization consistently reinforcing the brand promise?
- Who will get the credit (or blame) for product or service quality?
When you think of (insert cue), which brand comes to mind?

Network of Associations
- Family protection
- Excitement
- Driving control
- Economical value
- “Smart buy”
- Durability
- Purchase price
- 
- Traction
- Michelin (USA)
- Safety
- Radial tires

Customer
- Basic values
- Core benefits
- Functional consequences
- Product features

Product

Contextual frame

Cue

Brand

Associations
<table>
<thead>
<tr>
<th><strong>Challenges to Brands</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market</strong></td>
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<tr>
<td>Consumer skepticism</td>
</tr>
<tr>
<td>Proliferation of competitors</td>
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<tr>
<td>Private labels</td>
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<tr>
<td>Aggressive/knowledgeable retailers</td>
</tr>
<tr>
<td><strong>Internal</strong></td>
</tr>
<tr>
<td>Underinvestment</td>
</tr>
<tr>
<td>Extravagant price spreads</td>
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<tr>
<td>Proliferation/dilution</td>
</tr>
<tr>
<td>Short-termism</td>
</tr>
</tbody>
</table>

**Opportunities**

- Globalization
- Emergence of large middle-class in developing countries
- Changes in demographics
- Consumers crave information when products are undifferentiated
- Brand manufacturers are category experts
Features of Global Brands

• Strength in home market
• Geographical sales balance
• Consistent positioning
• Addresses similar consumer needs worldwide
• Country of origin provides customer value
• Product category focus
• Easy to pronounce name
Approaches for Valuing Brands

1. Cost
   • Original cost to develop brand
   • Replacement cost

2. Market Valuation
   • Premium paid over book value

3. Income
   • Discounted value of future net revenues
     • Price premium over generic
     • Future brand extensions

4. Multi-factor Index
Brand Equity =

\[
\text{Adjusted Net Income (after tax)} \times \text{Brand Strength}
\]

- Ability to influence market
- Ability to maintain a consumer franchise
- Vulnerability of market demand to changes in taste or technology
- International scope
- Long-term appeal to consumers
- Strength of communication support
- Security of legal or property rights

Brand Valuation Using the Interbrand Index

Adjusted Net Income (after tax) less earnings expected for an equivalent unbranded product

Brand Strength multiples range from 6 to 20
The Value of the Kellogg Name

1994 World-wide Operating Income = $1.00 billion
Less: Operating Income of equivalent unbranded product* - .09
Adjusted Operating Income 0.91 billion
Less U.S. corporate tax (.34) - 0.31
Net income 0.60
Estimate of brand strength x 18.76
brand value = $11.25 billion

*Estimated capital investment to produce sales of $5.5 billion = .32 x 5.58
  = $1.76 billion

ROCE for equivalent unbranded = 0.05 x $2.76 billion = .09 billion