Brand equity and the bottom line

Peter Walshe and **Helen Fearn**, Millward Brown, show how brand equity measurement can provide a guide to a brand's future performance

GAINING UNFAIR ADVANTAGE over other brands, through entirely legitimate means, is much more valuable than plodding along equitably. The equity of a brand is its (unfair) advantage.

Only through having a great relationship with the consumer target can a brand create advantage. This advantage may be based on sound business basics, good company ethics, a product that delivers a truly excellent experience, a clear or unique positioning associated with the brand, ideally with interesting and relevant communications. But, ultimately, that advantage has to be financial.

This article will show the work we have done in determining the financial value of brands and the monetary advantage of having strong equity. We then illustrate how to diagnose the brand relationship to determine the power of the brand in the present, and report on our latest work in estimating the extent to which the brand is primed to succeed or fail in the future.

Why the brand is important

It is true that many consumers shop by habit, are drawn to purchase by promotions, or simply do not pay much attention to which brand they buy. But for those brands that do force their personality into the consciousness of enough relevant consumers, there is a huge financial advantage. But how do we measure this?

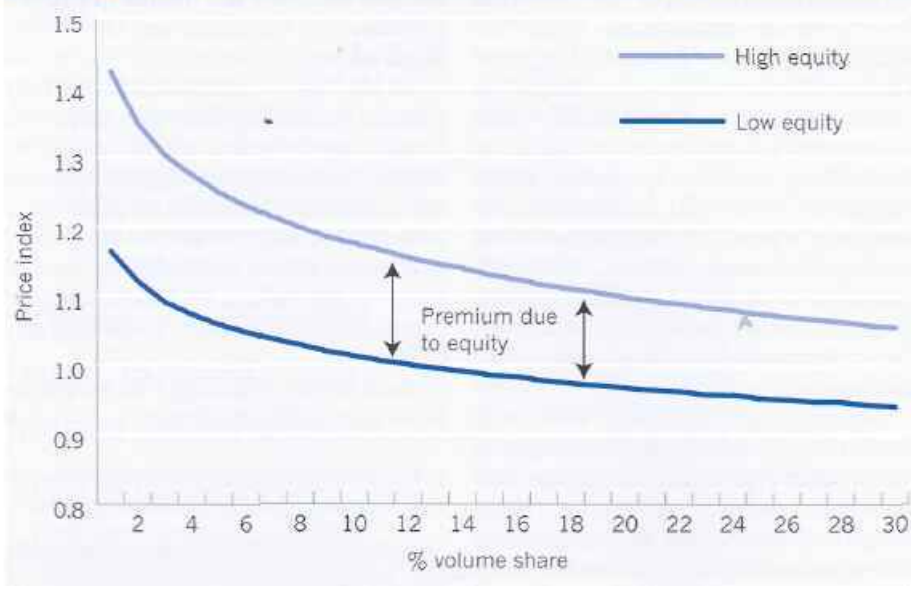
Millward Brown has created a world-class valuation of brands (the BRANDZ™ *Top 100 Most Powerful Brands*, about to be published for the third year this spring). This values brands with a unique input - the consumer relationship that the brands command - to determine rigorously the financial contribution of the brand. The BRANDZ ranking is the first to combine publicly-available financial data with primary research data. The primary research comes from WPP's BRANDZ, the world's largest brand equity database, for which we have interviewed over one million consumers about almost 40,000 brands worldwide over the last ten years.

As economies become global, intangible assets have replaced tangibles as a major source of shareholder value. Of these intangibles, brands are often the most valuable assets, accounting for approximately one-third of the value of today's *Fortune* 500 companies.

Is your brand primed to succeed or fail in the future - will it stay healthy?

FIGURE 1

The high-equity price differential



Some companies have more advantaged brands than others; as an example we have compared an automotive brand with a financial brand, a bank. Both come out to have almost the same brand value. In this case the financial brand has a much greater intangible value (about double), but only about half the sales are due to loyal consumers. The brand contribution for the bank is half that of the car; the result is that both are about the same in terms of brand value (in our example approximately the same as the gross domestic product of the yoth biggest country in the world!). The prize for the bank if it leverages its brand more favourably is potentially immense.

Improving brand contribution

It is easier said than done. There are three components that need to be taken into account.

1. The 'structural' barriers that prevent customers switching to the brand they prefer: some categories have great inertia due to the difficulties of switching - and here the bank would be at a disadvantage to the car brand, with much greater inertia in the financial industry compared to automotive. It is interesting to see that as regulation changes in markets such as

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mobile operators and telecommunications make switching easier for the consumer, the average brand contribution level starts to rise in these categories.

2. The attitude of the purchaser within a sector overall: is the sector one where brand choice is important, or is it more commoditised, with price and convenience being the more dominant factors? For many, the choice of petrol is rarely brand-led, for example.

3. Finally, the strength of the relationship between the buyer and the brand: are they just aware of it, or do they have a strong bond with the brand, knowing why it is different, what it uniquely stands for, and thus believing it to be a better choice because of a range of rational and emotional aspects?

Sustaining a price premium

Higher equity means a brand can charge a higher price. We have looked at a variety of brands of differing sizes and indexed their price against the category. It is abundantly clear that brands with higher equity have a price premium over lower equity brands. The bigger the brand the lower the price - but this reflects scaling and resulting price efficiencies, and still shows the price 'gap' due to better equity (see Figure i).

We have established that brands and the equity of brands are important, but what do we mean by 'equity'?

To have and to hold'

Equity can mean all things to all people, from the broadly attitudinal 'What do consumers currently think of my brand?' and 'What do I need to do and say to grow my brand?' to questions that have hard financial outcomes, like 'Does my brand have the potential to carry a premium?' and 'what is my brand actually worth?'

We have seen above that the financial value of a brand can be measured by taking into account structural barriers to switching, dynamics of the category and the overall relationship the consumer has with the brand. It is this relationship that we can assess by measuring consumer attitudes towards the brand.

In the same way that human relationships are structured by ever-increasing levels of closeness, our relationships with brands follow the same pattern. From the casual acquaintance, of whom our only real knowledge is that they exist - a 'friend of a friend' - to the person we choose to spend most of our time, and indeed maybe even the rest of our lives, with.

At Millward Brown we illustrate this relationship using a five-level framework. The first step is 'Presence' - for any connection to exist there has to be a level of awareness between the two parties. In brand terms we say that a consumer has 'Presence[1] for the brand if they have tried it, are unaidedly aware of it, or claim to know something about it.

The second step is 'Relevance' - it is unlikely that any deep relationship will develop with someone you just do not 'click' with, and it's the same for brands. If a consumer thinks a brand just does not appeal or they have an issue with the price, then there is no chance of continuing the journey to loyalty.

The next step is 'Performance' - a consumer will expect a certain level of competence in a brand relationship and for a consumer to move smoothly towards loyalty the brand has to deliver on its promise.

The fourth step is 'Advantage' - we make friends with people who benefit us in some way: they might be funny, they might be good listeners or they might make us look good. Similarly with brands, consumers may feel that a brand has advantages because it does its job really well, it engages with them or it offers something new or unique.

Finally, the goal for most brands should be the pinnacle of any relationship: loyalty, or 'Bonding'. When consumers think that a brand really is the only one for them, this deep connection is formed.

Interestingly, not only do loyal consumers who reach Bonding 'love, honour and cherish', they are, in fact, more likely to buy. The majority of expenditure on any given brand is sourced from a small fraction of consumers (see Figure 2). For any given brand, the number of consumers that reach this level of loyalty is about 5%, but they are likely to account for nearly a quarter of all brand sales. Additionally, we find a high correlation between Bonding and share of market for packaged goods *and* non-packaged goods brands, so this is the measure we use to express the 'power in the present'.

All loyalty is not the same

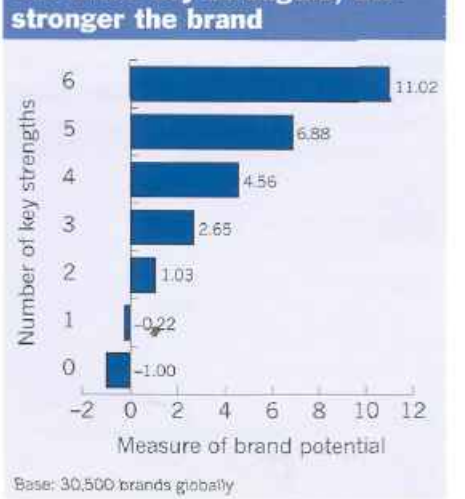
In our everyday relationships, people we know earn our loyalty and trust. We may be loyal to different people for different reasons: a sibling may deserve loyalty because he or she is a member of your >

FIGURE 2

Loyal customers really matter

FIGURE 3

The more key strengths, the stronger the brand



family, but a colleague may engender loyalty because he or she treats you with respect.

In the same way, consumers become loyal to brands for a variety of different reasons.

Using principle components analysis, we have examined our brand equity database and identified six key areas that make up brand loyalty. These are difference; dynamism and innovation; popularity; great product experience; emotional attachment; and price. Brands may be strong on all or none of these aspects. But analysis shows us that the more key strengths a brand has the stronger its potential (see Figure 3).

Additionally, if we look across the strongest and weakest brands in the database we see that they have different strengths. The strongest brands have popularity, dynamism and innovation as their key strengths. Brands that we identify as niche are categorised by consumers as being particularly different. The weakest brands have price as their key strength.

If we focus on price-driven loyalty in particular, we see some interesting patterns. Figure 4 shows that, of the top 20% of brands in terms of loyalty, only 2% have that loyalty driven purely by price. Conversely, of the bottom 20% of brands, two-thirds are driven by price only. To relate this back to our relationships metaphor, loyalty cannot easily be bought, but must be earned by treating one's friends well.

Brands must treat their consumers well by offering a good product experience, an emotional attachment, a sense of innovation and dynamism, the security that comes with popularity or a perception of uniqueness. Buying loyalty is something that successful brands do not need to and should not do.

We now understand that brands are important because of the intangible value that they represent to a company. We know that engaging consumers in a loyal relationship with your brand will be more profitable; and we know that price is not necessarily a strong foundation to build that loyalty on.

The final piece in the jigsaw of understanding brand equity is an insight into the brand's potential in the future.

FIGURE 4

Price is a poor driver of true loyalty

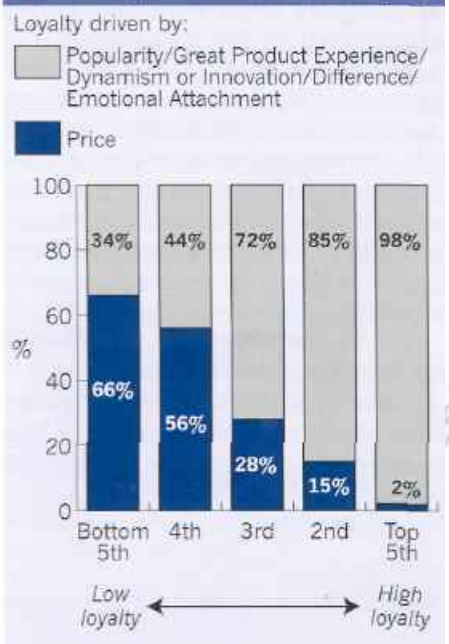


FIGURE 5

As 'potential' increases, prospects improve, risks recede

Base: 274 packaged goods brands

Fortune telling?

Short of issuing your employees with a crystal ball, there is no guaranteed way of predicting the future. However, the right tools and a clear brand strategy clearly help. Using our equity measurement tool, we have succeeded again and again in identifying the degree to which a brand is set to succeed or fail over the coming months.

From a large-scale analysis that we have conducted over the last six months using our extensive database, the first thing we acknowledge is that there is a clear difference between packaged goods and infrequently purchased non-packaged goods brands. Put another way, the variables that prime a beer brand for growth will not necessarily be the same as those that can identify a car brand with potential, where obviously the decision-making process is completely different.

First, we treat packaged goods and non-packaged goods brands in categories where there is a range of options you can choose from at any one time (like retailers), in the same way. For these types of brands we have identified that saliency and habit are prerequisites for success. But, alongside this, being different from the rest of the brands in your category and engendering a level of emotional attachment with consumers are also key.

> 'For those brands that do force their personality into the consciousness of enough relevant consumers, there is a huge financial advantage. But how do we measure this?'

In addition to these measures, for non-packaged goods brands in categories in which you choose a brand sequentially (like cars), we take into account unexpressed demand - the extent to which demand is latent but has not been translated into action.

Importantly, we arrived at these metrics empirically, using information from our brand equity databases built over the last 12 years. We have seen from our data that it is these attributes that are best at explaining future potential for brands. This means that we can confidently talk about the upside potential for growth and the downside risk of decline for each brand that we measure (see Figure 5, showing an example for packaged goods).

Knowing its inherent potential is vital in planning a successful future for any brand. For a brand with a high probability for growth, capitalising on that through innovative and unique communication that highlights its current strengths will be important For a brand with a high probability of decline, understanding and addressing the weaknesses becomes imperative.

In this article we have shown how important it is to understand the health of your brand. From a financial perspective, brands possess value for companies and stronger brands mean greater value. Strong brands generate loyalty from consumers and this can be driven by a number of different aspects.

In order to truly understand a brand, giving you the chance to maximise its financial performance, you need to capitalise on these strengths. Do you know how healthy your brand is? ■

Fonte: Admap, n. 3, p. 32-34, Mar. 2008.