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## The Ultimate Intangible: Measuring and Managing Brands as Strategic Assets

by Ken Roberts

The sum of all information about a company or product communicated by a name and its related visual symbols, a brand concisely conveys complex messages to investors, and current and potential employees. Microsoft, for example, might communicate "innovation," "quality products," "latest technology," "high price," or "arrogance," depending on the audience. These associations and others like them constitute the company's brand image.

The impact of brands can be powerful, signaling positive or negative value to customers and other constituencies.

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All else being equal, a strong brand enables a company to command a premium price for a product or have higher market share when charging the same price as a competitor. In other words, brands have the power to "shift demand." For example, Harley-Davidson, which is an extremely strong brand in the motorcycle market, can charge up to three times the price of a competitor's product for a motorcycle with essentially the same engineering quality and performance characteristics as imitations. Moreover, Harley customers are willing to wait for months for a motorcycle, simplifying the company's inventory management. Only a Harley is a Harley.

For many companies, their corporate brand is their single largest asset. The management of brands, however, often lacks the rigor and discipline applied to other important corporate assets and functions. In many cases, opinions substitute for fact-based understanding of how brands actually change the dynamics of demand in the marketplace. Effective brand management requires real metrics, strategic clarity, and well aligned processes.

### Brand Measurement

Branding is a human phenomenon as fundamental as the use of symbols. The 18th-century English artisan Josiah Wedgwood is often credited with building the first modern business brand. Courting the sponsorship of the monarchy and other arbiters of fashion, Wedgwood was able to stimulate demand for his most profitable wares and commanded premium prices over comparable tableware and other products.

During the Internet bubble of the 1990s, a common assertion was that search engines and Internet robots capable of finding the lowest price for a particular product would render brands obsolete. Like other questionable business ideas of that era, this theory was unsupported by empirical evidence. Brands do matter both in "bricks and mortar" and Internet-based businesses. With the proliferation of products and service offerings available today, there is an increasing tendency for consumers to rely on brands to simplify their lives. Imagine walking into a grocery store, where the number of products on shelves has doubled in the last 20 years to about 50,000 SKUs (stock keeping units), without any knowledge of

the brands in the store.

Today, there is a general appreciation of the power of brands. Many businesses, however, lack a precise understanding of how to measure the value of their brands or how to maximize the potential of their brands to contribute to profitable growth. Traditionally, brand value has been estimated by identifying profit streams associated with a brand, applying a discount rate, and making a judgment about the amount of the discounted income stream coming from the brand rather than other things. This approach to valuation is widely accepted by the investment community.

The problem with income-statement approaches to brand valuation is that they are static. They do generate a single number of brand value, but they don't tell you how to get more value from a brand, how to protect the value that you have, or which perceptions of the brand create most of the value. And when applied to corporate brands, incomestatement measures cannot untangle the value of brand attributes affecting consumer behavior from the value of other intangible assets.

A similar problem exists with traditional corporate image and product image surveys, which measure people's perceptions of brands. Such surveys provide an overall view of a brand, but the perceptions are not linked with the ability of a brand to change the dynamics of demand in the marketplace. You may learn, for example, that "trustworthiness" is an association with a brand, but you won't have any insights into whether efforts to increase perceptions of this particular attribute will actually create any value.

A more meaningful approach to measuring brand value and customer perceptions begins with an understanding of "brand equity," the total value of company or product attributes that affect consumer decisions. Brands can have many attributes, but not all of them influence customer behavior. Brand equity elements are the subset of brand attributes that actually shift demand.

Using econometric techniques, including our proprietary Strategic Choice Analysis (SCA)®, it is possible to quantify a brand's ability to shift demand. The basic methodology asks people to make trade-offs among different product alternatives, features, and prices. Because brand is one of the analytical components, one can measure its importance relative to a certain price level or various product features. When set up correctly, the analysis can not only identify and isolate the elements of brand image that influence the choices of customers, but also reveal why people make the choices they do. For example, is it a perception of product quality, service reliability, or company trustworthiness that motivates prospects to become customers?

## **Brand Management**

Detailed knowledge of the attributes that contribute to a brand's ability to shift demand provides a foundation for focused action to maintain and maximize brand equity. Strategies should address each equity element for each competitor and customer segment. Above all, a company should develop a strategy for protecting the "core equity elements" driving market share. A company should also seek to fix its negative equity elements, which represent lost market share; neutralize competitors' brand advantage; and leverage their negative equity elements.

There is a wide range of actions companies can take to implement these strategies. For example, perceptions of the company can be influenced by the portfolio of products and services associated with it as well as by corporate communications. Customers' feelings about themselves can be influenced by image advertising and customer service. The behavior of employees and business processes that touch the brand can be aligned.

Consider, for example, the links between brand and product configuration when applied to two hypothetical automobile manufacturers. One has developed "safety" as a significant brand equity element. The other is perceived as a "sporty" brand. All else being equal, the

car manufacturer with the safety reputation would likely be able to charge a higher price than the sporty brand for introducing a side-impact airbag or some other safety feature. Moreover, that manufacturer's brand equity in safety offers protection against competitors' action in this area. On the other hand, the "sporty" manufacturer is likely to reap greater gains from a new highperformance engine than the safe manufacturer would.

A major component of brand equity is the identification that people have with the brand. People who regularly visit Starbucks are likely to have some personal identification with that brand. They may like the retail experience, including the other customers, and they are willing to pay a premium for a top-quality product.

Identity is a powerful psychological construct and a source of durable bonds between a company and its customers and other constituencies. Much of the power in the Harley-Davidson brand is that people who buy these motorcycles consider themselves to be Harley-Davidson people, an identification the company reinforces through the Harley Owners Group (H.O.G.) and many other means.

One of the challenges of maximizing the value of brands is determining how to manage the variety of brand investments that are necessary. Many companies may overspend on advertising, for example, and underspend on other brand drivers. Over the last ten years, sophisticated marketing tools have enabled brand managers to begin determining return on each of these investments. This means not just measuring what people think about your brand, and not just measuring the ability of a brand to shift demand, but also evaluating the mix of brand-building activities that can increase brand equity.

Once a brand is established, maintaining its integrity is absolutely essential. Although people generally speak about brand equity in terms of positive shifts of demand, erosion of brand equity can have powerful and devastating effects. For example, when Arthur Andersen lost the equity element we'll call "audit integrity," it lost more than the ability to charge a price premium. It lost the whole business.