

Brand Equity: Complex and Controversial, Yet a Valuable Metric for Management

By Roderick White

Of the many ways of judging brand performance put forward by researchers in recent years, brand equity (BE) is among the most widely used — even though it is complex and controversial.

Complex, because it is clearly composed of a variety of different elements (20), which may not correlate, so that measuring BE is far from straightforward (28); and controversial, because some experts question whether it is useful at all (1). Certainly, as London South Bank Business School marketing research professor Andrew Ehrenberg argues (7), brand share and “brand equity” correlate closely.

Financial Value

The idea of BE derives from the stock-market concept of a brand's equity or value (to stakeholders of all kinds), reflected in its market capitalization (2). But it is, clearly, more than mere financial “brand value,” though that is one possible way of trying to define it (30). Further, an important feature of BE should be that it is linked to the brand's future: By definition, strong brand equity should mean that the brand will maintain its strength over time (6).

This has encouraged some analysts to treat equity financially, with the aid of discounted cash flow (DCF) modeling (3).

It is acknowledged that a brand exists primarily in the minds of its customers and potential customers (11); and the logical implication of this is that BE should sum up attitudes to and opinions about the brand — what we might categorize as “brand image” (16), but, surely, more than that: to truly reflect a brand's strength in its market, it needs, also, an indication of its customers' commitment (3) or loyalty (4) to the brand.

Paul Feldwick (1) [former worldwide director of strategic planning at BMP DDB], who is unconvinced of the need for the concept, identified BE as having three different, but related, meanings:

- the value of a brand as a balance-sheet asset
- the strength of a consumer's associations with or commitment to a brand, and
- a description of the beliefs and feelings consumers have about a brand.

More generally, there are a host of definitions available, though one of the shortest seems sensible (14): “Following the work of [Kevin Lane] Keller, we define ‘brand equity’ as ‘the differential consumer response from knowing the brand.’”

What's It for?

The need for BE can be questioned, but it does appear to fulfill a useful purpose: It sums up the longer-term performance of the brand and, in particular, its marketing communications, and provides an indication of future potential (26).

Successful measurement of the growth of BE provides evidence of the brand's continuing prosperity, and its value (6) both to the company and its customers (and other stakeholders).

This should show that the brand is continuing to build financial value (crucial but insufficient), and that this is sustainable (28); and that depends on the brand's ability to create and maintain loyalty and commitment, in the face of direct and indirect competition (6).

This may be reflected in the brand's ability to attract and maintain a price premium over the market — something that has, itself, been suggested (9) as a key measure of BE.

The fact that there is more to BE than “balance sheet” value means that we need a way to measure it, through consumer research: we need to use research to find out about the attitudes that contribute to BE, so that we can take appropriate action to correct any failings, or to exploit developing areas of strength — and it is highly desirable that our attitudinal measures can be related to market-based measures like sales and market share (30), otherwise the concept we are measuring would have limited validity, let alone usefulness (19).

Further, if these measures can predict changes in the brand's fortunes, this is going to be valuable to management.

Approaches to Measurement

There is, unfortunately, no agreed 'formula' for measuring BE, reflecting the lack of precision (17) of its definition.

Several major research companies, and others, have developed proprietary systems for measuring BE. Examples include Millward Brown's BrandZ (5), Research International's Equity Engine (18), McCann-Erickson's Brand Clout (27), and Y&R's Brand Asset Valuator (21). There are others (6).

These all involve the collection of a range of attitudinal and usage data about brands, which are fed into a model that structures the relationships between attitudes and behavior to reflect the standing of the brand in the marketplace (26).

Obviously, how the model is constructed will affect the resulting picture of an individual brand's relative strength (its equity) — and no one has produced any systematic comparison between various models' output to establish whether one is better than another (21).

There have, however, been at least some attempts to demonstrate the predictive power of the models (17), in terms of the marketplace performance of brands in succeeding periods.

For both advertisers and agencies, the value of this kind of research is that it provides a reasonably robust picture of the relative strength of their brands, in terms that can be related to communications strategies and executions.

Elements in BE Measurement

If we consider BE, in consumer terms, to be a reflection of the relative strength of a brand, we can expect to observe this in both consumers' behavior (1) and in their attitudes (18) to the brand.

Specifically, we would expect a successful and growing brand to show higher levels of commitment from users, and more positive attitudes, and for this to be observable in their behavior (4).

Behavioral measures that feed into this would include the following.

- Brand loyalty: regular purchase, or higher share of requirements (25) (SOR) within the category. This depends on the period covered, since loyalty is hard to observe in the short term; but the 80/20 rule makes loyal customers relatively valuable to any brand.
- Lower price elasticity: a willingness to pay a premium for the brand over competition, and a resistance to switching from the brand if its relative price should rise.
- Attitudinal measures can be many and various. In any category, there will be certain (perceived) aspects of brands that can be identified as key drivers of brand choice (14), and clearly strength on the most important of these will be critical for a successful brand - and for its BE (34).

More specifically, however, it is arguable that commitment to a brand is key, because it captures the totality of an individual's attitudes towards a brand, especially in terms of their customary behavior and intentions to purchase in the future.

A wide variety of measures of commitment have been proposed, including brand consideration, brand preference and brand commitment (typically derived from a combination of questions as in the Conversion model (4)). There is a tendency for the promoters of individual measures to claim that they have the only answer, as is particularly true of the most recent, the Net Promoter Score (NPS), promulgated by Fred Reichheld.

Although the NPS has reportedly been validated for the UK, it has been questioned by consultant Timothy Keiningham (24) and his colleagues.

The jury is still out. From a research point of view commitment is clearly related — not always directly — to other conventional measures of brand strength: awareness, involvement, relevance, trust, for example.

From a different angle, differentiation (8) is clearly important. A key element that has been identified by some modeling firms and built into the up-to-date models is "energy": a measure of the dynamic progress of the brand, derived from data already built into the model. Both Y&R's BAV and, earlier, Millward Brown's BrandZ have a component of this kind; and both claim a convincing track record of prediction from using it.

Creating and Building BE

This is, arguably, a pompous expression for 'brand-building', but there seem to be reasonably clear guidelines, derived both from theory (12) and case studies (29):

- focus — on brand attributes and product benefits that differentiate your brand
- consistency — of strategic direction and (to an extent) creative execution over a period of time
- senior management involvement
- 'holistic brand stewardship' — ensuring that the brand is consistently presented to all its stakeholders and that the brand philosophy permeates the company
- regular measurement against targets — targets convert mere measurement into management.

A strong brand equity may be hard to define and pin down. It is, clearly, built on a combination of brand performance and uniqueness, and consumer response to this based in continuing experience, leading to committed loyalty to the (idea of) the brand.



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