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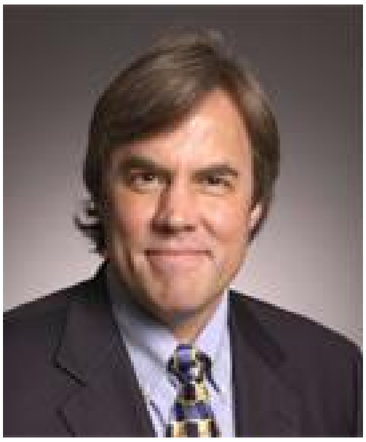
Q&A with Kevin Lane Keller (Tuck): Connecting Brand Value to Shareholder Value



Kevin Lane Keller's book *Strategic Brand Management* has long been the definitive go-to source for putting brand thought-leadership to practical use. The E.B. Osborn Professor of Marketing at the Tuck School of Business at Dartmouth College, Keller holds an AB from Cornell University, an MBA from Carnegie-Mellon University, and a Ph.D. from Duke University. We asked Keller about some of the issues that surround the struggle in linking branding investments to financial value creation.

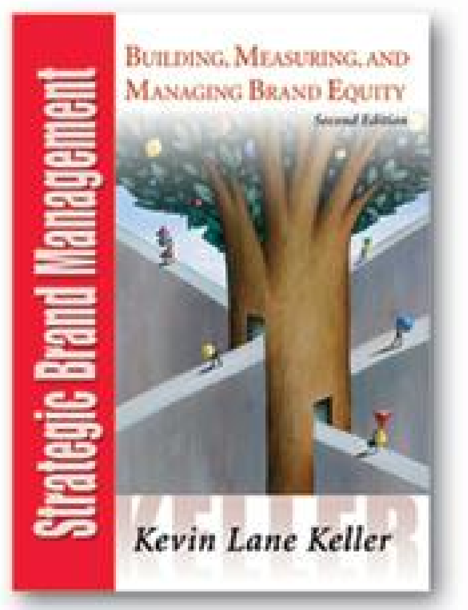
MarketingNPV (MNPV): Is brand equity a helpful concept in trying to link marketing to financial value, or does it cloud the issue?

Kevin Lane Keller: The challenge of brand equity as a concept is that it can take on many different meanings. One distinction I made early on in my work was separating customer-based brand equity from financial-based brand equity. I saw customer-based equity as being much more about brand health — about perceptions and how people see, feel, and act toward the brand, but not in financial terms or other types of measures. I saw financial-based brand equity much more as the consequences of those thoughts and feelings. So, one of the most important distinctions with brand equity is the way we talk about it. Both perspectives are useful. I encourage people to think about and measure both and to try to link the two. You'll never get to the root of marketing ROI and productivity unless you adopt both perspectives.

MNPV: It sounds like you're suggesting managing brand health from the consumer perspective creates a better probability of achieving the shareholder value.

Keller: Yes, that's right and if you've seen the brand value chain model that Don Lehmann (Columbia University) and I have created, then you know that's essentially the path you follow. In a chain of events that occur, marketing programs and activities affect the perceptual measures, which in turn affect marketplace outcomes in financial terms, and then shareholder value. Managing brand health well puts you in a better position, but it's not automatic that shareholder value will result — there are factors that complicate things. But you can't get financial health out of something for nothing, so you have to do some good marketing in a broad sense — designing the right products; pricing, communicating, and distributing them the right way; and so on. The whole organization has to be aligned properly to achieve the right sequence of events that deliver the optimal customer experience — to create those beliefs and perceptions that lead to those financial outcomes that show up in shareholder value. Having that sort of value chain of events in mind is helpful, because it makes it clear what's involved and how things work together to create shareholder value.

MNPV: What have you seen emerging as better practices in working to understand the links?



Keller: More academic research today is focused on shareholder value, and that's good. That wasn't the case 10 or 15 years ago, when shareholder value was seen as finance's domain. We're starting to see more research that looks at links between brand health measures and shareholder value. Look at the brand value chain and its four boxes: 1) marketing activity; 2) the customer mindset; 3) market performance; and 4) financial market outcomes and shareholder value. Companies tend to focus on the first three. The fourth one hasn't gotten as much attention. The belief is generally that, if you get the first three right — especially the first two — that's going to lead to the right financial market and shareholder value outcomes.

But you'd better be trying to associate financial terms with all that marketing activity and brand health you're creating to really understand what's happening to your bottom line and your whole financial profile. Taking that to shareholder value is great, but I'm most concerned that they get to that third box. That's important; that's one that a lot of people haven't done. That's still new territory — to link customer-based brand equity with financial-based brand equity.

Along those lines, I see companies doing a better job of creating the right battery of metrics to capture customer-based brand equity or customer mindset. Many companies are trying to develop more comprehensive and cohesive sets of measures. That's the right way to go. From that, you can develop more reductionist kinds of approaches. But in contrast, if you oversubscribe to the allure of simplicity of one or two "magic" brand measures, then that's where you're going to end up. It's tough for a lot of keen insights to emerge — not too many "whys."

MNPV: So you recommend starting with a broader diagnostic approach to properly identify the drivers and winnow it down to the real drivers over time?

Keller: Correct. Any single item can be incorporated within the comprehensive system. The question is, how much value do you get from it? In some sense, the value of a comprehensive, cohesive set of measures that really capture customer-based brand equity and the customer mindset is that it gives you a lot of diagnostic insight into how things are really happening.

The second thing is the modeling side. One of the challenges in these correlation/causality situations is that you have so much going on. The systems of equations are horribly underspecified. To make causal statements ruling out alternative explanations confounds the situation. Absent some well-planned experimental approaches, it is practically impossible to make definitive statements about x causing y — this ad campaign led to this consumer response — when there are so many things that went along with that campaign. But I see more and more companies working methodically to come up with better correlational insights, to find the patterns that are occurring, and to identify some hypotheses that are driving these trends. Those are the obvious areas people are trying to improve. It's important to have the right set of measures to play with though, and then to figure out the best way to estimate and understand those links — what's causing price premiums and market share profitability from these more perceptual measures and backing them up in terms of marketing activities that are occurring.

Adapted from Strategic Brand Management *by Kevin Lane Keller (Prentice Hall, 2003).*

MNPV: So would you say that syndicated approaches like Y&R's BAV or CoreBrand help by providing a framework for pursuing this investigation, or do you think they're trying to find the golden shortcut?

Keller: A lot of those are good, solid brand-health measures. If you had to grab one off the shelf and ask "What's the health of my brand?" they're going to help. The challenge is whether they've got enough diagnostics built in. Those are fairly reductionist tools.

BAV uses four key measures and a set of companion measures with a total of 40 attributes to provide insight. Back to the value chain model, the second box — customer mindset — is where these guys live. I don't know how much they can help their clients with the first to second box link or linking the measure of customer mindset to specific financial measures in the third box and making them part of the system as a whole. That requires a whole other set of models. No single syndicated tool is more than one piece of the puzzle. They are all really useful tools in the tool kit; you just have to have a full tool kit.

MNPV: Why aren't more brand marketers doing a better job of building the links? Are suppliers not offering the right solutions, or are marketers just not demanding that better solutions be developed?

Keller: A big part of the challenge is the sheer complexity. You need some sophisticated researchers to help you sort through the puzzle. It's hard to get people who have enough of the skills to solve it all. To measure the customer mindset, all these market performance measures and shareholder value, the links between all the potential intervening factors — multipliers, filters, etc. — that's a lot to get your arms around. That causes many companies to shy away from the complexity and just focus in on reductionist solutions with the belief that those are going to be insightful enough.

Brand marketers need that R&D effort to calibrate, understand, and develop these measures to create a useful brand-health measurement system and the tool kit we're talking about. It's awfully hard for a brand manager who's making a million decisions every day to have that expert point of view and perform that function. I'd like to see organizations initiate the brand R&D effort through more of a top-down vs. bottom-up approach. Top-down approaches are necessary to really give enough of the time, energy, and resources to get to a critical mass of insights.

MNPV: Is it possible that CMOs, knowing they need to have impact fast, and assessing the various places they might invest money and political capital, determine that they're better off getting lots of tactical initiatives in play than emphasizing diagnostic knowledge development and calibration?

Keller: That's why I recommend the systematic top-down approach — because the CMO may not be there in two years. Even though the CEO may not have the necessary marketing skills, if the CEO makes it a priority, he or she can be an effective sponsor and can enlist the support of the CMO to lead the charge.

Then there's the whole question of multiple constituencies when we broaden our thinking and consider not just customers and prospects, but communities, analysts, shareholders, etc. This tends to be more directly the domain of the CEO.

Generally, I'm stunned at how hard it is to transfer fundamental learnings and generalizable insights within an organization and across markets. This is not rocket science; it's just trying to figure out the right way to capture the learnings and share them with the right people in the right way at the right time.

MNPV: Where do you think we're headed in our collective ability to develop better insights and make these links clearer?

Keller: You're going to see continued interest in measuring marketing productivity, but most companies are going to have to come up with their own context-specific approaches. There's a great opportunity for researchers, agencies, marketing partners, etc. to assist with that. But it is always going to be tough to answer questions such as, "Should I spend $10 million on this ad campaign?" The answer is always "maybe," because the payback ultimately depends a great deal on a number of different factors.

Is the copy any good or not? How distinctive is this campaign? Does it connect with the audience? Is it inspiring? Does it actually convince people to buy or buy more or more often? The reality is, there's a lot of uncertainty; there's the art and the science to it. Everything that we talked about so far is the science side, but there's this whole other art side that's involved. We try to apply the science on top of the art, but we also need to spend much more of our energy and money to get to better insights into creativity and the artistic side of it all.