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Marketing in the Global Environment

Week Five | Lecture Two

BRAND EQUITY

Imagine you are preparing to do some laundry and need some detergent. You are offered two small bowls, each containing soap powder that looks identical. Which would you choose?

You have no way to differentiate them, so the odds of either one being picked would be 50%. Now, imagine that someone turns the bowls around, and on the first one is written a brand name you've never heard of. On the second bowl is written a brand name you know quite well. Now, which one will you pick?

The vast majority of consumers would pick the well-known brand over an unknown brand. They make their pick because of all the positive associations they have with that name—the TV and magazine ads seen over the years, the positive comments heard from friends and relatives, and the countless times they've seen the product in the stores.

Notice that the product chosen has nothing to do with its appearance. It has everything to do with the image consumers have of the product in their minds—their perception of the product, or its *brand image*. Why do people pay a premium for Energizer batteries? Not for any scientific reason. They just remember the bunny going and going and going. Its perception makes the sale.

THE POWER OF BRANDS

Marketers strive to create a strong brand image of quality and performance that leads to *brand loyalty*. The brand, in effect, makes a brand promise: “If you buy me, I will deliver what you expect me to. I will satisfy you.”

All of the positive, or negative, associations surrounding a brand name combine to create an image that reflects the way consumers think, feel, and act toward the brand. That image has a value known as *brand equity*. Brand equity is the added value that a brand image gives to a product or service. It influences a company's sales, market share, profits, and stock price, and has a direct impact on the price a company can charge for the product. For example, Godiva chocolates, Chivas Regal Scotch, Ritz-Carlton hotels, and Mercedes automobiles can all command a higher price because their brands generate images of upscale quality and refined taste.

In his book *Managing Brand Equity* (1991), professor David Aaker pointed out that brand equity is composed of both assets and liabilities, and how a particular element is classified depends on the target customer. For example, a bumper sticker for a political candidate is an asset in some social circles and a liability

in others. Aaker clustered the elements that influence brand equity into five categories: (a) brand loyalty, (b) name awareness, (c) perceived quality, (d) brand associations, and (e) other brand assets such as patents and trademarks. Brand equity has real value.

We call the added value a company gains from the image customers have of its name *brand valuation*. Most everyone has a perception of the McDonald's brand and knows the brand promise it makes. The real value of its brand name alone was more than \$43 billion in 2018, according to *Interbrand*, a leading brand consultant. And McDonald's is not the leader of the brand-equity list. Apple holds the number one spot, with a brand name valued at more than \$214 billion.

Brand equity is built through all the choices marketers make about each element of a product's message that creates an image. These include (a) a brand's name, logo, tagline, or symbols; (b) characters, spokespersons, and celebrity endorsers associated with the brand; (c) advertising themes, packaging, and signage, and (d) customer service. Every message communicated to customers counts towards this image whether the company wants it to or not. For example, Toyota's pristine brand image was heavily damaged in 2010, due to recalls of vehicles amidst accounts of runaway accelerators, deals, allegations of cover-ups, and failure to take quick action, with a

corresponding drop in sales.

The image a brand has in the customer's mind is dynamic, as Toyota discovered to their dismay. Therefore, marketers must always seek to understand the most current image buyers have of their brand. This is often done by means of a *brand audit*. The audit draws information about customer perceptions and behavior from many different sources, including surveys, focus groups, Internet visits, and sales data, to give marketers a clear picture of what buyers are thinking and feeling about the brand.

STRENGTHENING A PORTFOLIO OF BRANDS

There is an additional value to a brand audit. It can alert a company to new needs or interests that the company can meet with additional products. For example, when concerns about sugar in soft drinks made consumers rethink their soda consumption, companies like Coke and Pepsi introduced diet versions of their popular flagship products. This is known as a line extension—a new product of the same type, or a new line, such as Pepsi One. Having an existing brand image gives a boost to any line extension because consumers generally believe that the quality and consistency of the new product will match those of brands they are familiar with. Marketing costs are also lower since the new product can be advertised and promoted

side by side with established brands.

Caution must be taken not to extend a brand line too far. Coke, for example, has several types of colas, but it would make no sense to brand a line of juices under the Coke name. Doing so would just dilute the Coke brand image with buyers, hurting both the established and new products. In such cases, a company is better off introducing a new line with a new name. For this reason, Coke created the Minute Maid line under which to market a variety of juices.

An established company or brand name may also be used to alert buyers that another product or service comes from a trusted company. Marriott, for example, didn't want to hurt the high-quality image of its Marriott hotels and resorts when it introduced lower-cost lodging for business travelers and families. Instead, the hotels were marketed under the Fairfield Inn and Courtyard names, but under each name in smaller letters appeared the phrase "by Marriott."

A company's brand portfolio is the set of all its brands within a particular category, such as lodging, food, and entertainment. Companies classify brands into four categories that are related to their overall performance:

Flanker brands are usually lower-cost versions of a company's core brand that help it ward off the loss of customers to a low-cost competitor.

Low-end entry-level brands are designed to attract new buyers to the brand, such as with a low-cost car. After creating buyer satisfaction with the brand, marketers can often get these buyers to trade up to more expensive brands.

Cash cows have high profit margins, such as Microsoft's core products. They support less profitable brands and new products.

Prestige brands may not make a lot of money because of their high price point or narrow niche of buyers, but the brand creates a positive halo around the company, such as when Chrysler partnered with Maserati to produce the Chrysler TC by Maserati.

Once marketers learn consumers' perceptions about the brand and how they mesh with the promises buyers want the brand to make, they can adjust their integrated marketing strategy. With such a strategy, every marketing message reaching a targeted group of customers makes the same promise and strives to create the same image of the brand. The Apple iPad, for example, reaches consumers through a wide variety of media—TV, print, Internet, public relations—but they all portray a consistent promise of quality, hipness, ease of use, and a customized experience.

Some media, like TV and the Internet, can do a better job of reinforcing a particular part of the message such as ease of use, while others such as print media do a better job of providing details. But the overall integrated marketing strategy focuses on

creating the same core image. That image gives rise to the brand promise, which in turn generates brand equity.

In the marketplace, a strong brand is one of the keys to success. It allows companies to charge more, create more loyal customers, and fend off competitors. Building brand equity lets marketers carefully calibrate the many individual elements that influence customers as the marketplace changes, needs shift, and products move through their individual life cycles.

REFERENCES

Aaker, D. (1991). *Managing Brand Equity*. Ontario: Free Press.