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7. MEASURING BRANDS AND THEIR PERFORMANCE

“Brands are emotive and you can’t measure emotion.”



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Using this guide

Navigation

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> Tool bar

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Margin icons

We've added icons in the margins of the text to highlight particular types of information:



> Case study

This signals a story that will illustrate theory applied in practice. Click on the icon to view the example and, once you have finished, select 'back' to return to where you were originally.



> Checklist

Points to a summary page.



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Links through to the online Brand Store section where you will find further resources on the topic being discussed.



> FAQs

Gives answers to frequently asked questions.



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Indicates additional material on the same subject. This information may be located within the same eGuide; in one of the other six eGuides (in which case the link will only work if the pdfs of the other eGuides have been downloaded into the same folder); or on a separate website (in which case the link will only work if the pdf is being viewed online).



A thorough evaluation looks also at the intangible elements that distinguish it in the mind of the consumer.

Introduction

“Brands are emotive and you can’t measure emotion.”

Brand evaluation is vital to the success of the brand. It enables brand owners to see where the brand’s strengths and weaknesses lie and what forces are driving these, which in turn points to the nature and level of investment needed to fulfil the brand’s potential.

Measuring brand performance is an integral part of brand management. It has its own guide here partly to emphasise its importance and partly to distinguish it from the continuous process outlined in eGuide 5.



“The financial value of a brand is not interesting on its own; it’s what we can do to grow it that makes it interesting. The process of benchmarking a brand’s value involves understanding where that brand value comes from and supporting those areas to grow the strength of the brand.” [Shailendra Kumar, FutureBrand, 2001]

A thorough evaluation looks not only at the financial value of the brand but also at the brand equity – the intangible elements of a brand that distinguish it in the mind of the consumer. But how is something as intangible as brand value actually measured?

Figure 7.1: Evidence of the importance of brand value

Brand	Stock market value	Intangibles as % of market cap	Brand value	Brand value as % of market cap
Coca Cola	\$113bn	75%	\$69bn	61%
Microsoft	\$380bn	89%	\$65bn	17%
IBM	\$199bn	90%	\$53bn	27%
General Electric	\$499bn	95%	\$42bn	9%
Nokia	\$104bn	92%	\$35bn	34%
Intel	\$202bn	85%	\$35bn	17%
Disney	\$60bn	87%	\$33bn	54%
Ford	\$46bn	59%	\$30bn	66%
McDonalds	\$35bn	78%	\$25bn	71%
AT&T	\$149bn	52%	\$23bn	15%

Source: Interbrand/Citibank league table, 2001, cited in British Brands Group (2001)

Brands as intangibles

- > Business value is increasingly driven by intangible assets such as brands. There has been a marked shift from a manufacturing economy towards a service economy and then to an information economy. Research by Citibank and Interbrand Newell & Sorrell in late 1999 indicated that the proportion of market capitalisation of the FTSE 350 represented by tangible assets declined from 56% in 1988 to 29% in 1998. [Goodchild and Callow, 2001]
- > Brands are a key element, along with other intangibles such as intellectual property and staff skills and commitment. Often 40-75% of a company's assets may be attributed to brands (see Figure 7.1).



eGuide 1: Defining brands – Advantages for brand owners

Brand equity

*"The most valuable part of the brand ... the added value bit ... the bit that protects respectable margins and fills up the reservoirs of future cashflow ... the bit that distinguishes a brand from a mere product ... **doesn't belong to it.** It belongs to the public."*

[Jeremy Bullmore, British Brands Group, 2001]

Ambler [2000] defines brand equity as the sum total of learning about the brand by all stakeholders, including consumers, shareholders and employees. It includes all that people feel and think about the brand as a result of direct experience, word-of-mouth, moments-of-truth with the brand and the brand's marketing activities. It constitutes a storehouse of future cashflow and profits.



Case study: Apple

Good measures of brand equity can give indications as to the future profit trends. If brand equity is falling, you're storing up trouble for yourself. If brand equity is rising, you're investing in future performance, even if it's not showing through in profits today.

[Mitchell, 2000]

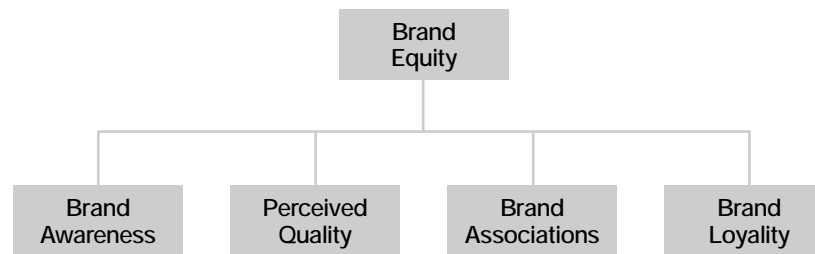


In *Brand Leadership* [2000] Aaker outlines company assets that can contribute to greater brand equity (see Figure 7.2).

If brand equity is rising, you're investing in future performance, even if it's not showing through in profits today.

Figure 7.2: What is brand equity?

The goal of the brand leadership paradigm is to create strong brands – but what is a strong brand, anyway? In *Managing Brand Equity*, brand equity was defined as the brand assets (or liabilities) linked to a brand's name and symbol that add to (or subtract from) a product or service. These assets can be grouped into four dimensions: brand awareness, perceived quality, brand associations, and brand loyalty.



Source: *Brand Leadership*, Aaker and Joachimsthaler (2000)

These four dimensions guide brand development, management and measurement.

- > **Brand awareness** is an often undervalued asset; however, awareness has been shown to affect perceptions and even taste. People like the familiar and are prepared to ascribe all sorts of good attitudes to items that are familiar to them. The Intel Inside campaign has dramatically transferred awareness into perceptions of technological superiority and market acceptance.
- > **Perceived quality** is a special type of association, partly because it influences brand associations in many contexts and partly because it has been empirically shown to affect profitability (as measured by both ROI and stock return).
- > **Brand associations** can be anything that connects the customer to the brand. It can include user imagery, product attributes, use situations, organisational associations, brand personality and symbols. Much of brand management involves determining what associations to develop and then creating programs that will link the associations to the brand.
- > **Brand loyalty** is at the heart of any brand's value. The concept is to strengthen the size and intensity of each loyalty segment. A brand with a small but intensely loyal customer base can have significant equity.

Brand equity determines a brand's health and strength as well as its financial value.

Brand evaluation

"I believe it to be an increasing human instinct – and an entirely understandable if highly dangerous one – to overvalue that which we can measure and undervalue that which we can't. There is comfort to be found in figures: they give us a sense of certainty, however false, in an otherwise chaotic world." [Jeremy Bullmore, British Brands Group, 2001]

Brand equity determines a brand's health and strength as well as its financial value. Consistent measures of brand equity can help understand a brand's progress towards its goals. Although these measures need to be adapted to a particular business context and reflect the brand's strategic milestones, Ambler [2000] recommends a mix of the following approaches:

> Inputs: the amount of advertising and communication spend as a percentage of sales. For many industries this is a prime driver of brand equity. This category can also include other internal measures, such as 'innovation support' and other cultural attributes.

- > Intermediate measures: these try to uncover the stakeholders' awareness and perception of the brand as well as their attitude towards it, relative to competitors. Uncovering issues, such as consumer satisfaction or perceived quality, through qualitative research can help the brand owner understand consumer motivations (or lack thereof) to purchase.
- > Behaviour: how stakeholders actually behave. Sales is a key metric here, alongside market share, customer retention, loyalty and frequency of purchase.

Evaluating the brand's equity is essential to defining efficient and effective:

- > Consumer strategies: which markets provide most potential?
- > Marketing strategies: which aspect of the marketing mix needs more focus?
- > Budget allocation: how much to invest and in what?
- > Performance tracking: how are we performing over time and in relation to competitors?

By understanding the strength of the consumer relationship with the brand, one can start to gauge how vulnerable the brand is.



By understanding the strength of the consumer relationship with the brand, one can start to gauge how vulnerable the brand is to new entrants or to short-term promotions, as well as how much can be changed without 'alienating' loyal customers. [Hart and Murphy, 1997]

Case study: Pepsi Cola

Alternative brand equity measures

Several proprietary models based on worldwide market research have been developed to measure brand equity.

Young & Rubicam (Y&R)

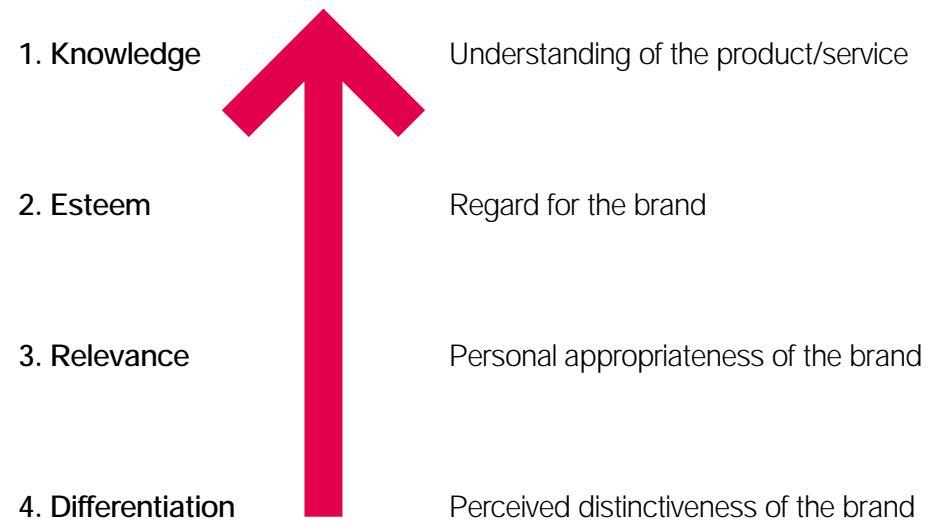
The BrandAsset Valuator framework (see Figure 7.3) is based on consumer perceptions using a 32-item consumer questionnaire that measures four main areas.

- > Differentiation: how distinctive is the brand in the marketplace?
- > Relevance: how relevant is the brand to the consumer?
- > Esteem: how highly does the consumer regard the brand?
- > Knowledge: how well does the consumer understand what the brand stands for?

Figure 7.3: Y&R's BrandAsset Valuator

How brands are built

Four primary aspects



Source: Ambler (2000) *Marketing and the Bottom Line*, p.50

Scores against the first and second dimensions are multiplied together to produce a measure of 'brand strength'. Scores against the third and fourth dimensions are multiplied together to produce a measure of 'brand stature'. This approach concentrates on the consumer, at the expense of more business-orientated measures such as market share or sales trends.

Brand Equity Ten

David Aaker [IPA, 1996] put forward this approach which scores brands against the following:

Loyalty measures

1. Price premium
2. Satisfaction/loyalty

Perceived quality/leadership measures

3. Perceived quality
4. Leadership/popularity

There is no one right measure of brand equity. There is a place for both consumer oriented approaches and business performance measures.

Associations/differentiation measures

5. Perceived value
6. Brand personality
7. Organisational associations

Awareness measures

8. Brand awareness

Market behaviour measures

9. Market share
10. Market price/distribution coverage

This list includes a balance of attitude, behaviour and marketing measures with no prescribed weighting on each element. Aaker recommends tailoring this approach to each brand's specific circumstances.

Interbrand

This model calculates brand strength by scoring a brand out of a 100 on the following key attributes:

- > Market: buoyancy of environment
- > Stability: proof of survival

- > Leadership: brand influence
- > Trend: brand performance vs competition
- > Support: strength of consumer franchise
- > Geographic spread
- > Protection.

There is no one right measure of brand equity. Rather, the various measures need to be gathered, reviewed and prioritised in a structured brand audit and considered as a whole in the brand evaluation process. [IPA, 1996] Among these, there is a place for both consumer oriented approaches, like YR's Brand Asset Valuator, and business performance measures, as proposed by Interbrand.

Valuation lacks consumer focused metrics and therefore is not suitable as a sole predictor of brand equity.

Brand valuation

Brand valuation focuses on a brand's financial aspects – in contrast to brand evaluation which includes consumer and other metrics alongside the financial elements. It has particular application in brand licensing (to identify appropriate royalty rates), litigation (to calculate damage settlements) and tax planning (to assess liabilities).

Putting a financial value on a brand is in itself a complicated process. Again, many techniques have been developed to assist in including brands on a balance sheet.

Brand valuation is based on the fundamental precept that the value of something is what you can get out of it. The second fundamental precept of valuation is that value of something can't be stated in the abstract. The questions 'to whom?' and 'for what purpose?' have to be asked. [Perrier, 1997]

Even though some companies use valuation as brand equity assessment, Ambler [2000] identifies a number of flaws:

> It is subjective, since brands, particularly 'valuable' ones are rarely sold.

- > It can be too crude to detect the fine tuning resulting from yearly marketing activity.
- > Assumptions can change.
- > It lacks theoretical underpinning.
- > It is inadequate as a single measure of brand equity.
- > It depends on anticipating the future.

Valuation can be used as a part of brand equity measurement, but it lacks consumer focused metrics and therefore is not suitable as a sole predictor of brand equity.

Why value your brand?

- > For balance sheet purposes
- > For mergers and acquisitions
- > Joint-venture negotiations (eg, to prevent overpayment)
- > Investor relations
- > Licensing and Franchising (eg, to set the right price)



- > Obtaining finance
- > Bringing the importance of brands to the attention of the board.

Some initial key questions

Before embarking on a brand valuation exercise, it is important to know the answer to the following questions:

- > Is the brand clearly identifiable?
- > Is title to the brand unambiguous?
- > Could the brand be sold separately from the rest of the business?
- > Is there a premium value over the equivalent commodity product?

If the answer to any of the questions is 'no', there is little point in pursuing the valuation process because the results are likely to be inconclusive.

Figure 7.4: Reasons for brand valuation

Internal	External
> Brand health monitoring	> Balance sheet
> Marketing budget allocation	> Tax
> Internal brand licensing	> Licensing
> Brand portfolio management	> Joint ventures
> Brand architecture review	> Insolvency
> Internet brand evaluation	> Litigation
	> Financing
	> Mergers and acquisitions
	> Investor relations

Source: Brand Finance plc



The value of a brand is the current worth of the benefits of future ownership.



Methods of brand valuation

Brand Finance plc

The value of a brand is the current worth of the benefits of future ownership. In order to calculate value, you must identify clearly:

- > The actual benefits of future ownership – that is, the current and future earnings or cash flows of the brand
- > The multiple or discount rate that needs to be applied to these earnings to take account of inflation and risk.

[Stobart, 1994]

There are a number of different methods of valuing a brand, each one having strengths and weaknesses depending on the purpose of the valuation. This is an area for professional advice. Some examples include:

- > Market valuations – such valuations may be based on the recent disposal of brands or companies

> Income-based valuations – two potential approaches are:

- 1 Where a brand has to be licensed from a third party, what royalty would the company expect to pay to license its use of the brand ('royalty relief' method)
- 2 What is the value to the company today of future cashflows arising from the brand ('discounted cash flow' method).

> Cost-based valuations – this values the brand on the basis of the costs involved in creating it.

Much depends on the assumptions that are made in reaching a valuation of a brand. Without these assumptions being made available, it is hard to judge whether or not a stated value for a brand is realistic.

CASE STUDIES

1. **Pepsi Cola: the choice of a new generation**
2. **Apple: imagination, innovation and differentiation**

1. Pepsi Cola: the choice of a new generation

The Pepsi Cola brand began life in 1898 and has survived several ownerships, two bankruptcies and intense competition to become one of the world's largest and most recognisable brands.

The brand was historically marketed as a value product, priced significantly cheaper than the competition to encourage sales, but as World War II drew to a close, Pepsi began to reposition the brand and to assimilate it into American culture. Pepsi's marketing in the 1950s was aimed squarely at youth, the baby boomers that they labelled 'The Pepsi Generation'. The brand adopted the now familiar swirl logo on their bottles and employed the crude but effective slogan 'Be Sociable – Have a Pepsi'. This was the first Pepsi campaign to focus on youth, a technique they would become renowned for over the coming decades.

The 1960s and 1970s saw further youth orientated marketing, continuing the Pepsi Generation theme and even hitting the American Top 40 in 1964 with their catchy jingle *Girlwatchers* – produced to mark the

launch of the new Diet Pepsi product. And by the mid 1970s Pepsi was beginning to close to gap on their largest competitor, Coca-Cola.

Around this time a series of consumer tests were conducted and, to the marketers delight, they showed that the majority of participants preferred the taste of Pepsi to their competitors. These results gave rise to the near legendary 'Pepsi Challenge' campaign, again aimed predominantly at the youth market, where consumers across the US were invited to take a blind taste test of both Pepsi and Coca-Cola. With results favourable, the challenge soon found its way into television advertising.

By the beginning of the 1980s, Pepsi had established itself as the top selling brand in take-home sales in the soft drinks market and they continued their successful tactic of placing themselves firmly as a youth product. The Pepsi Generation campaign was finally laid to rest but the brand became known for expensive sponsorships of high profile youth icons and adverts featuring superstars such as Michael Jackson, Cindy Crawford, Michael J Fox and the Spice Girls. The youth pitch was continued with copy such as 'GeneratioNext',

Best practice example of measurement: PepsiCo

Stakeholder	Measure
Customer commitment	'Market place' P&L, covering: <ul style="list-style-type: none"> > Quality (product blind test) > Customer attitudes, monthly > Retailer attitudes > Market share
Employee motivation	<ul style="list-style-type: none"> > Same questionnaire in every country, rolling monthly results > Results and action published in 'Operation Talk Back'
Resource provider	<ul style="list-style-type: none"> > Shareholder value (share price and dividend) > Financial P&L

Source: The Committed Enterprise, Davidson (2002)

'Be young, have fun, drink Pepsi' and 'The Choice of a New Generation'.

The late 1990s were Pepsi's most successful times yet as turnover grew to \$32 billion and they consolidated their position as the world's second largest beverage company. In February 1996, Pepsi launched one of the most ambitious entertainment sites on the World Wide Web with Pepsiworld.com and in 1998 they premiered a new logo to give the brand a more modern look for the coming new Millennium.

The Pepsi brand continues to focus on youth as it's greatest core value and recent campaigns have seen associations with the new Star Wars films and Britney Spears. For the past half century, Pepsi has tried to be younger, cooler and more relevant than their competitors and this consistent strategy has enabled the brand to grow and acquire a fundamental identity. By putting Pepsi in direct and open competition with Coca-Cola in terms of product quality, the Pepsi Challenge campaign was also a key tactic in the brand's positioning and has recently been relaunched to take the challenge into the future.

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2. Apple: imagination, innovation and differentiation

Apple is a brand that is always defying the odds. The company commands global market share of just 3%, almost went out of business after a financial nosedive in the mid 1990s and its main products compete with the ubiquitous IBM compatible PC. Yet despite the difficulties it has faced and continues to face, it remains an amazing success.

The brand was voted brand of the year by Interbrand in 2001, came a close second to branding 'wonderkid' Google in 2002 and continues to command amazing loyalty amongst users. The value of the brand to a company such as Apple is almost incalculable; so much so that it prompted *Wired News* to claim recently that 'without the brand, Apple would be dead... The power of their branding is all that keeps them alive'.

Why has Apple been so successful? Because it concentrated on building a powerful brand based on emotional rather than functional values. Apple may have produced a range of powerful computers and innovative products such as the iPod and the iMac but by far their greatest success has been in enticing

customers in – forging deep bonds and encouraging them to fall in love with the brand.

Apple has always played on the emotions. It has been David taking on the Goliath of IBM, its ethos is power to the people through technology and it seeks to build communities around its products. The brand has become synonymous with creativity, the choice for designers everywhere, and has communicated itself as funky, quirky and colourful – a vibrant alternative to its drab and businesslike competitors.

The equity produced by this powerful branding is without a doubt Apple's key asset. Competitors such as Commodore and Amstrad were slain by the growth of the PC but the loyalty and affection that the Apple brand commanded allowed it to keep its head above water and become the success it is today. In a faceless market, Apple showed character and built an image.

When former CEO John Scully talks of his time in the company during the late 1980s and early 1990s he has no illusions about Apple's role, pointing out that 'people talk about technology but Apple was a marketing



company. It was the marketing company of the decade.' This kind of thinking built the brand equity Apple enjoys today – the brand equity that both kept Apple afloat and promises future profits. This asset may be intangible but it is also truly invaluable.

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