

## 3.8: Brand Equity

### Brand Equity

In marketing, brand equity refers to the value of a well-known brand that conjures positive (or negative) mental and emotional associations. What does this actually mean? Let's do a experiment with brand equity in action.

Brand equity is what exists in your mind (or doesn't yet exist) to help you recognize these branded images and phrases. Brand equity is also the set of positive, negative, or neutral thoughts, beliefs, and emotions you associate with each of the brands. Brand equity can manifest itself in consumer recognition of logos or other visual elements, brand language associations, consumers' perceptions of quality, and consumers' perceptions of value or other brand attributes.

For any given product, service, or company, brand equity is considered a key asset because it gives meaning to the brand in the minds of its consumers. Brand equity can help a strong brand remain relevant and competitive in the marketplace, and it can help brands and companies weather storms that threaten their value and existence. Volkswagen, for example, is hoping that the strong brand equity it built during the decades before the 2015 emissions scandal will help restore customer confidence in its company and product brand.

When consumers trust a brand and find it relevant to themselves and their lives, they may select the offerings associated with that brand over those of competitors even at a premium price. For example, Häagen-Dazs and Ben & Jerry's both command higher prices per pint at the grocery store than many national brands and most store brands of ice cream. Starbucks can sell its coffee at a higher price than solid market competitors because consumers associate the brand with quality, value, and the experience of connecting with other people in a comfortable space. This is why brand equity often correlates directly with a brand's profitability.

### Measuring Brand Equity

Brand equity is strategically important but also difficult to measure (or "quantify"). As a result, many experts have developed tools or metrics to analyze brand equity, although there is no universally accepted way to measure it. For example, while it can be measured quantitatively using numerical values such as profit margins and market share, this approach fails to capture qualitative elements such as prestige and mental and emotional associations.

#### What to Measure

According to David Aaker, a marketing professor and brand consultant, the following are ten attributes of a brand that can be used to assess its strength, or equity:<sup>[1]</sup>

1. **Price premium:** the amount a customer is willing to pay for one brand in comparison to other comparable brands
2. **Customer satisfaction/loyalty:** whether a customer would buy the brand at the next opportunity, or remain loyal to that brand
3. **Perceived quality:** perceptions about whether a brand is of high, average, or inferior quality
4. **Leadership/popularity:** being in market leadership position as a leading brand, a leader in innovation, and/or growing in popularity
5. **Value:** perceptions of whether a brand has good value for the money and whether there are reasons to choose it over competitors
6. **Brand personality:** distinctive, interesting, emotional, and self-expressive benefits associated with a brand
7. **Organizational associations:** the people, values, and programs associated with the brand
8. **Brand awareness:** the degree to which customers are familiar with and have knowledge about a brand
9. **Market share:** share of sales among the competitive set
10. **Market price and distribution coverage:** measures of average selling price relative to competitors and how many people have access to the brand

Marketers can use various research methods to measure each of these attributes. Some organizations invest in complex marketing research projects to measure and track brand equity over time using one or more of these metrics.

#### Brand Asset Valuator

Young & Rubicam (Y&R), a marketing communications agency, has developed the "brand asset valuator," a tool used to diagnose the power and value of a brand. The agency uses this tool to survey and measure consumers' perspectives along the following four dimensions:<sup>[2]</sup>

1. **Differentiation:** the defining characteristics of the brand and its distinctiveness relative to competitors
2. **Relevance:** the appropriateness and connection of the brand to a given consumer
3. **Esteem:** consumers' respect for and attraction to the brand
4. **Knowledge:** consumers' awareness of the brand and understanding of what it represents

This approach is useful for gaining a detailed understanding of how target audiences perceive a brand, how well they understand it, and how relevant it is in their lives. Y&R uses this methodology to help organizations diagnose whether their brands are rising or fading relative to competitors and help them develop strategies and tactics to strengthen existing brands or freshen up/rebuild those that are waning.

There are several different categories of brands, sorted by their differentiation, relevance, esteem, and knowledge. Note that we'll also discuss their brand strength (which is their differentiation and relevance) and their brand stature (which is their esteem and knowledge).

- **New/Fading Brands** have low brand stature and low brand strength. They can be sorted into two categories:
  - Neu has medium differentiation, less relevance, less esteem, and low knowledge.
  - Unfocused has low-medium differentiation, low relevance, low esteem, and high-medium knowledge.
- **Aspiring Brands** have low brand stature and high brand strength. They have high differentiation, medium relevance, slightly less esteem, and slightly less knowledge.
- **Power Brands** have high brand stature and high brand strength. They can be sorted into two categories:
  - Leadership has high differentiation, high relevance, high esteem, and high knowledge.
  - Decline has low differentiation and high relevance, high esteem, and high knowledge.
- **Eroding Brands** have low brand stature and high brand strength. They have low differentiation, slightly higher relevance, slightly higher esteem, and medium knowledge.

### Other Methods for Measuring Brand Equity

Brand equity can also be measured using other methods, such as the following:

- **As a financial asset:** Brand equity can be studied as a financial asset by making a calculation of a brand's worth as an intangible asset. For example, a company can estimate brand value on the basis of projected profits discounted to a present value. In turn, the present value can be used to calculate the risk profile, market leadership, stability, and global reach. Forbes, Interbrand and other organizations conduct this type of valuation and publish annual lists of the most valuable global brands.
- **As a price differential:** The price of an equivalent well-known brand can be compared to that of competing, no-name, or private-label products. The value of this price differential can be calculated to estimate the brand's price premium in terms of past, present, or future revenue.
- **As consumer favorability and preference:** Several brand-equity methodologies try to map the mind of the consumer to uncover associations with a given brand. For example, projective techniques can be used to identify tangible and intangible attributes, attitudes, and various perceptions about the brand. Under this approach, the brands with the highest levels of awareness and most favorable and unique associations are considered high-equity brands.
- **As consumer perceptions:** Another brand-equity measurement technique assesses which attributes are most important in influencing customer buying choices, and then measures how well various competitors perform against the most important attributes. This approach helps marketers better understand the customer decision-making process, how brands influence it, and which competitors "own" key attributes that drive customer decisions.

### Building Brand Loyalty

One of the most important reasons for building brand equity is to win brand-loyal customers. In marketing, brand loyalty refers to a consumer's commitment to repurchase or otherwise continue using a particular brand by repeatedly buying a product or service.

The American Marketing Association defines brand loyalty in the following ways:

1. The situation in which a consumer generally buys the same manufacturer-originated product or service repeatedly over time rather than buying from multiple suppliers within the category (sales promotion definition)
2. The degree to which a consumer consistently purchases the same brand within a product class (consumer behavior definition)

Aside from a consumer's ability to repurchase a brand, true brand loyalty exists when the customer is committed to the brand and has a high relative attitude toward the brand, which is then demonstrated through repurchase behavior. For example, if Joe has

brand loyalty to Company A, he will purchase Company A's products even if Company B's products are cheaper and/or of a higher quality. As an organization increases its number of brand-loyal customers, it develops a stronger and more predictable position in the market. As noted above, brand equity and brand loyalty enable an organization to enjoy price premiums over competitors.

Like brand equity, brand loyalty is multidimensional. It is determined by several distinct psychological processes, such as the customers' perception of value, brand trust, satisfaction, repeat-purchase behavior, and commitment. *Commitment* and *repeated-purchase behavior* are considered necessary conditions for brand loyalty, followed by *perceived value*, *satisfaction*, and *brand trust*.

Philip Kotler identifies the following four customer types that exhibit similar patterns of behavior:

1. **Hard-core Loyals**, who buy the brand all the time
2. **Split Loyals**, who are loyal to two or three brands
3. **Shifting Loyals**, who move from one brand to another
4. **Switchers**, who have no loyalty (are possibly "deal-prone," constantly looking for bargains, or are "vanity prone," looking for something different)

Understanding the dynamics of these audiences can be very important for marketers, so they know what's happening among their target segments and where to focus their attention and marketing investment. A large-scale 2013 study across 14 million store visits by 1 million customers found that loyal customers (those visiting the stores 10+times) accounted for about 20 percent of all customers but 80 percent of revenue and 72 percent of all store visits. Obviously, knowing and growing your loyal customer base makes a huge difference.<sup>[3]</sup>

### Benefits of Brand Loyalty

The benefits of brand loyalty are longer tenure, or staying a customer for longer, and lower sensitivity to price. Recent research found evidence that longer-term customers were indeed less sensitive to price increases.

According to Andrew Ehrenberg, consumers buy "portfolios of brands." They regularly switch between brands, often because they simply want a change. Thus, "brand penetration" or "brand share" reflects only a statistical chance that the majority of customers will buy that brand next time as part of a portfolio of brands. It does not guarantee that they will remain loyal.

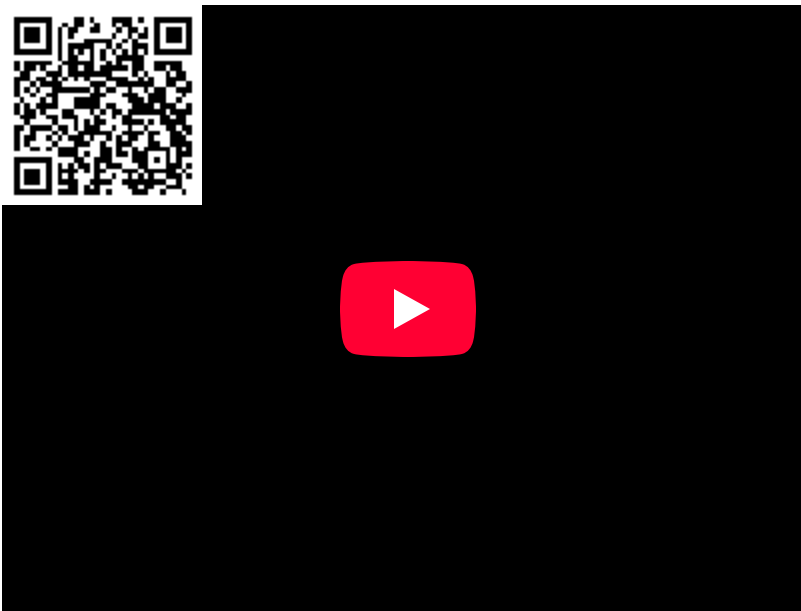
By creating promotions and loyalty programs that encourage the consumer to take some sort of action, companies are building brand loyalty by offering more than just an advertisement. Offering incentives like big prizes creates an environment in which customers see the advertiser as more than just the advertiser. Individuals are far more likely to come back to a company that uses interesting promotions or loyalty programs than a company with a static message of "buy our brand because we're the best."

### Popular Loyalty Programs

Below are some of the most popular customer loyalty programs used today by many companies. These programs allow organizations to engage their customers beyond traditional advertising and create incentives for consumers to become brand-loyal, repeat customers.

- Sweepstakes and Advergames
- Points-based loyalty programs, awarding prizes for incremental purchase behavior (e.g., frequent-flyer programs)
- Branded digital games that engage consumers with prize incentives
- Contests
- Skill tests and user-generated promotions such as video and photo contests
- Social media applications and management
- Social media promotions and offers
- Customer rewards programs (e.g., pay lower prices using a frequent-buyer card)
- Coupons (hard copy and/or digital)
- Promotional auctions—bid for prizes with points earned from incremental purchase behavior
- Email clubs
- Subscription databases—national and/or segmented by market
- SMS Promotions
- iPhone apps
- Branded Web apps

As you'll see in the following video, customers are well aware that companies are using loyalty programs to court them and win their repeat business—but it doesn't seem to matter. Customers have come to expect something in exchange for their loyalty.



You can view the [transcript for “Give and Take Rewards”](#) (opens in new window).

1. [www.iuc-edu.eu/group/sem1\\_L3/2013%20DNPBM/Lecture%2014%20Measuring%20Brand%20Equity.pdf](http://www.iuc-edu.eu/group/sem1_L3/2013%20DNPBM/Lecture%2014%20Measuring%20Brand%20Equity.pdf) ↵
2. [young-rubicam.de/tools-wissen/tools/brandasset-valuator/?lang=en](http://young-rubicam.de/tools-wissen/tools/brandasset-valuator/?lang=en) ↵
3. <http://www.marketingprofs.com/chirp/2013/11338/surprising-facts-about-customer-loyalty-marketing-infographic#ixzz2wj6EeIJ> ↵

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