

14.17: Brand Equity

Learning Objectives

- Define brand equity

Brand equity refers to the intrinsic value a brand has, given consumers' awareness of it and affinity for it. It is the product of Brand identity, meaning how a brand represents itself and its value publicly, and brand image—what attributes and values consumers project on the brand. It is commonly believed that the owner of a well-known brand name can generate more revenue (compared to the owner of a lesser or unknown brand) simply from brand recognition. That is, consumers believe that a product with a well-known name is better than products with less well-known names.

Brand equity has been studied from two different perspectives: cognitive psychology and information economics. According to cognitive psychology, brand equity lies in the consumer's awareness of brand features and associations, which drive attribute perceptions. According to information economics, a strong brand name works as a credible signal of product quality for imperfectly informed buyers and generates price premiums as a form of return to branding investments.

The better a consumer knows and understands a brand, perceiving it as favorable, the more likely that they'll ascribe those same attributes to the brand's products. For example, the marketers responsible for the Cheerios™ brand might describe Cheerios™ brand identity as wholesome, nutritious, and inclusive, perfect as a “first food” for toddlers through adulthood. And, if you, as a consumer, understand and believe this positioning for the Cheerios™ brand, you are more likely to believe that all flavors and versions of Cheerios™ cereals are wholesome, nutritious, and inclusive. Further, you might be more willing to purchase a new item from the Cheerios™ brand ahead of a rival product from Kellogg's® or Post®, believing that the Cheerios™ brand implies high(er) quality.

Brand equity is important for marketers because consumers' knowledge about a brand also governs how manufacturers and advertisers market the brand. For example, a brand that is not well known and/or not highly regarded requires far more investment and support to generate awareness and affinity. That's because brand equity is created through strategic investments in communication channels and market education. When successful, these investments appreciate through economic growth in profit margins, market share, prestige value, and critical associations.

That said, brand equity is difficult to quantify, and there is no consensus on how to measure it. One issue is the potential disconnect between quantitative and qualitative equity values. Quantitative brand equity includes numerical values such as profit margins and market share, but fails to capture qualitative elements such as prestige and associations of interest. Overall, most marketing practitioners take a more qualitative approach to brand equity because of this challenge.

Further, recognition and affinity doesn't imply intent to buy. Luxury brands clearly illustrate this phenomenon. For example, a consumer may be aware of the Porsche brand and feel very strongly about it. Yet, this reflection of brand equity does not necessarily mean that the consumer is actively shopping for or able to purchase a Porsche model. Nevertheless, brand equity is an important consideration for marketers as they determine how to market their brand, understanding that brand equity is created and sustained through strategic investments in IMC.

We've discussed in detail the concepts of brand image, brand identity and brand equity, but there are other associated terms that we should mention as well: brand loyalty and brand recognition. These all represent the potential benefits of a healthy, strong brand. When we apply these concepts to a retail assortment mix, the benefits become quite apparent.

Strong manufacturer brands in a retail assortment add positive image and prestige to the retailer's own image. Brand recognition and loyalty make it easier for the retailer to derive revenue from the trusted brand products they carry because they are easier to sell. Branded products allow the retailer to create an expanded merchandise mix, using the brand as an “umbrella” over lower-priced lines of goods that could include store label products.

In addition to adding legitimacy and image, a dependable sales revenue stream, and an expanded assortment mix, branded products provide other benefits to the retailer as well. Typically, manufacturer brands conduct multi-channel promotions at key periods during a selling season. It wouldn't be Father's Day without dress shirt, neckwear, polo, and golf club promotions. Super Bowl promotions include everything from chips and hot dogs to high-definition video products. And the holidays, where retailers typically produce 50% of their annual sales in just 6-8 weeks, are always where we see creative promotions from almost all branded suppliers to maximize that all-important selling season.

Retailers' participation in these branded promotions can vary, but as we saw from the Pillsbury Bake-off case in an earlier section, participation can be extensive: from shared advertising across channels to in-store displays and presentations to the actual purchase transaction itself. And it should be noted that manufacturer brands will often offer special discounts, payment terms, and other incentives to retailers for these events.

On another level, many of the benefits of branding such as brand image, brand loyalty, and brand equity translate to the brand of the retailer itself. Here are some examples of retailers and their brand image:

- Walmart- a super store noted for its huge assortments and low everyday prices.
- Abe's Market- best natural products regardless of the size or scale of the maker.
- Nordstrom- a department store synonymous for luxury, high-end fashion goods.
- Costco- a warehouse store that offers deals for buying in quantity.
- REI- built on the image of the true outdoors, adventure, and ecology.
- Sephora- the "Nordstrom" of beauty products.
- IKEA- an overwhelming enterprise of ready-to-assemble furniture and home accessories.

When a retailer has successfully established its brand like those listed above, one could go down the list of the "6 P's" of retail marketing and see benefits in each category. If the AIDA model were to be applied to retail brands, retailers with a strong brand would already have some degree of mind-share—when a consumer thinks about options for cosmetics, healthy snacks, or hiking gear needs, wouldn't brands like Sephora, Abe's, and REI come to mind? All in all, the strength of branding in the mind of the consumer provides a host of solid benefits to both retail and supplier businesses.

? Practice Questions

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