brand equity

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INTRODUCTION

In 2009, the Coca-Cola brand was valued at $68.7 billion dollars and it was the world's most valuable brand (www.interbrand.com). The brand name alone, an intangible asset, accounted for 51% of the stock market value of the Coca-Cola Company (Interbrand, 2004). Coca-Cola is a brand with equity. Coca-Cola not only illustrates the value of a brand name but also demonstrates the importance of brands to a company's financial well-being.

The term *brand equity* came to public attention in the 1980s. It was first used by advertising practitioners to capture the idea that a brand had value to customers and because of this, the brand had financial value to the firm due to expected future sales (Barwise, 1993). In the late 1980s, quantifying the financial value of the brand became more important. Financial markets were recognizing the increasing gap between companies' book values and stock market valuations, as well as noticing the premium prices paid above stock market value during the mergers and acquisitions taking place. Large amounts of goodwill on balance sheets needed to be accounted for in an acceptable way (Feldwick, 1996; Murphy, 1990).

DEFINITION OF BRAND EQUITY

Brand equity is the ''value of the brand'' (American Marketing Association, 2009). A brand is ''a name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers'' (American Marketing Association, 2009). In general, brand equity can be thought of as a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or that firm's customers (Aaker, 1991). Value is assessed from both the customer and managerial (i.e., financial) perspective. From a customer perspective, brand equity is based on consumer attitudes about positive brand attributes and favorable consequences of brand use. From a managerial perspective, brand equity is the incremental cash flows which accrue to branded products over and above the cash flows which would result from the sale of unbranded products (Simon and Sullivan, 1993). From a financial markets perspective, brand equity is the sum of future profits, discounted in each period by a risk-adjusted interest rate, that result from associating that brand name with particular products or services (Simon and Sullivan, 1993).

WHY BRANDS ARE IMPORTANT

Customers like brands because brands provide assurances of quality, reliability, and consistency. Brands reduce perceived risk and allow people to shop quickly and confidently, saving time and energy on purchase decisions. Brands provide emotional rewards and experiential pleasure (Kapferer, 2008). Through brands, individuals can construct a self-concept and convey that concept to others.

Manufacturers benefit from brands as well. Brands cannot be copied by competitors, allowing manufacturers to command higher prices for preferred brands, obtain a larger market share, and spend less on promotional expenses such as advertising and price promotions (Shocker and Weitz, 1998). In addition, customer demand for the brand means manufacturers are better able to obtain distribution and cooperation from channel intermediaries. Customer preference for the brand can lead to a strong loyal customer franchise, more reliable demand forecasts, and expectations of cash flow from future sales. Last, a successful brand can be leveraged to increase sales and revenues for the firm through geographic market expansion and brand extensions.

Channel intermediaries, such as wholesalers and retailers, like brands because they allow for easier entry into markets, higher sales, and the opportunity to build loyalty at the store level.

HOW BRAND EQUITY IS MEASURED

The brand name and what it represents are a company's most important assets; a brand is the basis of competitive advantage and future revenue streams (Aaker, 1991). It is clear that brands help generate sales, and that sales

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generate revenue and profits, and that long-term revenue is earned through repurchase and customer loyalty. It is also evident that the financial value of a brand is a consequence of the value customers place on the brand.

Measuring a brand's equity is a useful exercise to firms not only because it allows firms to assign a financial value to the brand for purposes of balance sheet accounting and other financial transactions but also knowing a brand's equity can help guide marketing strategy and tactical decisions, it can help managers assess the extendibility of the brand name to new products and new markets, it can help managers evaluate the effectiveness of their marketing decisions, and it can track a brand's health over time, and against competitive brands (Keller, 1993).

Many methods have been proposed to value a brand. These approaches are generally financially driven methods or research-based methods. Financially driven approaches include the cost-based value of the brand – that is, aggregate expenditures incurred developing the brand including research and development, marketing, advertising, and employee training costs (Aaker, 1991), the residual market value of the brand after other sources of value have been accounted for (Simon and Sullivan, 1993), the ratio of the brand's price to its competitor's price when both products are equally desirable to consumers (Crimmins, 1992), net present value of the price premium the brand commands over unbranded, generic or competitive brands (Aaker, 1991), acquisition value of the brand (Brasco, 1988), and net present value of the brand's future expected earnings (Brasco, 1988).

Market-level indicators of brand value – a loyal customer base, price premiums, and sustained market share leadership – are clearly the result of consumer-level effects. One may conceive brand equity as composed of consumer brand equity leading to market brand equity. The associations and beliefs the consumer has about the brand (brand image) and the strength of the consumer's attachment to the brand (brand loyalty) lead to positive market outcomes such as market share leadership, price premiums (brand strength) and ultimately, the financial value of the brand as a separate asset on a balance sheet (brand value).

Consumer-based research methods include measures of consumer perceptions, attitudes, awareness, knowledge, familiarity, preference, purchase intentions, satisfaction, loyalty, purchase share, and repurchase rates. The hierarchy of effects model is a useful framework for understanding customer-based brand equity (Agarwal and Rao, 1996). The hierarchy of effects model suggests that consumers pass through different stages, from exposure to the brand to intention to buy, before making a purchase. Consumer brand equity begins with brand awareness, and progresses to perceptions and associations relating to the brand, preferences for the brand, choice intentions, and ultimately, purchase.

Brand awareness can be assessed based on measures of unaided recall, recognition, or familiarity with the brand name. Without awareness, a brand cannot become part of the consumer's consideration set and no purchase can take place, so brand awareness is a critical first step to building brand equity. The associations and beliefs a consumer has about the brand comprise the brand image and represent a deeper level of brand knowledge. Brand image can be assessed through measures of perceptions of quality, specific beliefs about the brand on key attributes, and perceived differences with competitive brands. Highly valued brands are perceived as superior on some valued attribute. Central to building a valuable brand is the ability of the firm to develop and nurture clear, unique, and desirable brand associations. Measures of brand preference include the consumer's overall evaluation of the brand, consumer willingness to pay a premium for the brand, and loyalty or share of category purchases. Consumer purchase intention measures include likelihood of purchase or selection from a choice set. Consumer-based brand measures are often collected via survey or consumer panels and as a result, can be costly to obtain and are subject to the potential biases and errors inherent in survey research. However, consumer measures are necessary and critical antecedents to market-related measures of brand equity. A firm achieves higher market share or price premiums because of the perceived value of the brand to consumers.

Customer-based measures of equity lead to brand strength in the marketplace. Brand strength can be thought of as consumer demand for the brand relative to competitive offerings. Brand strength is a behavioral outcome of the perceived value a brand holds for consumers. It is captured by measures of competitive superiority including market share leadership, market penetration, share of requirements, and price premiums. In essence, brand strength is evidenced in the increased volume and/or increased margins a firm enjoys compared to sales of other brands or unbranded products in the category.

Brand strength is a precursor to brand financial value – a monetized measure of brand equity such as the value of the brand on a balance sheet or the acquisition value of the brand.

Brand image, brand loyalty, brand strength, and brand financial value are not independent of each other. But at the same time, there is no empirical evidence to support an assumption of causal linkages between these four concepts. Brands can score high on consumer measures of awareness, preference, and purchase intention and yet perform poorly in a competitive marketplace. Establishing empirical links between consumer-based measures of brand value and financial-market based measures of brand value – especially future financial performance of the brand – remains a challenge for researchers in the area of brand equity.

CONCLUSION

Brand equity is an important concept. The concept of brand equity represents the combined effect of customer, firm, and competitive market decisions on the value of a brand. Firms that successfully leverage the value of their brands generate greater sales and profits. While brands are strategic assets and the source of competitive advantage for firms, brand equity is a measure of that success.

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