

PART 4 Building Strong Brands

Chapter 9 | Creating Brand Equity

Chapter 10 | Crafting the Brand Positioning

Chapter 11 | Competitive Dynamics

Chapter 9



In This Chapter, We Will Address the Following **Questions**

1. What is a brand, and how does branding work?
2. What is brand equity?
3. How is brand equity built, measured, and managed?
4. What are the important brand architecture decisions in developing a branding strategy?

With a unique concept and shrewd grassroots marketing, Lululemon has attracted a loyal customer base and built a strong brand.

Creating Brand Equity

One of the most valuable intangible assets of a firm is its brands, and it is incumbent on marketing to properly manage their value. Building a strong brand is both an art and a science. It requires careful planning, a deep long-term commitment, and creatively designed and executed marketing. A strong brand commands intense consumer loyalty—at its heart is a great product or service.



While attending yoga classes, Canadian entrepreneur Chip Wilson decided the cotton-polyester blends most fellow students wore were too uncomfortable. After designing a well-fitting, sweat-resistant black garment to sell, he also decided to open a yoga studio, and lululemon was born. The company has taken a grassroots approach to growth that creates a strong emotional connection with its cus-

tomers. Before it opens a store in a new city, lululemon first identifies influential yoga instructors or other fitness teachers. In exchange for a year's worth of clothing, these yogi serve as "ambassadors," hosting students at lululemon-sponsored classes and product sales events. They also provide product design advice to the company. The cult-like devotion of lululemon's customers is evident in their willingness to pay \$92 for a pair of workout pants that might cost only \$60 to \$70 from Nike or Under Armour. lululemon can sell as much as \$1,800 worth of product per square feet in its approximately 100 stores, three times what established retailers Abercrombie & Fitch and J.Crew sell. After coping with some inventory challenges, the company is looking to expand beyond yoga-inspired athletic apparel and accessories into similar products in other sports such as running, swimming, and biking.¹

Marketers of successful 21st-century brands must excel at the strategic brand management process. Strategic brand management combines the design and implementation of marketing activities and programs to build, measure, and manage brands to maximize their value. The strategic brand management process has four main steps:

- Identifying and establishing brand positioning
- Planning and implementing brand marketing
- Measuring and interpreting brand performance
- Growing and sustaining brand value deals with brand positioning.

The latter three topics are discussed in this chapter.² Chapter 11 reviews important concepts dealing with competitive dynamics.

What Is Brand Equity?

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, enhance, and protect brands. Established brands such as Mercedes, Sony, and Nike have commanded a price premium and elicited deep customer loyalty through the years. Newer brands such as POM Wonderful, SanDisk, and Zappos have captured the imagination of consumers and the interest of the financial community alike.

The American Marketing Association defines a **brand** as "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors." A brand is thus a product or service whose dimensions differentiate it in some way from other products or services designed to satisfy the same need. These differences may be functional, rational, or tangible—related to product performance of the brand. They may also be more symbolic, emotional, or intangible—related to what the brand represents or means in a more abstract sense.

Branding has been around for centuries as a means to distinguish the goods of one producer from those of another.³ The earliest signs of branding in Europe were the medieval guilds' requirement that craftspeople put trademarks on their products to protect themselves and their customers against inferior quality. In the fine arts, branding began with artists signing their works. Brands today play a number of important roles that improve consumers' lives and enhance the financial value of firms.

The Role of Brands

Brands identify the source or maker of a product and allow consumers—either individuals or organizations—to assign responsibility for its performance to a particular manufacturer or distributor. Consumers may evaluate the identical product differently depending on how it is branded. They learn about brands through past experiences with the product and its marketing program, finding out which brands satisfy their needs and which do not. As consumers' lives become more complicated, rushed, and time-starved, a brand's ability to simplify decision making and reduce risk becomes invaluable.⁴

Brands also perform valuable functions for firms.⁵ First, they simplify product handling or tracing. Brands help to organize inventory and accounting records. A brand also offers the firm legal protection for unique features or aspects of the product.⁶ The brand name can be protected through registered trademarks; manufacturing processes can be protected through patents; and packaging can be protected through copyrights and proprietary designs. These intellectual property rights ensure that the firm can safely invest in the brand and reap the benefits of a valuable asset.

A credible brand signals a certain level of quality so that satisfied buyers can easily choose the product again.⁷ Brand loyalty provides predictability and security of demand for the firm, and it creates barriers to entry that make it difficult for other firms to enter the market. Loyalty also can translate into customer willingness to pay a higher price—often 20 percent to 25 percent more than competing brands.⁸ Although competitors may duplicate manufacturing processes and product designs, they cannot easily match lasting impressions left in the minds of individuals and organizations by years of product experience and marketing activity. In this sense, branding can be a powerful means to secure a competitive advantage.⁹ Sometimes marketers don't see the real importance of brand loyalty until they change a crucial element of the brand, as the now-classic tale of New Coke illustrates.

Coca-Cola learned a valuable lesson about its brand when it changed its formula without seeking sufficient consumer permission.



Coca-Cola Battered by a nationwide series of taste-test challenges from the sweeter-tasting Pepsi-Cola, Coca-Cola decided in 1985 to replace its old formula with a sweeter variation, dubbed New Coke. Coca-Cola spent \$4 million on market research. Blind taste tests showed that Coke drinkers preferred the new, sweeter formula, but the launch of New Coke provoked a national uproar. Market researchers had measured the

taste but failed to measure the emotional attachment consumers had to Coca-Cola. There were angry letters, formal protests, and even lawsuit threats to force the retention of “The Real Thing.” Ten weeks later, the company withdrew New Coke and reintroduced its century-old formula as “Classic Coke,” a move that ironically might have given the old formula even stronger status in the marketplace. ■



For better or worse, branding effects are pervasive. One research study that provoked much debate about the effects of marketing on children showed that preschoolers felt identical McDonald's food items—even carrots, milk, and apple juice—tasted better when wrapped in McDonald's familiar packaging than in unmarked wrappers.¹⁰

To firms, brands represent enormously valuable pieces of legal property that can influence consumer behavior, be bought and sold, and provide their owner the security of sustained future revenues. Companies have paid dearly for brands in mergers or acquisitions, often justifying the price premium on the basis of the extra profits

expected and the difficulty and expense of creating similar brands from scratch. Wall Street believes strong brands result in better earnings and profit performance for firms, which, in turn, create greater value for shareholders.¹¹

The Scope of Branding

How do you “brand” a product? Although firms provide the impetus to brand creation through marketing programs and other activities, ultimately a brand resides in the minds of consumers. It is a perceptual entity rooted in reality but reflecting the perceptions and idiosyncrasies of consumers.

Branding is endowing products and services with the power of a brand. It’s all about creating differences between products. Marketers need to teach consumers “who” the product is—by giving it a name and other brand elements to identify it—as well as what the product does and why consumers should care. Branding creates mental structures that help consumers organize their knowledge about products and services in a way that clarifies their decision making and, in the process, provides value to the firm.

For branding strategies to be successful and brand value to be created, consumers must be convinced there are meaningful differences among brands in the product or service category. Brand differences often relate to attributes or benefits of the product itself. Gillette, Merck, and 3M have led their product categories for decades, due in part to continual innovation. Other brands create competitive advantages through nonproduct-related means. Gucci, Chanel, and Louis Vuitton have become category leaders by understanding consumer motivations and desires and creating relevant and appealing images around their products.

Marketers can apply branding virtually anywhere a consumer has a choice. It’s possible to brand a physical good (Ford Flex automobile, or Lipitor cholesterol medication), a service (Singapore Airlines or Blue Cross and Blue Shield medical insurance), a store (Nordstrom or Foot Locker), a person (actress Angelina Jolie or tennis player Roger Federer), a place (the city of Sydney or country of Spain), an organization (U2 or American Automobile Association), or an idea (abortion rights or free trade).¹²



Shaun White Action sports legend Shaun White survived three open-heart surgeries before he was a year old, and later survived midair collisions and dramatic falls in competition on his way to becoming a champion skateboarder and an Olympic gold medalist in snowboarding. The two-sport legend was signed by gear and apparel maker Burton when he was

only 7 years old. His likeability, authenticity, and shrewd business insights have made him one of the most influential endorsers in the \$150 billion youth market. Burton’s White Collection of high-priced technical winter outerwear is one of the company’s hottest sellers; HP has used White to market its laptops and flat-panel TV’s (which also showcase his *Shaun White Snowboarding* video game created by Ubisoft); a White-designed signature goggle has become Oakley’s biggest seller; Target’s Shaun White 4 Target collection focuses on street wear and skateboarding for a mass market; and long-time sponsor Red Bull even filmed White’s snowboarding trip to Japan and released the video on MTV and as a retail DVD.¹³



An action-sports hero, Shaun White is one of the most successful product endorsers for the lucrative youth market, and a brand in his own right.

Defining Brand Equity

Brand equity is the added value endowed on products and services. It may be reflected in the way consumers think, feel, and act with respect to the brand, as well as in the prices, market share, and profitability the brand commands.¹⁴

Marketers and researchers use various perspectives to study brand equity.¹⁵ Customer-based approaches view it from the perspective of the consumer—either an individual or an organization—and recognize that the power of a brand lies in what customers have seen, read, heard, learned, thought, and felt about the brand over time.¹⁶

To reinforce its luxury image, Louis Vuitton uses iconic celebrities such as legendary Rolling Stones rocker Keith Richards in print and outdoor advertising.



Customer-based brand equity is thus the differential effect brand knowledge has on consumer response to the marketing of that brand.¹⁷ A brand has *positive* customer-based brand equity when consumers react more favorably to a product and the way it is marketed when the brand is *identified*, than when it is not identified. A brand has *negative* customer-based brand equity if consumers react less favorably to marketing activity for the brand under the same circumstances. There are three key ingredients of customer-based brand equity.

1. Brand equity arises from differences in consumer response. If no differences occur, the brand-name product is essentially a commodity, and competition will probably be based on price.¹⁸
2. Differences in response are a result of consumers' **brand knowledge**, all the thoughts, feelings, images, experiences, and beliefs associated with the brand. Brands must create strong, favorable, and unique brand associations with customers, as have Toyota (*reliability*), Hallmark (*caring*), and Amazon.com (*convenience*).
3. Brand equity is reflected in perceptions, preferences, and behavior related to all aspects of the marketing of a brand. Stronger brands lead to greater revenue.¹⁹ Table 9.1 summarizes some key benefits of brand equity.

The challenge for marketers is therefore ensuring customers have the right type of experiences with products, services, and marketing programs to create the desired brand knowledge. In an abstract sense, we can think of brand equity as providing marketers with a vital strategic “bridge” from their past to their future.²⁰

TABLE 9.1 Marketing Advantages of Strong Brands

Improved perceptions of product performance
 Greater loyalty
 Less vulnerability to competitive marketing actions
 Less vulnerability to marketing crises
 Larger margins
 More inelastic consumer response to price increases
 More elastic consumer response to price decreases

Greater trade cooperation and support
 Increased marketing communications effectiveness
 Possible licensing opportunities
 Additional brand extension opportunities
 Improved employee recruiting and retention
 Greater financial market returns

Marketers should also think of the marketing dollars spent on products and services each year as investments in consumer brand knowledge. The *quality* of that investment is the critical factor, not necessarily the *quantity* (beyond some threshold amount). It's actually possible to overspend on brand building, if money is not spent wisely.

Brand knowledge dictates appropriate future directions for the brand. A **brand promise** is the marketer's vision of what the brand must be and do for consumers. Consumers will decide, based on what they think and feel about the brand, where (and how) they believe the brand should go and grant permission (or not) to any marketing action or program. New-product ventures such as BENGAY aspirin, Cracker Jack cereal, Frito-Lay lemonade, Fruit of the Loom laundry detergent, and Smucker's premium ketchup all failed because consumers found them inappropriate extensions for the brand.



Virgin America After flying for only a few years, Virgin America became an award-winning airline that passengers adore *and* that makes money. It is not unusual for the company to receive e-mails from customers saying they actually wished their flights lasted longer! Virgin America set out to reinvent the entire travel experience, starting with an easy-to-use and friendly Web site and check-in. In flight, passengers revel

in Wi-Fi, spacious leather seats, mood lighting, and in-seat food and beverage ordering through touch-screen panels. Some passengers remark that Virgin America is like “flying in an iPod or nightclub.” Without a national TV ad campaign, Virgin America has relied on PR, word of mouth, social media, and exemplary customer service to create an extraordinary customer experience and build the brand. As VP-marketing Porter Gale notes, “Most of the social-media engagement has been responding, listening and connecting with fans, which is important because it builds loyalty.”²¹



By satisfying unmet consumer needs with a little bit of flair, Virgin America has quickly built a strong brand.

Brand Equity Models

Although marketers agree about basic branding principles, a number of models of brand equity offer some differing perspectives. Here we highlight three more-established ones.

BRANDASSET[®] VALUATOR Advertising agency Young and Rubicam (Y&R) developed a model of brand equity called the BrandAsset[®] Valuator (BAV). Based on research with almost 800,000 consumers in 51 countries, BAV compares the brand equity of thousands of brands across hundreds of different categories. There are four key components—or pillars—of brand equity, according to BAV (see ▲ Figure 9.1):

- **Energized differentiation** measures the degree to which a brand is seen as different from others, and its perceived momentum and leadership.
- **Relevance** measures the appropriateness and breadth of a brand's appeal.
- **Esteem** measures perceptions of quality and loyalty, or how well the brand is regarded and respected.
- **Knowledge** measures how aware and familiar consumers are with the brand.

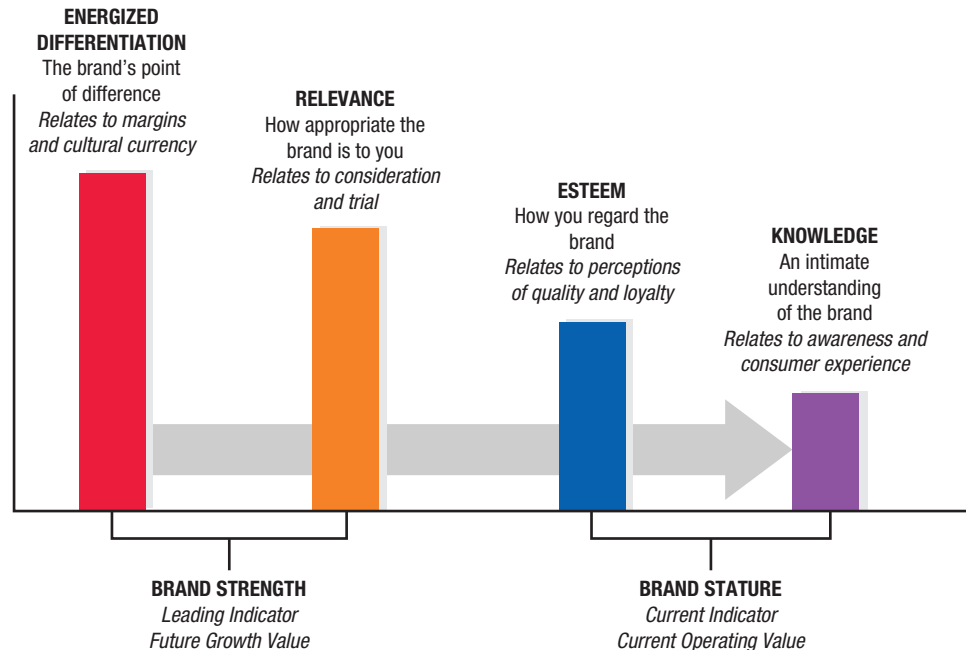
Energized differentiation and relevance combine to determine *brand strength*—a leading indicator that predicts future growth and value. Esteem and knowledge together create *brand stature*, a “report card” on past performance and a current indicator of current value.

The relationships among these dimensions—a brand's “pillar pattern”—reveal much about a brand's current and future status. Energized brand strength and brand stature combine to form the *power grid*, depicting stages in the cycle of brand development in successive quadrants (see ▲ Figure 9.2). Strong new brands show higher levels of differentiation and energy than relevance, whereas both esteem and knowledge are lower still. Leadership brands show high levels on all pillars. Finally, declining brands show high knowledge—evidence of past performance—a lower level of esteem, and even lower relevance, energy, and differentiation.

|Fig. 9.1| ▲

BrandAsset® Valuator Model

Source: Courtesy of BrandAsset® Consulting, a division of Young & Rubicam.



According to BAV analysis, consumers are concentrating their devotion and purchasing power on an increasingly smaller portfolio of special brands—brands with energized differentiation that keep evolving. These brands connect better with consumers—commanding greater usage loyalty and pricing power, and creating greater shareholder value. A hypothetical \$10,000 invested in the top 50 energy-gaining brands grew 12 percent while the S&P 500 index lost nearly 20 percent between December 31, 2001, and June 30, 2009. Some of the latest insights from the BAV data are summarized in “Marketing Insight: Brand Bubble Trouble.”

BRANDZ Marketing research consultants Millward Brown and WPP have developed the BrandZ model of brand strength, at the heart of which is the BrandDynamics pyramid. According to this model, brand building follows a series of steps (see ▲ Figure 9.3).

For any one brand, each person interviewed is assigned to one level of the pyramid depending on their responses to a set of questions. The BrandDynamics Pyramid shows the number of consumers who have reached each level.

- **Presence.** Active familiarity based on past trial, saliency, or knowledge of brand promise
- **Relevance.** Relevance to consumer’s needs, in the right price range or in the consideration set
- **Performance.** Belief that it delivers acceptable product performance and is on the consumer’s short-list
- **Advantage.** Belief that the brand has an emotional or rational advantage over other brands in the category
- **Bonding.** Rational and emotional attachments to the brand to the exclusion of most other brands

“Bonded” consumers at the top of the pyramid build stronger relationships with and spend more on the brand than those at lower levels. There are more consumers at the lower levels, so the challenge for marketers is to help them move up.

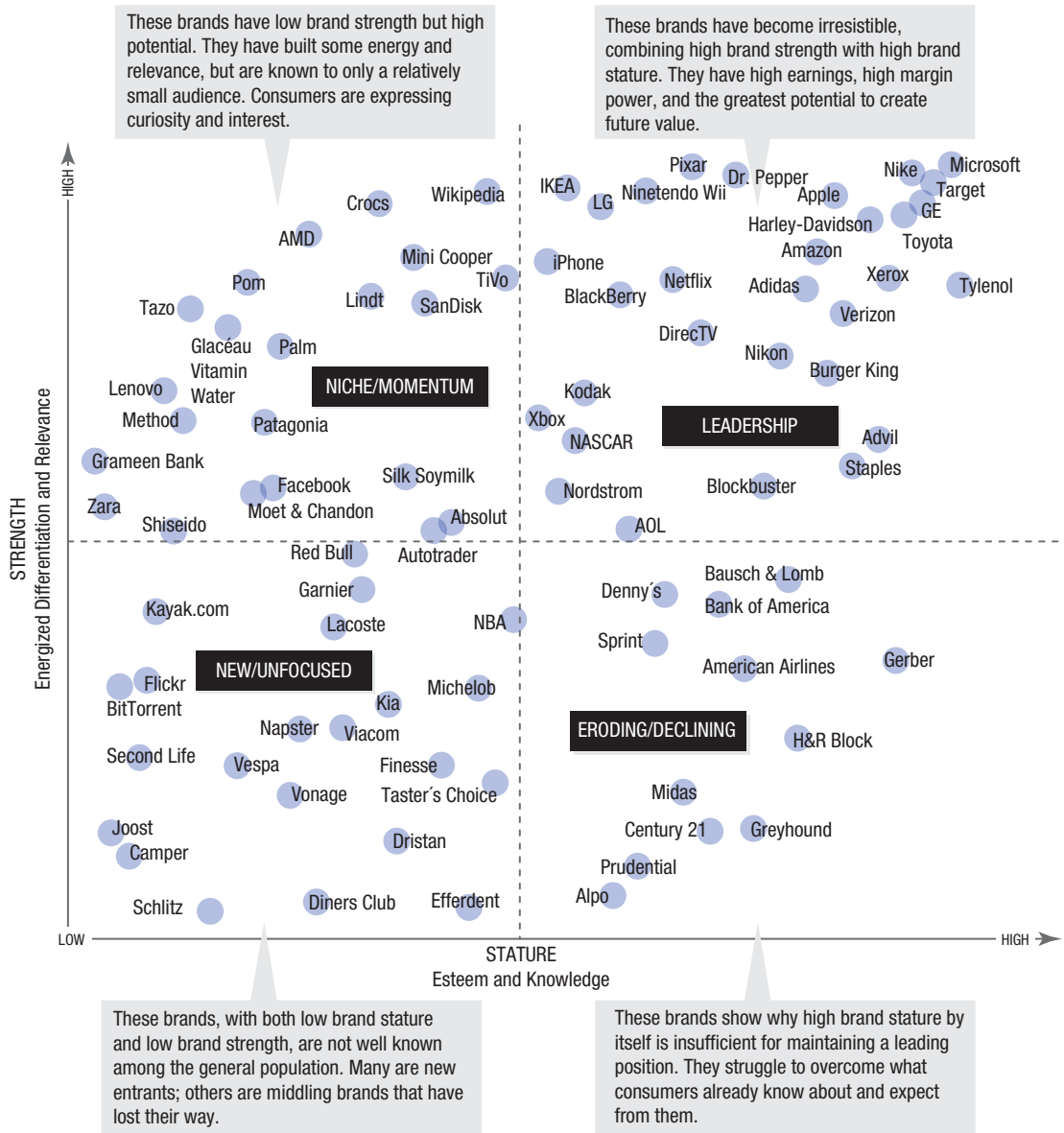
BRAND RESONANCE MODEL The brand resonance model also views brand building as an ascending series of steps, from bottom to top: (1) ensuring customers identify the brand and associate it with a specific product class or need; (2) firmly establishing the brand meaning in customers’ minds by strategically linking a host of tangible and intangible brand associations; (3) eliciting the proper customer responses in terms of brand-related judgment and feelings; and (4) converting customers’ brand response to an intense, active loyalty.

By plotting a representative group of brands' scores for both strength and stature, this matrix derived from the BrandAsset Valuator shows an accurate picture of a brand's status and overall performance.

[Fig. 9.2] ▲

The Universe of Brand Performance

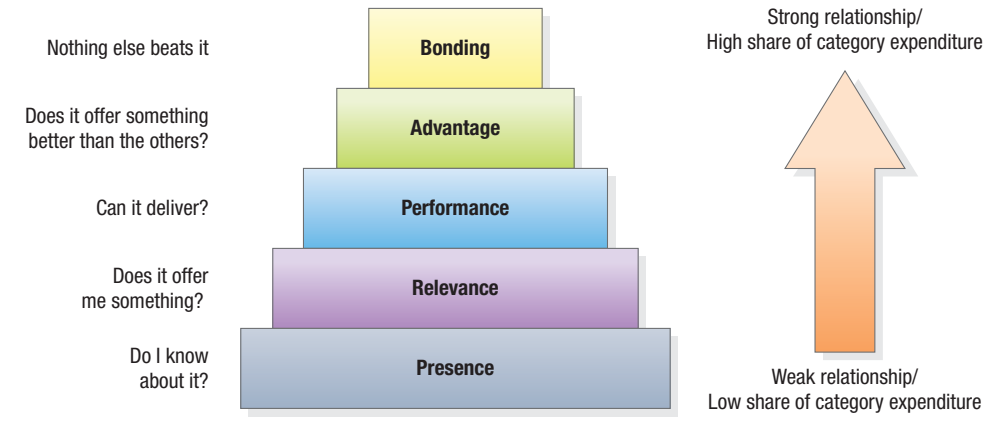
Source: Young & Rubicam BrandAsset Valuator.



[Fig. 9.3] ▲

BrandDynamics™ Pyramid

Source: BrandDynamics™ Pyramid. Reprinted with permission of Millward Brown.





Brand Bubble Trouble

In *The Brand Bubble*, brand consultants Ed Lebar and John Gerzema use Y&R's historical BAV database to conduct a comprehensive examination of the state of brands. Beginning with data from mid-2004, they discovered several odd trends. For thousands of consumer goods and services brands, key brand value measures such as consumer "top-of-mind" awareness, trust, regard, and admiration experienced significant drops.

At the same time, however, share prices for a number of years were being driven higher by the intangible value the markets were attributing to consumer brands. Digging deeper, Lebar and Gerzema found the increase was actually due to a very few extremely strong brands such as Google, Apple, and Nike. The value created by the vast majority of brands was stagnating or falling.

The authors viewed this mismatch between the value consumers see in brands and the value the markets were ascribing to them as a recipe for disaster in two ways. At the macroeconomic level, it implied that stock prices of most consumer companies are overstated. At the microeconomic, company level, it pointed to a serious and continuing problem in brand management.

Why have consumer attitudes toward brands declined? The research identified three fundamental causes. First, there has been a proliferation of brands. New product introductions have accelerated, but many fail to register with consumers. Two, consumers expect creative "big ideas" from brands and feel they are just not getting them. Finally, due to corporate scandals, product crises, and executive misbehavior, trust in brands has plummeted.

Yet, vital brands are still being successfully built. Although all four pillars of the BAV model play a role, the strongest brands resonated with consumers in a special way. Amazon.com, Axe, Facebook, Innocent, IKEA, Land Rover, LG, LEGO, Tata, Nano, Twitter, Whole Foods, and

Zappos exhibited notable energized differentiation by communicating dynamism and creativity in ways most other brands did not.


Formally, the BAV analysis identified three factors that help define energy and the marketplace momentum it creates:

1. *Vision*—A clear direction and point of view on the world and how it can and should be changed.
2. *Invention*—An intention for the product or service to change the way people think, feel, and behave.
3. *Dynamism*—Excitement and affinity in the way the brand is presented.

The authors offer a five-step framework to infuse brands with more energy.

1. **Perform an "energy audit" on your brand.** Identify the current sources and level of energy to understand your brand's strengths and weaknesses and how well brand management aligns with the dynamics of the new marketplace.
2. **Make your brand an organizing principle for the business.** Find an essential brand idea or thought that can serve as a lens through which you define every aspect of the customer experience, including products, services, and communications.
3. **Create an energized value chain.** Make the organization's goals for the brand real for everyone; all participants must think uniquely from the perspective of the brand and understand how their own actions boost the energy level of the brand and fuel the core.
4. **Become an energy-driven enterprise.** Stakeholders need to transfer their energy and passion to their business units and functions. Once management's aspirations for the brand and business begin becoming part of the culture, the process of building an energized brand enterprise is nearly complete.
5. **Create a loop of constant reinvention.** Finally, keep the organization and its brand in a state of constant renewal. Brand managers must be keenly aware of shifts in consumers' perception and values and be ready to reshape themselves again and again.

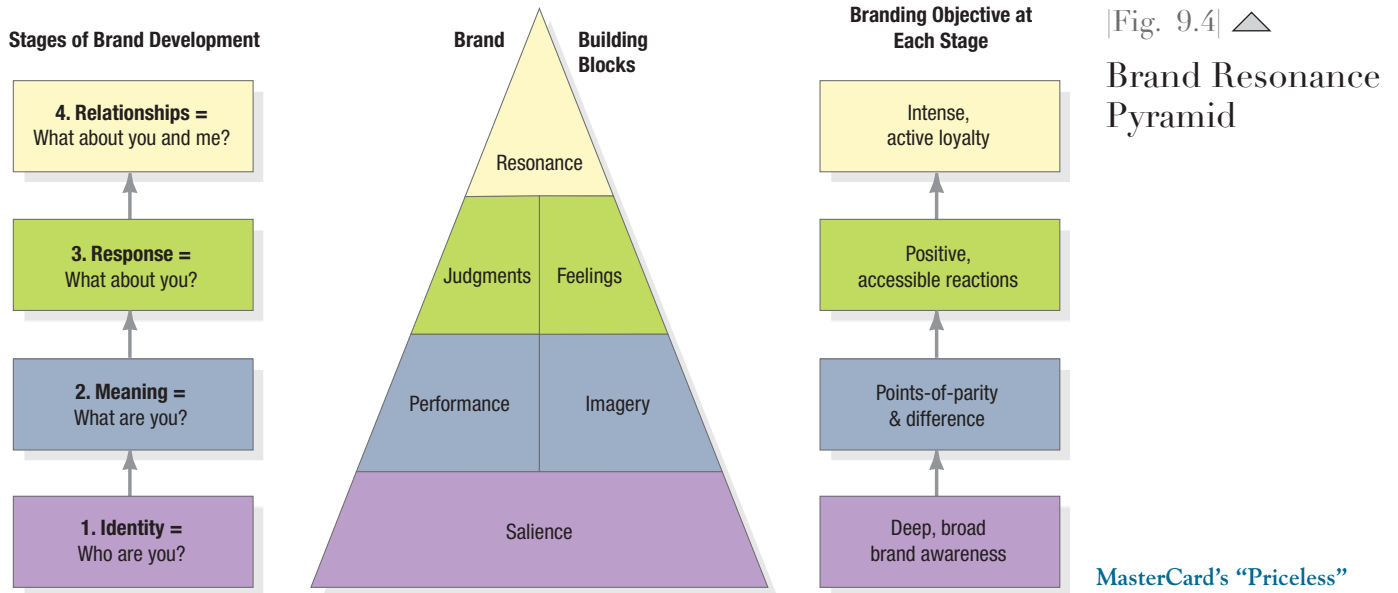
Sources: John Gerzema and Ed Lebar, *The Brand Bubble: The Looming Crisis in Brand Value and How to Avoid It* (New York: Jossey-Bass, 2008); John Gerzema and Ed Lebar, "The Trouble with Brands," *Strategy+Business* 55 (Summer 2009).

According to this model, enacting the four steps means establishing a pyramid of six "brand building blocks" as illustrated in  Figure 9.4. The model emphasizes the duality of brands—the rational route to brand building is on the left side of the pyramid and the emotional route is on the right side.²²

MasterCard is a brand with duality, because it emphasizes both the rational advantages of the credit card—its acceptance at establishments worldwide—as well as the emotional advantages, expressed in the award-winning "Priceless" advertising campaign ("There are some things money can't buy; for everything else, there's MasterCard.").

Creating significant brand equity requires reaching the top of the brand pyramid, which occurs only if the right building blocks are put into place.

- **Brand salience** is how often and how easily customers think of the brand under various purchase or consumption situations.
- **Brand performance** is how well the product or service meets customers' functional needs.
- **Brand imagery** describes the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers' psychological or social needs.



[Fig. 9.4] ▲
Brand Resonance Pyramid

MasterCard’s “Priceless” campaign reinforces the emotional rewards of the brand.

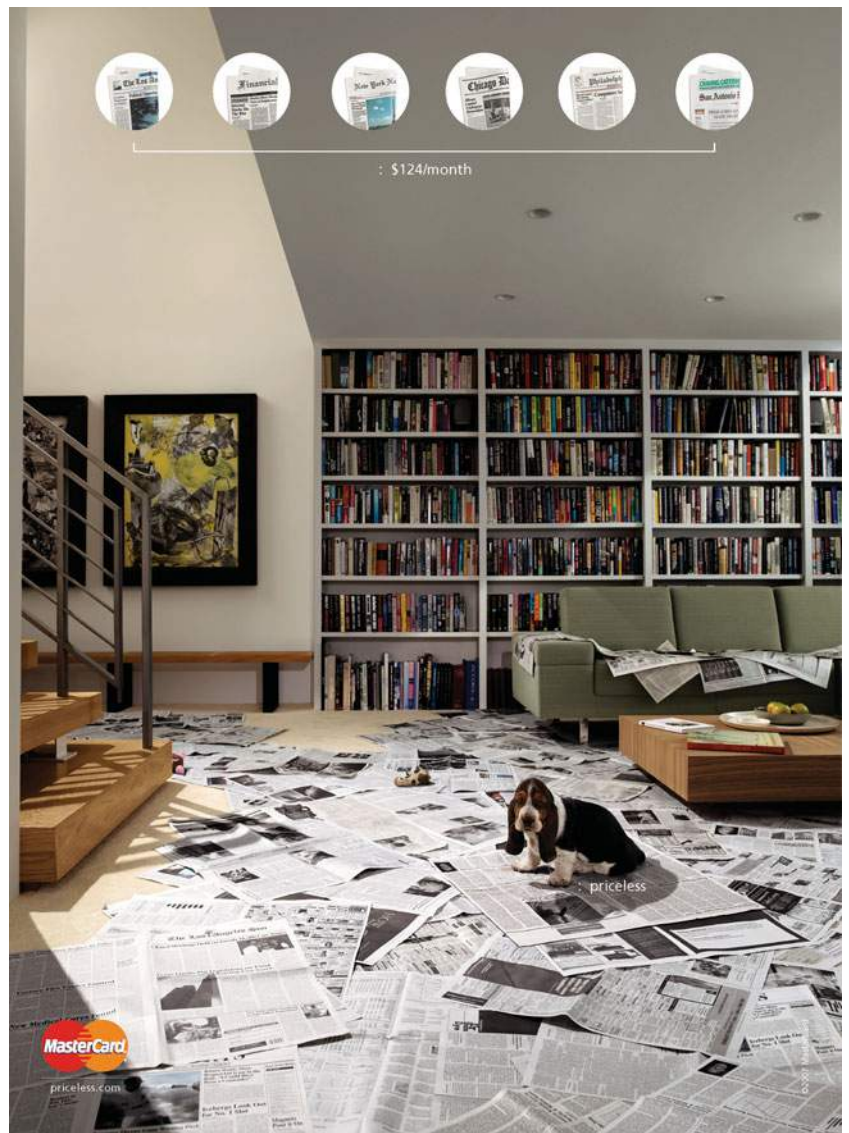
- **Brand judgments** focus on customers’ own personal opinions and evaluations.
- **Brand feelings** are customers’ emotional responses and reactions with respect to the brand.
- **Brand resonance** describes the relationship customers have with the brand and the extent to which they feel they’re “in sync” with it.

Resonance is the intensity of customers’ psychological bond with the brand and the level of activity it engenders.²³ Brands with high resonance include Harley-Davidson, Apple, and eBay. Fox News has found that the higher levels of resonance and engagement its programs engender often lead to greater recall of the ads it runs.²⁴

Building Brand Equity

Marketers build brand equity by creating the right brand knowledge structures with the right consumers. This process depends on *all* brand-related contacts—whether marketer-initiated or not.²⁵ From a marketing management perspective, however, there are three main sets of *brand equity drivers*:

1. **The initial choices for the brand elements or identities making up the brand (brand names, URLs, logos, symbols, characters, spokespeople, slogans, jingles, packages, and signage)**—Microsoft chose the name Bing for its new search engine because it felt it unambiguously conveyed search and the “aha” moment of finding what a person is looking for. It is also short, appealing, memorable, active, and effective multiculturally.²⁶





The brand name 42BELOW has both direct product meaning and indirect meaning related to its New Zealand origins.

2. **The product and service and all accompanying marketing activities and supporting marketing programs**—Liz Claiborne’s fastest-growing label is Juicy Couture, whose edgy, contemporary sportswear and accessories have a strong lifestyle appeal to women, men, and kids. Positioned as an affordable luxury, the brand creates its exclusive cachet via limited distribution and a somewhat risqué name and rebellious attitude.²⁷
3. **Other associations indirectly transferred to the brand by linking it to some other entity (a person, place, or thing)**—The brand name of New Zealand vodka 42BELOW refers to both a latitude that runs through New Zealand and the percentage of its alcohol content. The packaging and other visual cues are designed to leverage the perceived purity of the country to communicate the positioning for the brand.²⁸

Choosing Brand Elements

Brand elements are devices, which can be trademarked, that identify and differentiate the brand. Most strong brands employ multiple brand elements. Nike has the distinctive “swoosh” logo, the empowering “Just Do It” slogan, and the “Nike” name from the Greek winged goddess of victory.

Marketers should choose brand elements to build as much brand equity as possible. The test is what consumers would think or feel about the product *if* the brand element were all they knew. Based on its name alone, for instance, a consumer might expect SnackWell’s products to be healthful snack foods and Panasonic Toughbook laptop computers to be durable and reliable.

BRAND ELEMENT CHOICE CRITERIA There are six criteria for choosing brand elements. The first three—memorable, meaningful, and likable—are “brand building.” The latter three—transferable, adaptable, and protectable—are “defensive” and help leverage and preserve brand equity against challenges.

1. **Memorable**—How easily do consumers recall and recognize the brand element, and when—at both purchase and consumption? Short names such as Tide, Crest, and Puffs are memorable brand elements.
2. **Meaningful**—Is the brand element credible? Does it suggest the corresponding category and a product ingredient or the type of person who might use the brand? Consider the inherent meaning in names such as DieHard auto batteries, Mop & Glo floor wax, and Lean Cuisine low-calorie frozen entrees.
3. **Likable**—How aesthetically appealing is the brand element? A recent trend is for playful names that also offer a readily available URL, like Flickr photo sharing, Wakoopa social networking, and Motorola’s ROKR and RAZR cell phones.²⁹
4. **Transferable**—Can the brand element introduce new products in the same or different categories? Does it add to brand equity across geographic boundaries and market segments? Although initially an online book seller, Amazon.com was smart enough not to call itself “Books ‘R’ Us.” The Amazon is famous as the world’s biggest river, and the name suggests the wide variety of goods that could be shipped, an important descriptor of the diverse range of products the company now sells.
5. **Adaptable**—How adaptable and updatable is the brand element? The face of Betty Crocker has received more than seven makeovers in 87 years, and she doesn’t look a day over 35!
6. **Protectable**—How legally protectable is the brand element? How competitively protectable? Names that become synonymous with product categories—such as Kleenex, Kitty Litter, Jell-O, Scotch Tape, Xerox, and Fiberglass—should retain their trademark rights and not become generic.

DEVELOPING BRAND ELEMENTS Brand elements can play a number of brand-building roles.³⁰ If consumers don’t examine much information in making product decisions, brand elements should be easy to recall and inherently descriptive and persuasive. The likability of brand elements may also increase awareness and associations.³¹ The Keebler elves reinforce home-style baking quality and a sense of magic and fun for their line of cookies; Michelin’s friendly tire-shaped Bibendum helps to convey safety for the family.

Often, the less concrete brand benefits are, the more important that brand elements capture intangible characteristics. Many insurance firms use symbols of strength for their brands (the Rock of Gibraltar for Prudential and the stag for Hartford), security (the “good hands” of Allstate and the hard hat of Fireman’s Fund), or some combination (the castle for Fortis).



Mountain Dew's Dew Tour is a high-energy sponsorship that reinforces the brand's credentials for the youth market.

Like brand names, slogans are an extremely efficient means to build brand equity.³² They can function as useful “hooks” to help consumers grasp what the brand is and what makes it special, as in “Like a Good Neighbor, State Farm Is There,” “Nothing Runs Like a Deere,” “Citi Never Sleeps,” “Every Kiss Begins with Kay” for the jeweler, and “We Try Harder” for Avis rental cars. But choosing a name with inherent meaning may make it harder to add a different meaning or update the positioning.³³

Designing Holistic Marketing Activities

Brands are not built by advertising alone. Customers come to know a brand through a range of contacts and touch points: personal observation and use, word of mouth, interactions with company personnel, online or telephone experiences, and payment transactions. A **brand contact** is any information-bearing experience, whether positive or negative, a customer or prospect has with the brand, its product category, or its market.³⁴ The company must put as much effort into managing these experiences as into producing its ads.³⁵

As we describe throughout this text, marketing strategy and tactics have changed dramatically.³⁶ Marketers are creating brand contacts and building brand equity through new avenues such as clubs and consumer communities, trade shows, event marketing, sponsorship, factory visits, public relations and press releases, and social cause marketing. Mountain Dew created the multicity Dew Tour in which athletes compete in different skateboarding, BMX, and freestyle motocross events to reach the coveted but fickle 12- to 24-year-old target market.³⁷

Integrated marketing is about mixing and matching these marketing activities to maximize their individual and collective effects.³⁸ To achieve it, marketers need a variety of different marketing activities that consistently reinforce the brand promise. The Olive Garden has become the second-largest casual dining restaurant chain in the United States, with more than \$3 billion in sales in 2010 from its more than 700 North American restaurants, in part through establishing a fully integrated marketing program.



The Olive Garden

The Olive Garden brand promise is “the idealized Italian family meal” characterized by “fresh, simple, delicious Italian food,” “complemented by a great glass of wine,” served by “people who treat you like family,” “in a comfortable homelike setting.” To live up to that brand promise, The Olive Garden has sent more than 1,100 restaurant General Managers and team members on cultural immersion trips to Italy, launched the Culinary Institute of Tuscany in Italy to inspire new dishes and teach General Managers and team members authentic Italian cooking techniques, conducts wine training workshops for team members and in-restaurant wine sampling for guests, and is remodeling restaurants to give them a Tuscan farmhouse look. Communications include in-store, employee, and mass media messages that all reinforce the brand promise and ad slogan, “When You’re Here, You’re Family.”³⁹

Olive Garden goes to extraordinary lengths to live up to its brand promise of offering “the idealized Italian family meal.”



We can evaluate integrated marketing activities in terms of the effectiveness and efficiency with which they affect brand awareness and create, maintain, or strengthen brand associations and image. Although Volvo may invest in R&D and engage in advertising, promotions, and other communications to reinforce its “safety” brand association, it may also sponsor events to make sure it is seen as contemporary and up-to-date. Marketing programs should be put together so the whole is greater than the sum of the parts. In other words, marketing activities should work singularly and in combination.

Leveraging Secondary Associations

The third and final way to build brand equity is, in effect, to “borrow” it. That is, create brand equity by linking the brand to other information in memory that conveys meaning to consumers (see ▲ Figure 9.5).

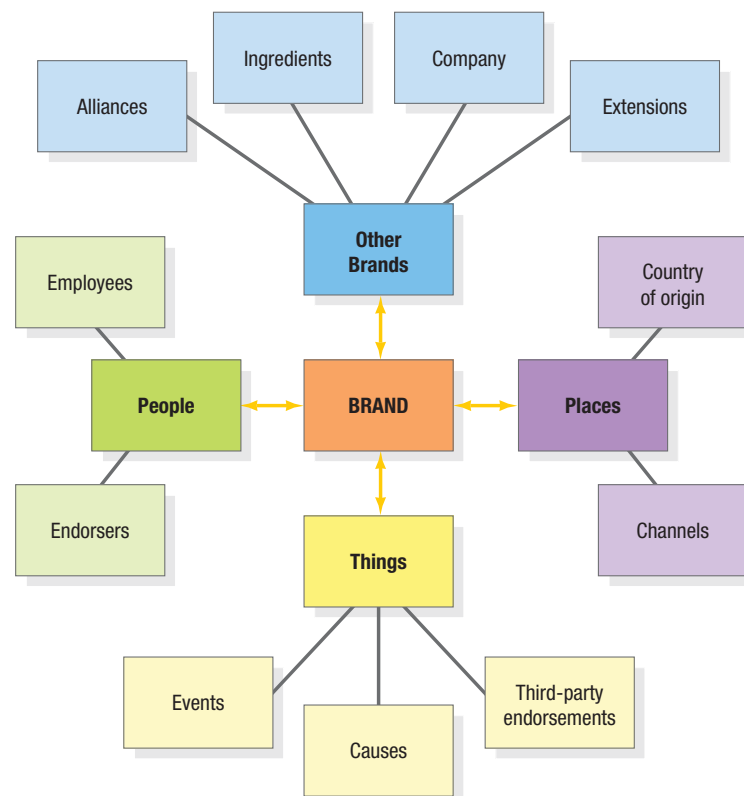
These “secondary” brand associations can link the brand to sources, such as the company itself (through branding strategies), to countries or other geographical regions (through identification of product origin), and to channels of distribution (through channel strategy), as well as to other brands (through ingredient or co-branding), characters (through licensing), spokespersons (through endorsements), sporting or cultural events (through sponsorship), or some other third-party sources (through awards or reviews).

Suppose Burton—the maker of snowboards, ski boots, bindings, clothing, and outerwear—decided to introduce a new surfboard called the “Dominator.” Burton has gained over a third of the snowboard market by closely aligning itself with top professional riders and creating a strong amateur snowboarder community around the country. To support the new surfboard, Burton could leverage secondary brand knowledge in a number of ways:

- It could “sub-brand” the product, calling it “Dominator by Burton.” Consumers’ evaluations of the new product would be influenced by how they felt about Burton and whether they felt that such knowledge predicted the quality of a Burton surfboard.
- Burton could rely on its rural New England origins, but such a geographical location would seem to have little relevance to surfing.

[Fig. 9.5] ▲

Secondary Sources of Brand Knowledge



- Burton could sell through popular surf shops in the hope that its credibility would rub off on the Dominator brand.
- Burton could co-brand by identifying a strong ingredient brand for its foam or fiberglass materials (as Wilson did by incorporating Goodyear tire rubber on the soles of its Pro Staff Classic tennis shoes).
- Burton could find one or more top professional surfers to endorse the surfboard, or it could sponsor a surfing competition or even the entire Association of Surfing Professionals (ASP) World Tour.
- Burton could secure and publicize favorable ratings from third-party sources such as *Surfer* or *Surfing* magazine.

Thus, independent of the associations created by the surfboard itself, its brand name, or any other aspects of the marketing program, Burton could build equity by linking the brand to these other entities.

Internal Branding

Marketers must now “walk the walk” to deliver the brand promise. They must adopt an *internal* perspective to be sure employees and marketing partners appreciate and understand basic branding notions and how they can help—or hurt—brand equity.⁴⁰

Internal branding consists of activities and processes that help inform and inspire employees about brands.⁴¹ Holistic marketers must go even further and train and encourage distributors and dealers to serve their customers well. Poorly trained dealers can ruin the best efforts to build a strong brand image.

Brand bonding occurs when customers experience the company as delivering on its brand promise. All the customers’ contacts with company employees and communications must be positive.⁴² *The brand promise will not be delivered unless everyone in the company lives the brand.* Disney is so successful at internal branding that it holds seminars on the “Disney Style” for employees from other companies.

When employees care about and believe in the brand, they’re motivated to work harder and feel greater loyalty to the firm. Some important principles for internal branding are:⁴³

1. **Choose the right moment.** Turning points are ideal opportunities to capture employees’ attention and imagination. After it ran an internal branding campaign to accompany its external repositioning, “Beyond Petroleum,” BP found most employees were positive about the new brand and thought the company was going in the right direction.
2. **Link internal and external marketing.** Internal and external messages must match. IBM’s e-business campaign not only helped to change public perceptions of the company in the marketplace, it also signaled to employees that IBM was determined to be a leader in the use of Internet technology.
3. **Bring the brand alive for employees.** Internal communications should be informative and energizing. Miller Brewing has tapped into its brewing heritage to generate pride and passion and improve employee morale.

Brand Communities

Thanks to the Internet, companies are interested in collaborating with consumers to create value through communities built around brands. A **brand community** is a specialized community of consumers and employees whose identification and activities focus around the brand.⁴⁴ Three characteristics identify brand communities:⁴⁵

1. A “consciousness of kind” or sense of felt connection to the brand, company, product, or other community members;
2. Shared rituals, stories, and traditions that help to convey the meaning of the community; and
3. A shared moral responsibility or duty to both the community as a whole and individual community members.

Brand communities come in many different forms.⁴⁶ Some arise organically from brand users, such as the Atlanta MGB riders club, the Apple Newton User Group, and the Porsche Rennlist online discussion group. Others are company-sponsored and facilitated, such as the Club Green Kids (official kids’ fan club of the Boston Celtics) and the Harley-Davidson Owner’s Group (H.O.G.).



Successful brands such as Burton Snowboards have to think carefully about how to leverage their strengths with new products and markets, as well as how to “borrow” equity from other people, places, or things.

Harley-Davidson

Harley-Davidson Founded in 1903 in Milwaukee, Wisconsin, Harley-Davidson has twice narrowly escaped bankruptcy but is today one of the most recognized motor vehicle brands in the world. In dire financial straits in the 1980s, Harley desperately licensed its name to such ill-advised ventures as cigarettes and wine coolers. Although consumers loved the brand, sales were depressed by product-quality problems, so Harley began its return to greatness by improving manufacturing processes. It also developed a strong brand community in the form of an owners' club, called the Harley Owners Group (H.O.G.), which sponsors bike rallies, charity rides, and other motorcycle events and now numbers 1 million members in over 1,200 chapters. H.O.G. benefits include a magazine called *Hog Tales*, a touring handbook, emergency road service, a specially designed insurance program, theft reward service, discount hotel rates, and a Fly & Ride program enabling members to rent Harleys on vacation. The company also maintains an extensive Web site devoted to H.O.G., with information about club chapters, events, and a special members-only section.⁴⁷

A strong brand community results in a more loyal, committed customer base. Its activities and advocacy can substitute to some degree for activities the firm would otherwise have to engage in, creating greater marketing effectiveness and efficiency.⁴⁸ A brand community can also be a constant source of inspiration and feedback for product improvements or innovations.

To better understand how brand communities work, one comprehensive study examined communities around brands as diverse as StriVectin cosmeceutical, BMW Mini auto, *Xena: Warrior Princess* television show, Jones soda, Tom Petty & the Heartbreakers rock and roll band, and Garmin GPS devices. Using multiple research methods such as “netnographic” research with online forums, participant and naturalistic observation of community activities, and in-depth

TABLE 9.2 Value Creation Practices

SOCIAL NETWORKING	
Welcoming	Greeting new members, beckoning them into the fold, and assisting in their brand learning and community socialization.
Empathizing	Lending emotional and/or physical support to other members, including support for brand-related trials (e.g., product failure, customizing) and/or for nonbrand-related life issues (e.g., illness, death, job).
Governing	Articulating the behavioral expectations within the brand community.
IMPRESSION MANAGEMENT	
Evangelizing	Sharing the brand “good news,” inspiring others to use, and preaching from the mountaintop.
Justifying	Deploying rationales generally for devoting time and effort to the brand and collectively to outsiders and marginal members in the boundary.
COMMUNITY ENGAGEMENT	
Staking	Recognizing variance within the brand community membership and marking intragroup distinction and similarity.
Milestoning	Noting seminal events in brand ownership and consumption.
Badging	Translating milestones into symbols and artifacts.
Documenting	Detailing the brand relationship journey in a narrative way, often anchored by and peppered with milestones.
BRAND USE	
Grooming	Cleaning, caring for, and maintaining the brand or systematizing optimal use patterns
Customizing	Modifying the brand to suit group-level or individual needs. This includes all efforts to change the factory specs of the product to enhance performance.
Commoditizing	Distancing/approaching the marketplace in positive or negative ways. May be directed at other members (e.g., you should sell/should not sell that) or may be directed at the firm through explicit link or through presumed monitoring of the site (e.g., you should fix this/do this/change this).

Source: Adapted from Hope Jensen Schau, Albert M. Muniz, and Eric J. Arnould, “How Brand Community Practices Create Value,” *Journal of Marketing* 73 (September 2009) pp. 30–51.

TABLE 9.3 The Myths and Realities of Brand Communities

Myth: Brand community is a marketing strategy.	Reality: Brand community is a business strategy. The entire business model must support the community brand.
Myth: Brand communities exist to serve the business.	Reality: Brand communities exist to serve the people that comprise them. Brand communities are a means to an end, not the ends themselves.
Myth: Build the brand, and the community will follow.	Reality: Cultivate the community and the brand will grow; engineer the community and the brand will be strong.
Myth: Brand communities should be love fests for faithful brand advocates.	Reality: Communities are inherently political and this reality must be confronted with honesty and authenticity head-on; smart companies embrace the conflicts that make communities thrive.
Myth: Focus on opinion leaders to build a strong community.	Reality: Strong communities take care of all of their members; everyone in the community plays an important role.
Myth: Online social networks are the best way to build community.	Reality: Social networks are one community tool, but the tool is not the strategy.
Myth: Successful brand communities are tightly managed and controlled.	Reality: Control is an illusion; brand community success requires opening up and letting go; of and by the people, communities defy managerial control.

Sources: Susan Fournier and Lara Lee, *The Seven Deadly Sins of Brand Community*, Marketing Science Institute Special Report 08-208, 2008; Susan Fournier and Lara Lee, "Getting Brand Communities Right," *Harvard Business Review*, April 2009, pp. 105–11.

interviews with community members, the researchers found 12 value creation practices taking place. They divided them into four categories—social networking, community engagement, impression management, and brand use—summarized in Table 9.2.

Building a positive, productive brand community requires careful thought and implementation. Branding experts Susan Fournier and Lara Lee have identified seven common myths about brand communities and suggest the reality in each case (see Table 9.3).

Measuring Brand Equity

How do we measure brand equity? An *indirect* approach assesses potential sources of brand equity by identifying and tracking consumer brand knowledge structures.⁴⁹ A *direct* approach assesses the actual impact of brand knowledge on consumer response to different aspects of the marketing. "Marketing Insight: The Brand Value Chain" shows how to link the two approaches.⁵⁰



The Brand Value Chain

The **brand value chain** is a structured approach to assessing the sources and outcomes of brand equity and the way marketing activities create brand value (see Figure 9.6). It is based on several premises.

First, brand value creation begins when the firm targets actual or potential customers by investing in a marketing program to develop the brand, including product research, development, and design; trade or

intermediary support; and marketing communications. Next, we assume customers' mind-sets, buying behavior, and response to price will change as a result of the marketing program; the question is how. Finally, the investment community will consider market performance, replacement cost, and purchase price in acquisitions (among other factors) to assess shareholder value in general and the value of a brand in particular.

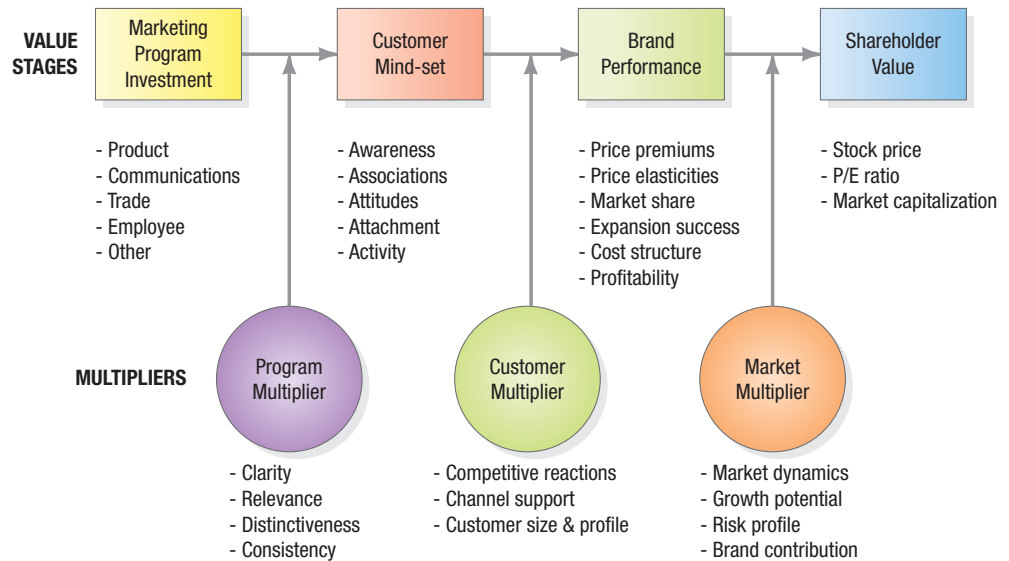
The model also assumes that three multipliers moderate the transfer between the marketing program and the subsequent three value stages.

- The *program multiplier* determines the marketing program's ability to affect the customer mind-set and is a function of the quality of the program investment.
- The *customer multiplier* determines the extent to which value created in the minds of customers affects market performance. This result depends on competitive superiority (how effective the quantity and quality of the marketing investment of other competing brands are), channel and other intermediary support (how much brand

[Fig. 9.6] ▲

Brand Value Chain

Source: Kevin Lane Keller, *Strategic Brand Management*, 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 2008). Printed and electronically reproduced by permission of Pearson Education, Inc. Upper Saddle River, New Jersey.



reinforcement and selling effort various marketing partners are putting forth), and customer size and profile (how many and what types of customers, profitable or not, are attracted to the brand).

- The *market multiplier* determines the extent to which the value shown by the market performance of a brand is manifested in shareholder value. It depends, in part, on the actions of financial analysts and investors.

Sources: Kevin Lane Keller and Don Lehmann, "How Do Brands Create Value," *Marketing Management* (May–June 2003), pp. 27–31. See also Marc J. Epstein and Robert A. Westbrook, "Linking Actions to Profits in Strategic Decision Making," *MIT Sloan Management Review* (Spring 2001), pp. 39–49; Rajendra K. Srivastava, Tasadduq A. Shervani, and Liam Fahey, "Market-Based Assets and Shareholder Value," *Journal of Marketing* 62, no. 1 (January 1998), pp. 2–18; Shuba Srinivasan, Marc Vanheule, and Koen Pauwels, "Mindset Metrics in Market Response Models: An Integrative Approach," *Journal of Marketing Research*, forthcoming.

The two general approaches are complementary, and marketers can employ both. In other words, for brand equity to perform a useful strategic function and guide marketing decisions, marketers need to fully understand (1) the sources of brand equity and how they affect outcomes of interest, and (2) how these sources and outcomes change, if at all, over time. Brand audits are important for the former; brand tracking for the latter.

- A **brand audit** is a consumer-focused series of procedures to assess the health of the brand, uncover its sources of brand equity, and suggest ways to improve and leverage its equity. Marketers should conduct a brand audit when setting up marketing plans and when considering shifts in strategic direction. Conducting brand audits on a regular basis, such as annually, allows marketers to keep their fingers on the pulse of their brands so they can manage them more proactively and responsively.
- **Brand-tracking studies** collect quantitative data from consumers over time to provide consistent, baseline information about how brands and marketing programs are performing. Tracking studies help us understand where, how much, and in what ways brand value is being created, to facilitate day-to-day decision making.

Marketers should distinguish brand equity from **brand valuation**, which is the job of estimating the total financial value of the brand. Table 9.4 displays the world's most valuable brands in 2009 according to one ranking.⁵¹ In these well-known companies, brand value is typically over half the total company market capitalization. John Stuart, cofounder of Quaker Oats, said: "If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you." U.S. companies do not list brand equity on their balance sheets in part because of differences in opinion about what constitutes a good estimate. However, companies do give it a value in countries such as the United Kingdom, Hong Kong, and Australia. "Marketing Insight: What Is a Brand Worth?" reviews one popular valuation approach.


TABLE 9.4 The World's 10 Most Valuable Brands in 2009

Rank	Brand	2009 Brand Value (Billions)
1	Coca-Cola	\$68.7
2	IBM	\$60.2
3	Microsoft	\$56.6
4	GE	\$47.8
5	Nokia	\$34.9
6	McDonald's	\$32.3
7	Google	\$32.0
8	Toyota	\$31.3
9	Intel	\$30.6
10	Disney	\$28.4

Source: Interbrand. Used with permission.



What Is a Brand Worth?

Top brand-management firm Interbrand has developed a model to formally estimate the dollar value of a brand. It defines brand value as the net present value of the future earnings that can be attributed to the brand alone. The firm believes marketing and financial analyses are equally important in determining the value of a brand. Its process follows five steps (see  Figure 9.7 for a schematic overview):

- 1. Market Segmentation**—The first step is to divide the market(s) in which the brand is sold into mutually exclusive segments that help determine variances in the brand's different customer groups.
- 2. Financial Analysis**—Interbrand assesses purchase price, volume, and frequency to help calculate accurate forecasts of future brand sales and revenues. Once it has established Brand Revenues, it deducts all associated operating costs to derive earnings before interest and tax (EBIT). It also deducts the appropriate taxes and a charge for the capital employed to operate the underlying business, leaving Economic Earnings, that is, the earnings attributed to the branded business.
- 3. Role of Branding**—Interbrand next attributes a proportion of Economic Earnings to the brand in each market segment, by first identifying the various drivers of demand, then determining the

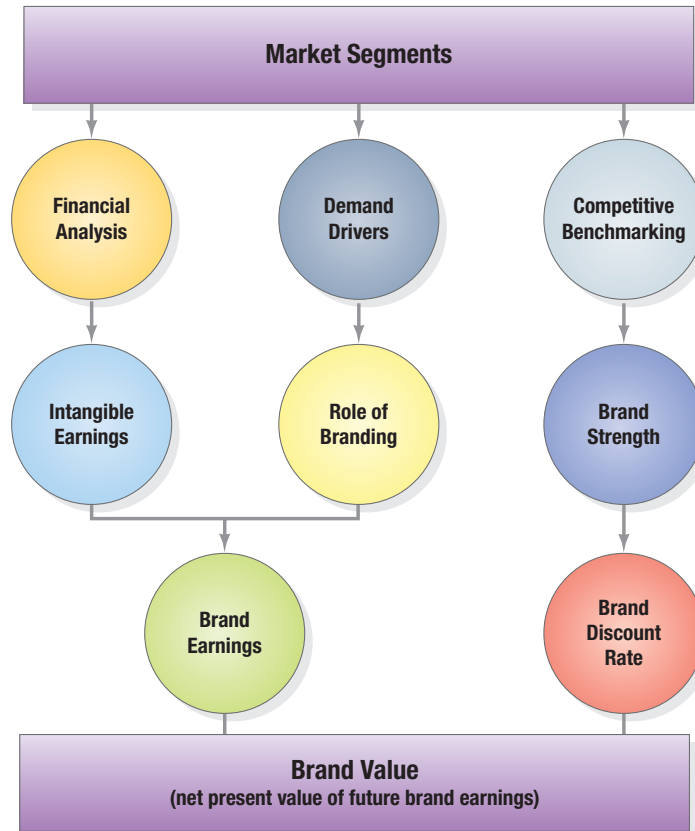
degree to which the brand directly influences each. The Role of Branding assessment is based on market research, client workshops, and interviews and represents the percentage of Economic Earnings the brand generates. Multiplying the Role of Branding by Economic Earnings yields Brand Earnings.

- 4. Brand Strength**—Interbrand then assesses the brand's strength profile to determine the likelihood that the brand will realize forecasted Brand Earnings. This step relies on competitive benchmarking and a structured evaluation of the brand's clarity, commitment, protection, responsiveness, authenticity, relevance, differentiation, consistency, presence, and understanding. For each segment, Interbrand applies industry and brand equity metrics to determine a risk premium for the brand. The company's analysts derive the overall Brand Discount Rate by adding a brand-risk premium to the risk-free rate, represented by the yield on government bonds. The Brand Discount Rate, applied to the forecasted Brand Earnings forecast, yields the net present value of the Brand Earnings. The stronger the brand, the lower the discount rate, and vice versa.
- 5. Brand Value Calculation**—Brand Value is the net present value (NPV) of the forecasted Brand Earnings, discounted by the Brand Discount Rate. The NPV calculation comprises both the forecast period and the period beyond, reflecting the ability of brands to continue generating future earnings.

Increasingly, Interbrand uses brand value assessments as a dynamic, strategic tool to identify and maximize return on brand investment across a whole host of areas.

Sources: Interbrand, the Interbrand Brand Glossary, and Interbrand's Nik Stucky and Rita Clifton.

|Fig. 9.7| ▲

Interbrand Brand
Valuation Method

Managing Brand Equity

Because consumer responses to marketing activity depend on what they know and remember about a brand, short-term marketing actions, by changing brand knowledge, necessarily increase or decrease the long-term success of future marketing actions.

Brand Reinforcement

As a company's major enduring asset, a brand needs to be carefully managed so its value does not depreciate.⁵² Many brand leaders of 70 years ago remain leaders today—Wrigley's, Coca-Cola, Heinz, and Campbell Soup—but only by constantly striving to improve their products, services, and marketing.

Marketers can reinforce brand equity by consistently conveying the brand's meaning in terms of (1) what products it represents, what core benefits it supplies, and what needs it satisfies; and (2) how the brand makes products superior, and which strong, favorable, and unique brand associations should exist in consumers' minds.⁵³ NIVEA, one of Europe's strongest brands, has expanded from a skin cream brand to a skin care and personal care brand through carefully designed and implemented brand extensions that reinforce the brand promise of "mild," "gentle," and "caring."

Reinforcing brand equity requires that the brand always be moving forward—in the right direction and with new and compelling offerings and ways to market them. In virtually every product category, once-prominent and admired brands—such as Fila, Oldsmobile, Polaroid, Circuit City—have fallen on hard times or gone out of business.⁵⁴

An important part of reinforcing brands is providing consistent marketing support. Consistency doesn't mean uniformity with no changes: While there is little need to deviate from a successful position, many tactical changes may be necessary to maintain the strategic thrust and direction of the brand. When change *is* necessary, marketers should vigorously preserve and defend sources of brand equity.



Discover Communications

In the hypercompetitive marketplace of cable TV channels, having a consistently clear but evolving identity is critical. One of the most successful cable TV programmers, Discovery Communications, operates 13 channels in the United States with such signature shows as *Deadliest Catch* and *MythBusters* (Discovery Channel), *Whale Wars* (Animal Planet), and the once-popular, now-defunct *Jon & Kate Plus 8* (TLC). Positioning itself as the number one nonfiction media company in the world, Discovery Communications is dedicated “to satisfying curiosity and making a difference in people’s lives with the highest quality content, services and products that entertain, engage and enlighten—inviting viewers to explore their world.” For example, by recognizing that nature and animals harbor mystery and danger, Animal Planet has developed into a more aggressive and compelling brand. New channels in the works include a women’s channel with Oprah Winfrey, a kid’s channel in partnership with Hasbro, and a possible series of science shows with director Steven Spielberg. Discovery is also increasing its global expansion—including China and India—and now reaches more than 1.5 billion subscribers in 170 countries, generating a third of the company’s revenue from overseas.⁵⁵

Marketers must recognize the trade-offs between activities that fortify the brand and reinforce its meaning, such as a well-received product improvement or a creatively designed ad campaign, and those that leverage or borrow from existing brand equity to reap some financial benefit, such as a short-term promotional discount.⁵⁶ At some point, failure to reinforce the brand will diminish brand awareness and weaken brand image.

Brand Revitalization

Any new development in the marketing environment can affect a brand’s fortunes. Nevertheless, a number of brands have managed to make impressive comebacks in recent years.⁵⁷ After some hard times, Burberry, Fiat, and Volkswagen have all turned their brand fortunes around to varying degrees.

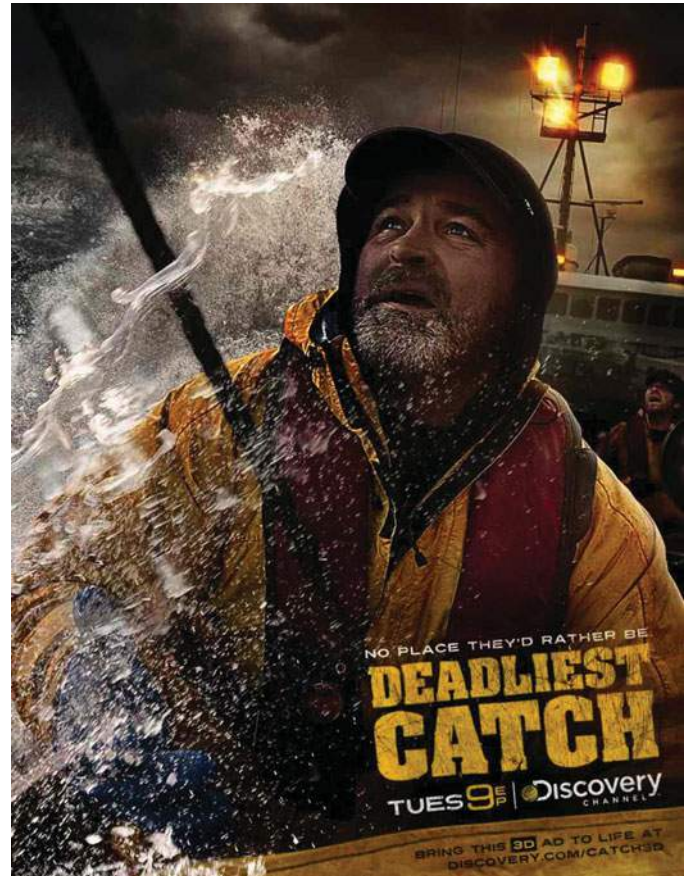
Often, the first thing to do in revitalizing a brand is to understand what the sources of brand equity were to begin with. Are positive associations losing their strength or uniqueness? Have negative associations become linked to the brand? Then decide whether to retain the same positioning or create a new one, and if so, which new one.

Sometimes the actual marketing program is the source of the problem, because it fails to deliver on the brand promise. Then a “back to basics” strategy may make sense. As noted previously, Harley-Davidson regained its market leadership by doing a better job of living up to customer expectations as to product performance. Pabst Brewing Company did it by returning to its roots and leveraging key brand assets.



Pabst The beginning of the 21st century was not kind to 165-year-old Pabst Brewing Company. Revenue from its portfolio of legacy brands—including Pabst Blue Ribbon, Old Milwaukee, Lone Star, Rainier, Stroh’s, and Schlitz—declined from an overall barrelage of 9.5 million in 2000 to 6.5 million in 2005. In response, new management set the company on a

new course, including contract brewing with carefully selected partners and a new emphasis on its distributor network. Perhaps the most important strategic asset and advantage, management felt, was the company’s trademarks: “Without a doubt our greatest asset is our brands. They have strong residual awareness. They have equity. They are authentic. We have brands that have stood the test of time. New brands don’t have



Deadliest Catch has become a defining program for the Discovery Channel.

Pabst Blue Ribbon beer has revitalized itself by tapping into its authentic brand roots via creative grassroots marketing.



credentials—street cred—like our brands do. It's all about leveraging the power of our brands against a focused consumer target with a unique brand message." New grassroots marketing for Pabst Blue Ribbon beer thus emphasized its genuine, no-nonsense qualities in nonmainstream locations such as tattoo parlors, snowboarding venues and pro shops, and underground music scenes. Positive word of mouth—there was essentially no advertising—gave the brand an authentic “retro-chic” image. PBR, as it became known as, was suddenly hip. The brand's resurgence was marked by a 25 percent increase in sales in 2009 that far exceeded even other sub-premium brews.⁵⁸

In other cases, however, the old positioning is just no longer viable and a reinvention strategy is necessary. Mountain Dew completely overhauled its brand image to become a soft drink powerhouse. As its history reveals, it is often easier to revive a brand that is alive but has been more or less forgotten. Old Spice is another example.

Old Spice

Old Spice One of the first mass market fragrances, Old Spice dates back to 1937. Its classic aftershave and cologne combination—with soap on a rope sometimes tossed in for good measure—was the classic Father's Day gift for baby boomers to give, but was largely irrelevant by the time Procter & Gamble acquired the brand in 1990. P&G's revitalization strategy was to abandon the old cologne business to focus on deodorants and other male grooming products. Facing tough competition from Unilever's edgy line of Axe products, the firm reverted to its classic one-two punch of product innovation and new communications to target the 12- to 34-year-old male. New product development resulted in the creation of Old Spice High Endurance, Pro Strength, and Red Zone lines of deodorants, body washes, body sprays, and shaving products. Old Spice's latest line, Ever Clear, arose from focus group participants' “good-bye letters” to their current deodorant. A technological breakthrough allowed Ever Clear to promise the protection of a dry solid without the uncomfortable waxy residue that left white streaks on clothing. All Old Spice products were backed by tongue-in-cheek advertising that stressed the brand's “experience.”⁵⁹

There is obviously a continuum of revitalization strategies, with pure “back to basics” at one end, pure “reinvention” at the other, and many combinations in between. The challenge is often to change enough to attract some new customers but not enough to alienate old customers. Brand revitalization of almost any kind starts with the product.⁶⁰ General Motors's turnaround of its fading Cadillac brand was fueled by new designs that redefined its look and styling, such as the CTS sedan, XLR roadster, and ESV sport utility vehicle.⁶¹ High-end clothing retailer Paul Stuart introduced its first ever sub-brand, the bolder, sleeker Phineas Cole, to update its conservative image for a hipper, younger demographic.⁶²

Devising a Branding Strategy

A firm's **branding strategy**—often called the **brand architecture**—reflects the number and nature of both common and distinctive brand elements. Deciding how to brand new products is especially critical. A firm has three main choices:

1. It can develop new brand elements for the new product.
2. It can apply some of its existing brand elements.
3. It can use a combination of new and existing brand elements.

When a firm uses an established brand to introduce a new product, the product is called a **brand extension**. When marketers combine a new brand with an existing brand, the brand extension can also be called a **sub-brand**, such as Hershey Kisses candy, Adobe Acrobat software, Toyota Camry automobiles, and American Express Blue cards. The existing brand that gives birth to a brand extension or sub-brand is the **parent brand**. If the parent brand is already associated with multiple products through brand extensions, it can also be called a **master brand** or **family brand**.

Brand extensions fall into two general categories:⁶³ In a **line extension**, the parent brand covers a new product within a product category it currently serves, such as with new flavors, forms, colors, ingredients, and package sizes. Dannon has introduced several types of Dannon yogurt line

extensions through the years—Fruit on the Bottom, All Natural Flavors, Dan-o-nino, and Fruit Blends. In a **category extension**, marketers use the parent brand to enter a different product category, such as Swiss Army watches. Honda has used its company name to cover such different products as automobiles, motorcycles, snowblowers, lawn mowers, marine engines, and snowmobiles. This allows the firm to advertise that it can fit “six Hondas in a two-car garage.”

A **brand line** consists of all products—original as well as line and category extensions—sold under a particular brand. A **brand mix** (or brand assortment) is the set of all brand lines that a particular seller makes. Many companies are introducing **branded variants**, which are specific brand lines supplied to specific retailers or distribution channels. They result from the pressure retailers put on manufacturers to provide distinctive offerings. A camera company may supply its low-end cameras to mass merchandisers while limiting its higher-priced items to specialty camera shops. Valentino may design and supply different lines of suits and jackets to different department stores.⁶⁴

A **licensed product** is one whose brand name has been licensed to other manufacturers that actually make the product. Corporations have seized on licensing to push their company names and images across a wide range of products—from bedding to shoes—making licensing a multibillion-dollar business.⁶⁵ Jeep’s licensing program, which now has 600 products and 150 licensees, includes everything from strollers (built for a father’s longer arms) to apparel (with Teflon in the denim)—as long as they fit the brand’s positioning of “Life without Limits.” Through 400-plus dedicated Jeep shop-in-shops and 80 Jeep freestanding stores around the world, licensing revenue now exceeds \$550 million in retail sales. New areas of emphasis include outdoor and travel gear, juvenile products, and sporting goods.⁶⁶

Branding Decisions

ALTERNATIVE BRANDING STRATEGIES Today, branding is such a strong force that hardly anything goes unbranded. Assuming a firm decides to brand its products or services, it must choose which brand names to use. Three general strategies are popular:

- **Individual or separate family brand names.** Consumer packaged-goods companies have a long tradition of branding different products by different names. General Mills largely uses individual brand names, such as Bisquick, Gold Medal flour, Nature Valley granola bars, Old El Paso Mexican foods, Progresso soup, Wheaties cereal, and Yoplait yogurt. If a company produces quite different products, one blanket name is often not desirable. Swift and Company developed separate family names for its hams (Premium) and fertilizers (Vigoro). A major advantage of individual or separate family brand names is that if a product fails or appears to be of low quality, the company has not tied its reputation to it. Companies often use different brand names for different quality lines within the same product class.
- **Corporate umbrella or company brand name.** Many firms, such as Heinz and GE, use their corporate brand as an umbrella brand across their entire range of products.⁶⁷ Development costs are lower with umbrella names because there’s no need to run “name” research or spend heavily on advertising to create recognition. Campbell Soup introduces new soups under its brand name with extreme simplicity and achieves instant recognition. Sales of the new product are likely to be strong if the manufacturer’s name is good. Corporate-image associations of innovativeness, expertise, and trustworthiness have been shown to directly influence consumer evaluations.⁶⁸ Finally, a corporate branding strategy can lead to greater intangible value for the firm.⁶⁹
- **Sub-brand name.** Sub-brands combine two or more of the corporate brand, family brand, or individual product brand names. Kellogg employs a sub-brand or hybrid branding strategy by combining the corporate brand with individual product brands as with Kellogg’s Rice Krispies, Kellogg’s Raisin Bran, and Kellogg’s Corn Flakes. Many durable-goods makers such as Honda, Sony, and Hewlett-Packard use sub-brands for their products. The corporate or company name legitimizes, and the individual name individualizes, the new product.

HOUSE OF BRANDS VERSUS A BRANDED HOUSE The use of individual or separate family brand names has been referred to as a “house of brands” strategy, whereas the use of an umbrella corporate or company brand name has been referred to as a “branded house” strategy. These two branding strategies represent two ends of a brand relationship continuum. A sub-brand strategy falls somewhere between, depending on which component of the sub-brand receives more emphasis. A good example of a house of brands strategy is United Technologies.



United Technologies UTC's brand portfolio includes Otis elevators, Carrier heaters and air conditioners, Hamilton Sundstrand aerospace and industrial, Sikorsky helicopters, Pratt & Whitney jet engines, and UTC Fire & Security systems. Most of its brands are the names of the individuals who invented the product or created the company decades ago—they have more power and are more recognizable in the business buying marketplace. The parent brand, UTC, is advertised only to small but influential audiences—the financial community

and opinion leaders in New York and Washington, DC. After all, employees are more loyal to the individual companies owned by UTC. "My philosophy has always been to use the power of the trademarks of the subsidiaries to improve the recognition and brand acceptance, awareness, and respect for the parent company itself," said UTC's then-CEO George David.⁷⁰



United Technologies' brand portfolio consists of a diverse collection of companies, products, and brands.

Two key components of virtually any branding strategy are brand portfolios and brand extensions. (Chapter 12 discusses co-branding and ingredient branding, as well as line-stretching through vertical extensions.)

Brand Portfolios

A brand can only be stretched so far, and all the segments the firm would like to target may not view the same brand equally favorably. Marketers often need multiple brands in order to pursue these multiple segments. Some other reasons for introducing multiple brands in a category include:⁷¹

1. Increasing shelf presence and retailer dependence in the store
2. Attracting consumers seeking variety who may otherwise have switched to another brand
3. Increasing internal competition within the firm
4. Yielding economies of scale in advertising, sales, merchandising, and physical distribution

The **brand portfolio** is the set of all brands and brand lines a particular firm offers for sale in a particular category or market segment.

Starwood
Hotels &
Resorts

Starwood Hotels & Resorts One of the leading hotel and leisure companies in the world, Starwood Hotels & Resorts Worldwide, has 850 properties in more than 95 countries and 145,000 employees at its owned and managed properties. In its rebranding attempt to go "beyond beds," Starwood has differentiated its hotels along emotional, experiential lines. Its hotel and call center operators convey different experiences for the firm's different

chains, as does the firm's advertising. This strategy emerged from a major 18-month positioning project, started in 2006, to find positions for the portfolio of brands that would establish an emotional connection with consumers. Consumer research suggested these positions for some of the brands:⁷²

- *Sheraton*. With the tagline "You don't stay here, you belong," Sheraton—the largest brand—is about warm, comforting, and casual. Its core value centers on "connections," an image aided by the hotel's alliance with Yahoo!, which cofounded the Yahoo! Link@Sheraton lobby kiosks and cyber cafés.
- *Four Points by Sheraton*. For the self-sufficient traveler, Four Points strives to be honest, uncomplicated, and comfortable. The brand is all about providing a high level of comfort and little indulgences like free high-speed Internet access and bottled water. Its ads feature apple pies and talk about providing guests with "the comforts of home."

- *W*. With a brand personality defined as flirty, for the insider, and an escape, W offers guests unique experiences around the warmth of cool.
- *Westin*. Westin's emphasis on "personal, instinctive, and renewal" has led to a new sensory welcome featuring a white tea scent, signature music and lighting, and refreshing towels. Each room features Westin's own "Heavenly Beds," sold exclusively in the retail market through Nordstrom, further enhancing the brand's upscale image. ■

The hallmark of an optimal brand portfolio is the ability of each brand in it to maximize equity in combination with all the other brands in it. Marketers generally need to trade off market coverage with costs and profitability. If they can increase profits by dropping brands, a portfolio is too big; if they can increase profits by adding brands, it's not big enough. The basic principle in designing a brand portfolio is to maximize market coverage so no potential customers are being ignored, but minimize brand overlap so brands are not competing for customer approval. Each brand should be clearly differentiated and appealing to a sizable enough marketing segment to justify its marketing and production costs.⁷³

Marketers carefully monitor brand portfolios over time to identify weak brands and kill unprofitable ones.⁷⁴ Brand lines with poorly differentiated brands are likely to be characterized by much cannibalization and require pruning.⁷⁵ There are scores of cereals, beverages, and snacks and thousands of mutual funds. Students can choose among hundreds of business schools. For the seller, this spells hypercompetition. For the buyer, it may mean too much choice.

Brands can also play a number of specific roles as part of a portfolio.

FLANKERS Flanker or "fighter" brands are positioned with respect to competitors' brands so that more important (and more profitable) *flagship brands* can retain their desired positioning. Busch Bavarian is priced and marketed to protect Anheuser-Busch's premium Budweiser; and after a difficult product launch, Celeron helped thwart AMD's competitive challenge to Intel's premium Pentium microprocessor.⁷⁶ Marketers walk a fine line in designing fighter brands, which must be neither so attractive that they take sales away from their higher-priced comparison brands nor designed so cheaply that they reflect poorly on them.

CASH COWS Some brands may be kept around despite dwindling sales because they manage to maintain their profitability with virtually no marketing support. Companies can effectively "milk" these "cash cow" brands by capitalizing on their reservoir of brand equity. Gillette still sells the older Trac II, Atra, Sensor, and Mach III brands because withdrawing them may not necessarily move customers to another Gillette brand.

LOW-END ENTRY LEVEL The role of a relatively low-priced brand in the portfolio often may be to attract customers to the brand franchise. Retailers like to feature these "traffic builders" because they are able to "trade up" customers to a higher-priced brand. BMW introduced certain models in its 3 Series automobiles in part as a means of bringing new customers into the brand franchise, with the hope of later moving them to higher-priced models when they decided to trade in their cars.

HIGH-END PRESTIGE The role of a relatively high-priced brand often is to add prestige and credibility to the entire portfolio. One analyst argued that the real value to Chevrolet of its high-performance Corvette sports car was "its ability to lure curious customers into showrooms and at the same time help improve the image of other Chevrolet cars. It does not mean a hell of a lot for GM profitability, but there is no question that it is a traffic builder."⁷⁷ Corvette's technological image and prestige cast a halo over the entire Chevrolet line.

Brand Extensions

Many firms have decided to leverage their most valuable asset by introducing a host of new products under their strongest brand names. Most new products are in fact line extensions—typically 80 percent to 90 percent in any one year. Moreover, many of the most successful new products, as rated by various sources, are extensions. Among the most successful new product brand extensions in supermarkets in 2008 were Dunkin' Donuts coffee, Progresso Light soups, and Hormel

Compleats microwave meals. Nevertheless, many new products are introduced each year as new brands. The year 2008 also saw the launch of Zyrtec allergy relief medicine, G2 thirst quencher, and Ped Egg foot files.

ADVANTAGES OF BRAND EXTENSIONS Two main advantages of brand extensions are that they can facilitate new-product acceptance and provide positive feedback to the parent brand and company.

Improved Odds of New-Product Success Consumers form expectations about a new product based on what they know about the parent brand and the extent to which they feel this information is relevant.⁷⁸ When Sony introduced a new personal computer tailored for multimedia applications, the Vaio, consumers may have felt comfortable with its anticipated performance because of their experience with and knowledge of other Sony products.

By setting up positive expectations, extensions reduce risk.⁷⁹ It also may be easier to convince retailers to stock and promote a brand extension because of anticipated increased customer demand. An introductory campaign for an extension doesn't need to create awareness of both the brand *and* the new product; it can concentrate on the new product itself.⁸⁰

Extensions can thus reduce launch costs, important given that establishing a new brand name for a consumer packaged good in the U.S. marketplace can cost over \$100 million! Extensions also can avoid the difficulty—and expense—of coming up with a new name and allow for packaging and labeling efficiencies. Similar or identical packages and labels can lower production costs for extensions and, if coordinated properly, provide more prominence in the retail store via a “billboard” effect.⁸¹ Stouffer's offers a variety of frozen entrees with identical orange packaging that increases their visibility when they're stocked together in the freezer. With a portfolio of brand variants within a product category, consumers who want a change can switch to a different product type without having to leave the brand family.

Positive Feedback Effects Besides facilitating acceptance of new products, brand extensions can provide feedback benefits.⁸² They can help to clarify the meaning of a brand and its core values or improve consumer loyalty to the company behind the extension.⁸³ Through their brand extensions, Crayola means “colorful arts and crafts for kids,” Aunt Jemima means “breakfast foods,” and Weight Watchers means “weight loss and maintenance.”

Line extensions can renew interest and liking for the brand and benefit the parent brand by expanding market coverage. The goal of Kimberly-Clark's Kleenex unit is to have facial tissue in every room of the home. This philosophy has led to a wide variety of Kleenex facial tissues and packaging, including scented, ultra-soft, and lotion-impregnated tissues; boxes with drawings of dinosaurs and dogs for children's rooms; colorful, stylish designs to match living room décor; and a “man-sized” box with tissues 50 percent larger than regular Kleenex.

By defining its brand promise in terms of “colorful arts and crafts for kids,” Crayola has extended beyond crayons to successfully introduce a range of different products.



A successful extension may also generate subsequent extensions.⁸⁴ During the 1970s and 1980s, Billabong established its brand credibility with the young surfing community as a designer and producer of quality surf apparel. This success permitted it to extend into other youth-oriented areas, such as snowboarding and skateboarding.

DISADVANTAGES OF BRAND EXTENSIONS On the downside, line extensions may cause the brand name to be less strongly identified with any one product.⁸⁵ Al Ries and Jack Trout call this the “line-extension trap.”⁸⁶ By linking its brand to mainstream food products such as mashed potatoes, powdered milk, soups, and beverages, Cadbury ran the risk of losing its more specific meaning as a chocolate and candy brand.⁸⁷ **Brand dilution** occurs when consumers no longer associate a brand with a specific or highly similar set of products and start thinking less of the brand.

If a firm launches extensions consumers deem inappropriate, they may question the integrity of the brand or become confused or even frustrated: Which version of the product is the “right one” for them? Retailers reject many new products and brands because they don’t have the shelf or display space for them. And the firm itself may become overwhelmed.

The worst possible scenario is for an extension not only to fail, but to harm the parent brand in the process. Fortunately, such events are rare. “Marketing failures,” in which too few consumers were attracted to a brand, are typically much less damaging than “product failures,” in which the brand fundamentally fails to live up to its promise. Even then, product failures dilute brand equity only when the extension is seen as very similar to the parent brand. The Audi 5000 car suffered from a tidal wave of negative publicity and word of mouth in the mid-1980s when it was alleged to have a “sudden acceleration” problem. The adverse publicity spilled over to the 4000 model. But the Quattro was relatively insulated, because it was distanced from the 5000 by its more distinct branding and advertising strategy.⁸⁸

Even if sales of a brand extension are high and meet targets, the revenue may be coming from consumers switching to the extension from existing parent-brand offerings—in effect cannibalizing the parent brand. Intrabrand shifts in sales may not necessarily be undesirable if they’re a form of *preemptive cannibalization*. In other words, consumers might have switched to a competing brand instead of the line extension if the extension hadn’t been introduced. Tide laundry detergent maintains the same market share it had 50 years ago because of the sales contributions of its various line extensions—scented and unscented powder, tablet, liquid, and other forms.

One easily overlooked disadvantage of brand extensions is that the firm forgoes the chance to create a new brand with its own unique image and equity. Consider the advantages to Disney of having introduced adult-oriented Touchstone films, to Levi’s of creating casual Dockers pants, and to Black & Decker of introducing high-end DeWALT power tools.

SUCCESS CHARACTERISTICS Marketers must judge each potential brand extension by how effectively it leverages existing brand equity from the parent brand, as well as how effectively, in turn, it contributes to the parent brand’s equity.⁸⁹ Crest Whitestrips leveraged the strong reputation of Crest and dental care to provide reassurance in the teeth-whitening arena, while also reinforcing its dental authority image.

Marketers should ask a number of questions in judging the potential success of an extension.⁹⁰

- Does the parent brand have strong equity?
- Is there a strong basis of fit?
- Will the extension have the optimal points-of-parity and points-of-difference?
- How can marketing programs enhance extension equity?
- What implications will the extension have for parent brand equity and profitability?
- How should feedback effects best be managed?

To help answer these questions,  Table 9.5 offers a sample scorecard with specific weights and dimensions that users can adjust for each application.


 Table 9.6 lists a number of academic research findings on brand extensions.⁹¹ One major mistake in evaluating extension opportunities is failing to take *all* consumers’ brand knowledge structures into account and focusing instead on one or a few brand associations as a potential basis of fit.⁹²

TABLE 9.5 Brand Extendibility Scorecard

Allocate points according to how well the new product concept rates on the specific dimensions in the following areas:

Consumer Perspectives: Desirability

10 pts. _____ Product category appeal (size, growth potential)

10 pts. _____ Equity transfer (perceived brand fit)

5 pts. _____ Perceived consumer target fit

Company Perspectives: Deliverability

10 pts. _____ Asset leverage (product technology, organizational skills, marketing effectiveness via channels and communications)

10 pts. _____ Profit potential

5 pts. _____ Launch feasibility

Competitive Perspectives: Differentiability

10 pts. _____ Comparative appeal (many advantages; few disadvantages)

10 pts. _____ Competitive response (likelihood; immunity or invulnerability from)

5 pts. _____ Legal/regulatory/institutional barriers

Brand Perspectives: Equity Feedback

10 pts. _____ Strengthens parent brand equity

10 pts. _____ Facilitates additional brand extension opportunities

5 pts. _____ Improves asset base

TOTAL _____ pts.

TABLE 9.6 Research Insights on Brand Extensions

- Successful brand extensions occur when the parent brand is seen as having favorable associations and there is a perception of fit between the parent brand and the extension product.
- There are many bases of fit: product-related attributes and benefits, as well as nonproduct-related attributes and benefits related to common usage situations or user types.
- Depending on consumer knowledge of the categories, perceptions of fit may be based on technical or manufacturing commonalities or more surface considerations such as necessary or situational complementarity.
- High-quality brands stretch farther than average-quality brands, although both types of brands have boundaries.
- A brand that is seen as prototypical of a product category can be difficult to extend outside the category.
- Concrete attribute associations tend to be more difficult to extend than abstract benefit associations.
- Consumers may transfer associations that are positive in the original product class but become negative in the extension context.
- Consumers may infer negative associations about an extension, perhaps even based on other inferred positive associations.
- It can be difficult to extend into a product class that is seen as easy to make.
- A successful extension cannot only contribute to the parent brand image but also enable a brand to be extended even farther.

- An unsuccessful extension hurts the parent brand only when there is a strong basis of fit between the two.
- An unsuccessful extension does not prevent a firm from “backtracking” and introducing a more similar extension.
- Vertical extensions can be difficult and often require sub-branding strategies.
- The most effective advertising strategy for an extension emphasizes information about the extension (rather than reminders about the parent brand).

Source: Kevin Lane Keller, *Strategic Brand Management*, 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 2008). Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Bic

Bic The French company Société Bic, by emphasizing inexpensive, disposable products, was able to create markets for nonrefillable ballpoint pens in the late 1950s, disposable cigarette lighters in the early 1970s, and disposable razors in the early 1980s. It unsuccessfully tried the same strategy in marketing BIC perfumes in the United States and Europe in 1989. The perfumes—two for women (“Nuit” and “Jour”) and two for men (“BIC for Men” and “BIC Sport for Men”)—were packaged in quarter-ounce glass spray bottles that looked like fat cigarette lighters and sold for \$5 each. The products were displayed on racks at checkout counters throughout Bic’s extensive distribution channels. At the time, a Bic spokeswoman described the new products as extensions of the Bic heritage—“high quality at affordable prices, convenient to purchase, and convenient to use.” The brand extension was launched with a \$20 million advertising and promotion campaign containing images of stylish people enjoying themselves with the perfume and using the tagline “Paris in Your Pocket.” Nevertheless, Bic was unable to overcome its lack of cachet and negative image associations, and the extension was a failure.⁹³

Customer Equity

Achieving brand equity should be a top priority for any organization. “Marketing Memo: Twenty-First-Century Branding” offers some contemporary perspectives on enduring brand leadership.

marketing Memo

Twenty-First-Century Branding

One of the most successful marketers of the past two decades, Scott Bedbury, played a key role in the rise of both Nike and Starbucks. In his insightful book, *A New Brand World*, he offers the following branding principles:

1. **Relying on brand awareness has become marketing fool’s gold.** Smart brands are more concerned with brand relevance and brand resonance.
2. **You have to know it before you can grow it.** Most brands don’t know who they are, where they’ve been, and where they’re going.
3. **Always remember the Spandex rule of brand expansion.** Just because you can, doesn’t mean you should.
4. **Great brands establish enduring customer relationships.** They have more to do with emotions and trust than with footwear cushioning or the way a coffee bean is roasted.
5. **Everything matters.** Even your restroom.
6. **All brands need good parents.** Unfortunately, most brands come from troubled homes.
7. **Big is no excuse for being bad.** Truly great brands use their super-human powers for good and place people and principles before profits.
8. **Relevance, simplicity, and humanity.** Rather than technology, these will distinguish brands in the future.

Source: Scott Bedbury, *A New Brand World* (New York: Viking Press, 2002). Copyright © 2001 by Scott Bedbury. Used by permission of Viking Penguin, a division of Penguin Group (USA) Inc.

Finally, we can relate brand equity to one other important marketing concept, **customer equity**. The aim of customer relationship management (CRM) is to produce high customer equity.⁹⁴ Although we can calculate it in different ways, one definition is “the sum of lifetime values of all customers.”⁹⁵ As Chapter 5 reviewed, customer lifetime value is affected by revenue and by the costs of customer acquisition, retention, and cross-selling.⁹⁶

- **Acquisition** depends on the number of prospects, the acquisition probability of a prospect, and acquisition spending per prospect.
- **Retention** is influenced by the retention rate and retention spending level.
- **Add-on spending** is a function of the efficiency of add-on selling, the number of add-on selling offers given to existing customers, and the response rate to new offers.

The brand equity and customer equity perspectives certainly share many common themes.⁹⁷ Both emphasize the importance of customer loyalty and the notion that we create value by having as many customers as possible pay as high a price as possible.

In practice, however, the two perspectives emphasize different things. The customer equity perspective focuses on bottom-line financial value. Its clear benefit is its quantifiable measures of financial performance. But it offers limited guidance for go-to-market strategies. It largely ignores some of the important advantages of creating a strong brand, such as the ability to attract higher-quality employees, elicit stronger support from channel and supply chain partners, and create growth opportunities through line and category extensions and licensing. The customer equity approach can overlook the “option value” of brands and their potential to affect future revenues and costs. It does not always fully account for competitive moves and countermoves, or for social network effects, word of mouth, and customer-to-customer recommendations.

Brand equity, on the other hand, tends to emphasize strategic issues in managing brands and creating and leveraging brand awareness and image with customers. It provides much practical guidance for specific marketing activities. With a focus on brands, however, managers don’t always develop detailed customer analyses in terms of the brand equity they achieve or the resulting long-term profitability they create.⁹⁸ Brand equity approaches could benefit from sharper segmentation schemes afforded by customer-level analyses and more consideration of how to develop personalized, customized marketing programs for individual customers—whether individuals or organizations such as retailers. There are generally fewer financial considerations put into play with brand equity than with customer equity.

Nevertheless, both brand equity and customer equity matter. There are no brands without customers and no customers without brands. Brands serve as the “bait” that retailers and other channel intermediaries use to attract customers from whom they extract value. Customers are the tangible profit engine for brands to monetize their brand value.

Summary

-
1. A brand is a name, term, sign, symbol, design, or some combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. The different components of a brand—brand names, logos, symbols, package designs, and so on—are brand elements.
 2. Brands are valuable intangible assets that offer a number of benefits to customers and firms and need to be managed carefully. The key to branding is that consumers perceive differences among brands in a product category.
 3. Brand equity should be defined in terms of marketing effects uniquely attributable to a brand. That is, different outcomes result in the marketing of a product or service because of its brand, compared to the results if that same product or service was not identified by that brand.
 4. Building brand equity depends on three main factors: (1) The initial choices for the brand elements or identities making up the brand; (2) the way the brand is integrated into the supporting marketing program; and (3) the associations indirectly transferred to the brand by links to some other entity (the company, country of origin, channel of distribution, or another brand).
 5. Brand audits measure “where the brand has been,” and tracking studies measure “where the brand is now” and whether marketing programs are having the intended effects.

6. A branding strategy identifies which brand elements a firm chooses to apply across the various products it sells. In a brand extension, a firm uses an established brand name to introduce a new product. Potential extensions must be judged by how effectively they leverage existing brand equity to a new product, as well as how effectively they contribute to the equity of the parent brand in turn.
7. Brands may expand coverage, provide protection, extend an image, or fulfill a variety of other roles for the firm. Each brand-name product must have a well-defined positioning to maximize coverage, minimize overlap, and thus optimize the portfolio.
8. Customer equity is a complementary concept to brand equity that reflects the sum of lifetime values of all customers for a brand.

Applications

Marketing Debate

Are Brand Extensions Good or Bad?

Some critics vigorously denounce the practice of brand extensions, because they feel that too often companies lose focus and consumers become confused. Other experts maintain that brand extensions are a critical growth strategy and source of revenue for the firm.

Take a position: Brand extensions can endanger brands *versus* Brand extensions are an important brand-growth strategy.

Marketing Discussion

Brand Equity Models

How can you relate the different models of brand equity in this chapter to each other? How are they similar? How are they different? Can you construct a brand-equity model that incorporates the best aspects of each model?

Marketing Excellence

>>Procter & Gamble



Procter & Gamble (P&G) began in 1837 when brothers-in-law William Procter and James Gamble, whose wives were sisters, formed a small candle and soap company. From there, P&G innovated and launched scores of revolutionary products of superior quality and value, including Ivory soap in 1882, Tide laundry detergent in 1946, Crest toothpaste with fluoride in 1955, and Pampers disposable diapers in 1961. P&G also acquired a number of companies to open

the doors to new product categories. Among these were Richardson-Vicks (makers of personal care products like Pantene, Olay, and Vicks), Norwich Eaton Pharmaceuticals (makers of Pepto-Bismol), Gillette, Noxell (makers of Noxzema), Shulton's Old Spice, Max Factor, and the Iams Company.

Today, P&G is one of the most skillful marketers of consumer packaged goods in the world and holds one of the most powerful portfolios of trusted brands. The company employs 138,000 people in more than 80 countries worldwide and has total worldwide sales of more than \$79 billion a year. It is the leader in 15 of the 21 product categories in which it competes, has 23 billion-dollar global brands, spends more than \$2 billion annually on R&D, and serves more than 4 billion people in 180 different countries. Its sustained market leadership rests on a number of capabilities and philosophies:

- *Customer knowledge.* P&G studies its customers—both end consumers and trade partners—through continuous marketing research and intelligence gathering. It spends more than \$100 million on over 10,000 formal consumer research projects every year and generates more than 3 million consumer contacts via its e-mail and phone center. It also emphasizes getting its marketers and researchers out into the field, where they can interact with consumers and retailers in their natural environment.

- *Long-term outlook.* P&G takes the time to analyze each opportunity carefully and prepare the best product, then commits itself to making this product a success. It struggled with Pringles potato chips for almost a decade before achieving market success. Recently, P&G has focused on increasing its presence in developing markets by concentrating on affordability, brand awareness, and distribution through e-commerce and high frequency stores.
- *Product innovation.* P&G is an active product innovator, devoting \$2 billion annually to research and development, an impressively high amount for a packaged-goods company. It employs more science PhDs than Harvard, Berkeley, and MIT combined and applies for roughly 3,800 patents each year. Part of its innovation process is to develop brands that offer new consumer benefits. Recent innovations that created entirely new categories include Febreze, an odor-eliminating fabric spray; Dryel, a product that helps “dry-clean” clothes at home in the dryer; and Swiffer, a cleaning system that more effectively removes dust, dirt, and hair from floors and other hard surfaces.
- *Quality strategy.* P&G designs products of above-average quality and continuously improves them in ways that matter to consumers, including Tide compact detergents, Pampers Rash Guard (a diaper that treats and prevents diaper rash), and improved two-in-one shampoo and conditioner products for Pantene, Vidal Sassoon, and Pert Plus.
- *Brand extension strategy.* P&G produces its brands in several sizes and forms. This strategy gains more shelf space and prevents competitors from moving in to satisfy unmet market needs. P&G also uses its strong brand names to launch new products with instant recognition and much less advertising outlay. The Mr. Clean brand has been extended from household cleaner to bathroom cleaner, and even to a carwash system. Old Spice extended its brand from men’s fragrances to deodorant. Crest successfully extended into a tooth-whitening system called Crest Whitestrips that removes surface stains from teeth in 14 days.
- *Multibrand strategy.* P&G markets several brands in the same product category, such as Luvs and Pampers diapers and Oral-B and Crest toothbrushes. Each brand meets a different consumer want and competes against specific competitors’ brands. At the same time, P&G is careful not to sell too many brands and has reduced its vast array of products, sizes, flavors, and varieties in recent years to assemble a stronger brand portfolio.
- *Communication pioneer.* With its acquisition of Gillette, P&G became the nation’s largest advertiser, spending over \$2.3 billion a year or nearly twice as much as the number two company, General Motors Corp. P&G pioneered the power of television to

create strong consumer awareness and preference. In recent years, the company has shifted more of its advertising budget to online marketing efforts and social media such as Facebook, Twitter, and blogs. These efforts help infuse stronger emotional appeals into its communications and create deeper consumer connections.

- *Aggressive sales force.* P&G’s sales force has been named one of the top 25 by *Sales & Marketing Management* magazine. A key to its success is the close ties its sales force forms with retailers, notably Walmart. The 150-person team that serves the retail giant works closely with Walmart to improve both the products that go to the stores and the process by which they get there.
- *Manufacturing efficiency and cost cutting.* P&G’s reputation as a great marketing company is matched by its excellence as a manufacturing company. P&G spends significant amounts developing and improving production operations to keep its costs among the lowest in the industry, allowing it to reduce the premium prices at which some of its goods sell.
- *Brand-management system.* P&G originated the brand-management system, in which one executive is responsible for each brand. The system has been copied by many competitors but not often with P&G’s success. Recently, P&G modified its general management structure so each brand category is now run by a category manager with volume and profit responsibility. Although this new organization does not replace the brand-management system, it helps to sharpen strategic focus on key consumer needs and competition in the category.

P&G’s accomplishments over the past 173 years have come from successfully orchestrating the myriad factors that contribute to market leadership.

Questions

1. P&G’s impressive portfolio includes some of the strongest brand names in the world. What are some of the challenges and risks associated with being the market leader in so many categories?
2. With social media becoming increasingly important and fewer people watching traditional commercials on television, what does P&G need to do to maintain its strong brand images?
3. What risks do you feel P&G will face going forward?

Sources: Robert Berner, “Detergent Can Be So Much More,” *BusinessWeek*, May 1, 2006, pp. 66–68; “A Post-Modern Proctoid,” *The Economist*, April 15, 2006, p. 68; *P&G Fact Sheet* (December 2006); John Galvin, “The World on a String,” *Point* (February 2005), pp. 13–24; Jack Neff, “P&G Kisses Up to the Boss: Consumers,” *Advertising Age*, May 2, 2005, p. 18; www.pg.com; “The Nielsen Company Issues Top Ten U.S. Lists for 2008,” *The Nielsen Company press release*, December 12, 2008.

Marketing Excellence

>> McDonald's



McDonald's is the world's leading hamburger fast-food chain, with over 32,000 restaurants in 118 countries. More than 75 percent of McDonald's restaurants are owned and operated by franchisees, which decreases the risk associated with expansion and ensures long-term tenants for the company. McDonald's serves 58 million people each day and promises a simple, easy, and enjoyable food experience for its customers.

The history of the McDonald's Corporation dates back to 1955 when Ray Kroc, a multimixer salesman, franchised a hamburger restaurant from the McDonald brothers, named it McDonald's, and offered simple foods such as the famous 15 cent hamburger. Kroc helped design the building, which featured red and white sides and a single golden arch to attract local attention. Ten years later, 700 McDonald's restaurants existed around the country, and the brand was on its way to becoming a household name.

During the 1960s and 1970s, Kroc led McDonald's growth domestically and internationally while pushing the importance of quality, service, cleanliness, and value. The menu expanded to include the Big Mac, Quarter Pounder, Happy Meal, Filet-O-Fish, and breakfast items like the Egg McMuffin. Kroc also understood early on that his core audience consisted of children and families. Therefore, he focused McDonald's advertising efforts at these groups and introduced Ronald McDonald in 1965 during a 60-second commercial. Soon, characters such as Grimace, the Hamburgler, and Mayor McCheese made their debut in McDonald's advertising campaigns and helped lure children into its restaurants for simple, good-tasting food, and a fun experience.

It was also during this time that McDonald's created the Ronald McDonald House, which opened in 1974 to

help children with leukemia. Since then, it has expanded into a global charity effort called Ronald McDonald House Charities that strives to improve children's lives, health, and well-being through three major programs: Ronald McDonald House, Ronald McDonald Family Room, and Ronald McDonald Care Mobile.

McDonald's aggressively expanded overseas throughout the 1980s by adding locations throughout Europe, Asia, the Philippines, and Malaysia. This rapid expansion, however, led to many struggles during the 1990s and early 2000s. The company lost focus and direction, expanding by as many as 2,000 new restaurants a year. New employees weren't trained fast or well enough, all of which led to poor customer service and dirtier restaurants. New competitors popped up and the company acquired nonburger companies, Chipotle and Boston Market (which were eventually sold in 2006 and 2007). Consumer tastes changed, and new products like pizza, the Arch Deluxe, and deli sandwiches failed to connect with consumers, as did tweaks to the current menu including multiple changes to the Big Mac special sauce. Jim Skinner, McDonald's chief executive explained, "We got distracted from the most important thing: hot, high-quality food at a great value at the speed and convenience of McDonald's."

In 2003, McDonald's implemented a strategic effort called the "Plan to Win." The framework, which still exists today, helped McDonald's restaurants refocus on offering a better, higher-quality consumer experience rather than a quick and cheap fast-food option. The Plan to Win "playbook" provided strategic insight on how to improve on the company's 5 Ps—people, products, promotions, price, and place—yet allowed local restaurants to adapt to different environments and cultures. For example, McDonald's introduced a Bacon Roll breakfast sandwich in the United Kingdom, a premium M burger in France, and an egg, tomato, and pepper McPuff in China. Prices also varied slightly across the United States to better reflect different tastes in different regions.

Some food changes that helped turn the company around included offering more chicken options as beef consumption started to decline, selling milk in a bottle instead of a carton, and removing "Super Size" options after the documentary *Super Size Me* targeted McDonald's and its link to obesity. McDonald's responded to health trends and began offering premium salads as well as apple slices instead of French fries in Happy Meals as well as all-white-meat McNuggets. While many of the healthier options targeted moms and held a premium price, McDonald's introduced the \$1 menu at the same time, which targeted the lower-income bracket and teenagers. Other responses included improving drive-thru service

since 60 percent of McDonald's U.S. business came from drive-thrus, introducing more snack options, and refurbishing restaurants with leather seats, warmer paint colors, and flat-screen TVs. Initial results were staggering; from 2003 to 2006, the stock price increased 170 percent. Sales continued to increase through the late 2000s and topped \$23.5 billion in 2008, making McDonald's one of only two companies in the Dow Jones Industrial Average whose share price rose in 2008.

McDonald's continued to flourish in 2009, led by its premium Angus burgers and its McCafé coffee line, which directly targeted competitors like Starbucks with less expensive specialty coffee drinks. McDonald's also launched a worldwide repackaging effort as a result of intense consumer research. The new packaging aimed to accomplish several tasks, including teaching consumers about McDonald's health consciousness and building awareness of its use of locally grown produce. It included bold text and full-color photographs of real ingredients like potatoes on French fry packaging and vegetables, cheese, and cooking utensils on hamburger packaging. Mary Dillon, McDonald's global chief marketing officer, explained that the goal is to "create unique personalities for our menu items by telling a story about each one."

Through the years, McDonald's has created a number of successful marketing campaigns and slogans such as "You Deserve a Break Today," "It's a Good Time for the Great Taste of McDonald's," and "Food, Folks, and Fun." Its current campaign, "I'm Lovin' It," seems on track to join the others by helping the company reach record sales and growth despite difficult economic times.

Questions

1. What are McDonald's core brand values? Have these changed over the years?
2. McDonald's did very well during the recession in the late 2000s. With the economy turning around for the better, should McDonald's change its strategy? Why or why not?
3. What risks do you feel McDonald's will face going forward?

Sources: Andrew Martin, "At McDonald's, the Happiest Meal Is Hot Profits," *New York Times*, January 10, 2009; Janet Adamy, "McDonald's Seeks Way to Keep Sizzling," *Wall Street Journal*, March 10, 2009; Matt Vella, "McDonald's Thinks About the Box," *BusinessWeek*, December 8, 2008; Jessica Wohl, "McDonald's CEO: Tough Economy, but Some 'Thawing,'" *Reuters*, April 17, 2009; "McDonald's Rolls Out New Generation of Global Packaging," *McDonald's press release*, October 28, 2008.

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