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Valuation Focus

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The Equity, Drivers, and Measurement of Brands

Contemporary marketing theory and practice highlights brand equity as a key strategic business asset of a company. As competition creates vast arrays of choices in the marketplace, numerous companies seek to craft and implement effective branding strategies. Companies seek ways to connect with their customers, become irreplaceable, and strengthen the intangible value of their brand. As the impact of brands becomes increasingly measurable, marketing strategies are being designed to instill the recognition of lasting value and trustworthiness with everyone that has an interest in the brand ("stakeholders"). Companies create brand equity when they invest in brand associations or brand image such as product attributes, customer benefits, uses, lifestyles, and product classes. Brand equity is regarded as a "set of assets and liabilities that is attached to a brand's name and symbols which add to (or subtract from) the value provided by a product or service to a firm and/or the firm's customers."[1] In this article, the first in a four part series, we discuss the elements, methods of measurement, drivers, and development of brand equity.

Two Measurement Concepts

Researchers provide opposing viewpoints on the variables and drivers that shape and explain the construct of brand equity. According to their findings, brand equity is rationalized through two major perspectives. The first is a customer-based perspective, which relies on the market's perception, consumer's attitude, and the likelihood that the consumer will purchase the product or service. The second is a financial-based brand equity approach, which assesses the company's marketing efforts and targeted investments to leverage brand value.

One way to measure brand equity is through the examination of brand components such as loyalty, which is a driver of predictable sales and profit streams. Often, loyalty is identified through customer satisfaction and repeat patterns of purchasing, attributes of a healthy brand. Programs that enhance the customer's experience and satisfaction with the product build brand strength. Brand measurement requires assessing the brand using multiple performance measures including awareness, attitudes, and behavioral intentions. Intermediate metrics alone (such as quarterly profit measures) do not factor the customer-based perspective into financial value. According to Mizik and Jacobson, "Mere assessment of brand attributes is insufficient because customer-oriented attributes must be linked to the financial value of the brand."[2] On the other hand, financial performance measures tend to be near-sighted and do not include intangible brand assets, which are measured by brand equity. Using only financial results to measure brand performance is likely to jeopardize long-term business potential because it assesses only the financial outcome of a company's actions. Using financial performance as the sole measurement ignores marketing efforts intended to enhance or build a strong brand or the brand's value with a time horizon longer than a quarter or even a fiscal year. Therefore, in order to avoid an incomplete assessment of the value of brand equity, brand measurement must incorporate financial performance measurements *and* non-financial cognitive and emotional variables such as consumer loyalty (which reflects the consumer's willingness to pay a premium price), brand awareness, and purchase intentions.

The Value of a Brand is Measured Through Brand Equity

Brand knowledge is comprised of a set of associations in consumers' minds regarding the features, benefits, uses, and overall attitude as well as familiarity with the brand. The strength of the brand is a result of prior brand activities and investments in advertising and promotion. "Financial measurements and promotional efforts such as investments in advertising, patents, sales force, and marketing research are significant to brand equity."[3] The brand valuation methodology that combines these elements to create a comprehensive measurement has three components: (1) brand equity is treated as an asset of the company; (2) brand equity is measured on a forward-looking basis; and (3) the value of a company's brand adjusts as new information from brand investments, promotional activities, and advertising campaign enters the market and influences consumers' perceptions of quality, awareness, associations, and loyalty among other brand assets.[4]

About Cogent

Cogent Valuation, with offices in San Francisco, Los Angeles, and Orange County, is a nationally recognized firm that has provided independent valuation and financial advisory opinions in thousands of situations since 1991. Cogent utilizes proprietary research, intensive due diligence, and the experience and insights of its seasoned valuation professionals to produce thoroughly supported, well-documented analyses that adhere to the best practices for enterprise, IP, and securities valuations and financial opinions.

The Drivers of Brand Equity

Measuring and understanding brand identity is central to managing, maintaining, and strengthening brand equity. A company will gain a lucrative position in the market if its brand name is marketed to resonate with consumers such that the brand name is well recognized and earns a strong reputation from consumers. As a result, a company can command a premium price and greater market share, as well as create barriers to entry for would-be competitors because loyal customers are reluctant to switch brands. Such initiatives in strengthening the brand assets create the first line of defense for maintaining market position, market share, prices, profitability, and customer loyalty, as well as reduce the volatility of future cash flow streams. A brand's value requires significant investment. Moreover, investments in advertising and marketing can have delayed effects in generating returns in subsequent periods, which reinforces brand awareness and enhances brand value. As effective marketing investments increase, the value of the company's brand increases.

In addition to marketing investments, prices and revenues can serve as indicators of brand equity. Price can be defined as "the sum of all the values that customers exchange for the benefits of having or using the product or service."[5] Higher brand value is associated with higher prices if those prices are linked with higher quality and differentiation. The consumer uses the history of brand prices to assess the accepted price for a brand which signals brand quality. Therefore, companies make investments in brand value and marketing performance in order to improve pricing and bolster gross profit margins. Premium pricing in the market occurs only *after* the consumer embraces the message of marketing communications. Finally, consumer acceptance of a price increase is one measure of an increase in the value of the brand's equity.

For some products, revenue growth driven by mass adoption of the company's products may increase the value of brand equity. However certain brands have achieved a rarefied element of value for their consumers due to their exclusivity. By raising sales volume and availability of the product or service, its uniqueness and distinctiveness are reduced, even lost entirely, thereby decreasing the "specialness" element of the brand that carries the exclusivity attribute. The brand's equity value will suffer accordingly with the loss or disruption of this element of value.

The Brand Resides in the Consumer's Mind

The *meaning* of any brand is the sum total of the perceptions of that brand held in the minds of the consumers. Each individual has unique memories, associations, and experiences with the brand. The perceptions of the brand are broadly shared across a market and the brand is defined and shaped by its commonly held perception. Therefore, while it is necessary for a company to establish production capabilities and efficient customer management systems, the company must design, build, and maintain strong positive associations in the minds of consumers. Associations that are inextricably identified with the brand's name, logo, packaging, and the experience with the actual product leave no doubt as to what the brand stands for and what it offers to its customers and other stakeholders.

FOOTNOTES

1. *Aaker, David. Managing Brand Equity: Capitalizing on the Value of a Brand Name. New York: The Free Press, 1991 & 1992.*
2. *Mizik, Natalie and Jacobson, Robert. "Valuing Branded Businesses." Journal of Marketing (2008).*
3. *Simon, C.J., and Sullivan, M.J., "The measurement and determinants of Brand Equity: A Financial Approach". Marketing Science, 12.1 (1983).*
4. *Keller, K.L. "Conceptualizing, Measuring and Managing Customer-Based Brand Equity" Journal of Marketing 57 (1993).*
5. *Kotler, Philip & Armstrong, Gary. Principles of Marketing. New Jersey: Pearson/Prentice Hall, 1999.*

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