

BRAND EQUITY: CAPITALIZING ON INTELLECTUAL CAPITAL

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ABSTRACT

In this paper we address the key issues in managing brand equity. We discuss components that form the foundation of brand equity – brand identity and brand vision – and how they influence brand knowledge, as measured by indicators such as brand awareness and brand image. We then focus on how brand knowledge affects brand performance, which is measured by brand loyalty and the ability to command a premium price. The emphasis in the discussion is on identifying and explaining factors that offer managers control over enhancing the equity of their brands

INTRODUCTION

For the year 2004, Coca Cola once again appeared at the top of Interbrand's list of the "World's Most Valuable Brands," with an estimated value of \$67 billion. Closely behind in the number two spot was Microsoft, with an estimated brand value of \$61 billion. Old beside new, low-tech beside high-tech, these two firms have an important characteristic in common – for each, its brand is its most valuable asset. The Coca Cola brand is worth more than half the market value, and a staggering ten times the book value of its parent company, while the value of the Microsoft brand is about one-fifth of the company's market value and over 150% of its book value. Both estimates reflect the present value of the economic profits the brands are expected to earn – the profit over and above "normal" profits, or over and above what an otherwise equivalent product might achieve without the benefit of the brand. What do these brands have in common that leads to such performance? What actions can managers take to create and maintain such high performing brands? We address these questions in this paper.

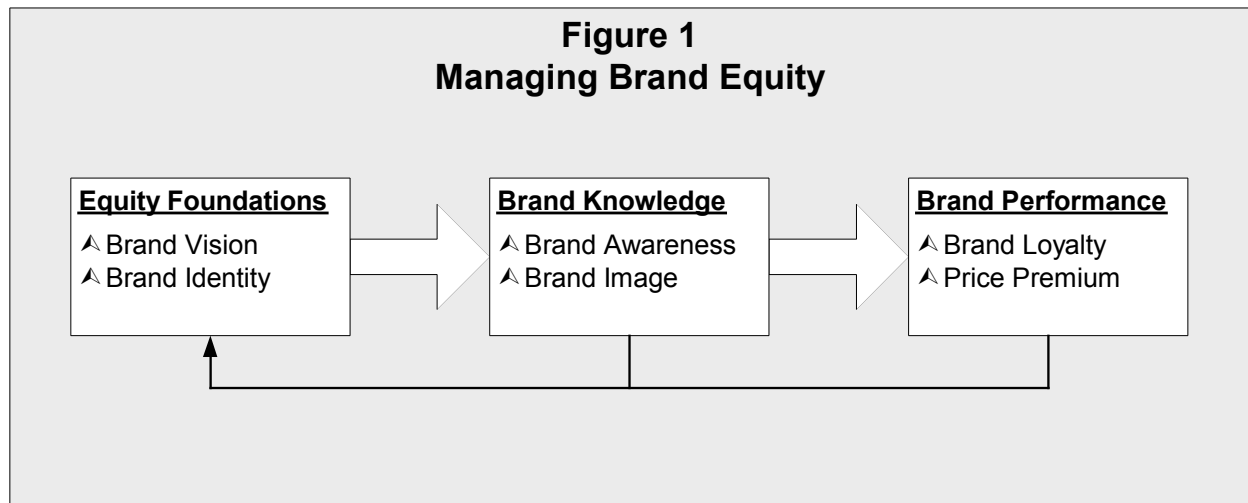
DEFINING BRAND EQUITY

Brand equity is defined as "the *differential effect of brand knowledge on customer response.*" Three elements of this definition need to be emphasized. The most critical element is differential effect or "differentiation." Without this, a brand is not different from the next one, and therefore, can *never* seek a premium. In some instances, differentiation is easy to create (e.g., automobiles, breakfast cereal, etc.), whereas in other instances this can be much more challenging (e.g., gasoline, bottled water). Regardless, however, it is equally important to strive for differentiation. The next element is brand knowledge. Your customers should know about the differentiation. They should be aware of it, and should appreciate that the differentiation is meaningful for them. The last key element of this definition is customer response. Customers

should respond favorably to this differentiation. This response should (hopefully) be reflected in their desire to demonstrate some loyalty towards the product, and in their willingness to pay a premium for their preference. These definitions underlie the model we present.

MANAGING BRAND EQUITY

The model shown in Figure 1 depicts the elements that we believe all high-performing brands have in common. We don't offer Figure 1 as a comprehensive model of brand equity, but rather to highlight its essential elements. As Figure 1 shows, brand equity rests on a solid foundation of brand vision and brand identity. Given a strong foundation, brand knowledge can be built. Important dimensions of brand knowledge include brand awareness and brand image. Finally, brand equity results in superior performance; that is, the ability to earn long-term economic profits. Two key indicators of a brand's ability to earn economic profits over the long run are brand loyalty and the ability to command a price premium (i.e., a price-cost differential above "normal"). We discuss each of these aspects of brand equity below.



Brand Vision

Superior brands have a clear vision. They stand for something important and relevant to their target audiences, and they do so consistently. This does not happen by accident; managers should establish the leadership values for their brands with clarity and consistency.

Leadership Values – A brand’s core values and its tangible embodiment, the product, will diverge if the product’s concept is static. But the strongest brands are innovative and capable of constant self-renewal. They consistently meet customers’ expectations at the highest levels, and have exceptional abilities to anticipate and exceed expectations. Brands like Coca Cola, Disney, McDonald’s, Mercedes, and Budweiser present an aura that is unmatched by other brands.

Clarity and Consistency – Clarity implies communicating a true sense of what makes the values distinctive and relevant; it implies knowing that the brand’s promise is a goal, never completely attainable, and knowing that the trust of those faithful to the brand is never completely earned. McDonald’s clear image is in sharp contrast to Burger King’s diffused image. Consistency in its

communication is equally important. It is important to understand that there is a difference between consistency in a product sense, and consistency of vision. Products may, and often *must*, change, but a product's relevance to its target audience and the values it represents must remain constant. Strong brands, like trusted friends, are consistent in the strength and quality of the *relationships* that they have with their customers. Xerox, once an icon of corporate vision, appears to have lost sight of its value to customers at a level higher than product, as information technology evolved. Now, the company is attempting to reinvent itself as the "document" company, but that vision seems blurred.

Brand Identity

Brand identity includes all elements by which the brand communicates with the world around it. Our discussion focuses on the three integral components of brand identity – brand name, logo, and slogan. The hoped-for result of a brand identity program is a brand image that is consistent with the brand's vision and aspirations.

Name – A brand name is an anchor for a product's identity – it carries with it essentially all of the brand equity. While corporate names can be changed, brand names cannot be changed without a significant risk of losing all equity. Brand names should therefore be viewed as long-term commitments. They must wear well, and in an increasingly global marketplace, travel well. So, what are the desirable attributes of a good brand name? A nationwide survey of companies in the United States, conducted by one of the authors, found that the most desirable attributes of a successful name are (in decreasing order of importance) relevance to product category, connotations, overall liking, ease of recognition and recall, distinctiveness, and consistency with company and existing product line.

We also believe that the blanket application of simplistic guidelines like “brand names should be short, simple, distinctive,” etc. are misguided. Clearly, a threshold of distinctiveness is required to differentiate the brand and, at a minimum, satisfy trademark requirements. But beyond that, we believe the naming field is much wider than conventional wisdom would suggest. Evidence comes in the form of the many successful brands that violate the simplistic naming rules. Consider “I Can’t Believe It’s Not Butter” (it isn’t, but it sure looks and tastes like it, and the name spells it out for you!) or “Smucker’s” (with a name like Smucker’s, it *better* be good!). Again, we recommend that managers be daring. That’s more likely to create strong differentiation – the key to building brand equity – than the relatively safe strategies of going with conventional wisdom or duplicating what others have done.

Logo – Logos can support brand names. Because consumers are more adept at processing visual information, logos help marketers penetrate the ever-increasing level of marketing clutter. This is especially advantageous in situations where consumers make purchase decisions at the point of sale, where the brand’s logo can be displayed prominently on packaging or point-of-sale displays.

What makes a logo effective? The most widely held theory about how logos work is the “familiarity” or “mere exposure” theory first advanced to explain the effectiveness of repetitive television advertising. This theory holds that with repetition comes familiarity, and eventually, liking. Thus, even in low-risk buying situations, consumers are attracted to brands with which they are familiar, and they tend to shy away from brands they view as “strangers.” Although there is some academic research suggesting that logo “boredom” may set in with overexposure, the preponderance of evidence suggests that familiarity is positively related to liking. The obvious conclusion, therefore, is to seek to achieve widespread and frequent exposure to logos.

Because graphic information is processed more quickly and more holistically than textual information, logos should be distinctive; otherwise they may be confused with others. A logo should help in differentiating the brand.

Logos may be purely abstract designs, or they may convey a clearer meaning. In the latter case, effective logos generally identify, or relate to, the product category or product benefits or attributes. As a rule, logos that convey meaning will be more readily remembered and recognized than will abstract logos. Thus, it is generally advisable to use meaningful logos. However, an abstract logo may be desirable, and even necessary, for multi-product companies that develop family or umbrella brands.

Logos need not be as durable as brand names. They may (need to) be updated. However, when considering a change to a logo, it's best to assume that consumers may *tolerate* the change, but they won't necessarily *embrace* it. It's the old, familiar face that has earned their trust. Accordingly, logos should be changed only when it is necessary. This is likely to occur when the product has been repositioned significantly or when the logo is clearly dated (for example, the "Betty Crocker" and "Aunt Jemima" logos have both required "modernizing").

Slogan - If the brand name is the anchor of a product's identity, and the logo enhances recall, what role does a slogan play? A slogan plays a prominent role in advertisements. It captures the essence of a brand's positioning, summarizes the theme of advertisements, and provides continuity when copy is changed both within and across advertising campaigns. In essence, slogans form a link between long-term brand identity and day-to-day marketing activities.

Slogans can be so powerful they can become a rallying cry for any cause. The vastly successful Nike's "Just Do It" campaign has motivated people to pursue not just personal fitness goals but also worthy social goals. More than just a part of Nike's communication strategy, it has become

a '90s anthem. Another highly successful slogan is DeBeers', "A Diamond is Forever." This widely recognized line was coined in 1948 to reverse a trend of declining diamond sales. It achieved its goals, and has gone on to become part of American culture. The key to a successful slogan is a strong linkage to the brand name. Towards this end, combining music or jingles with slogans can be particularly effective, especially with young people who tend to exhibit better recall of music (versus brand name) than older people.

Brand Awareness

So far we've talked about brand identity and factors relating to name, logo and slogan that influence brand recognition and recall. Brand awareness is connecting a brand with its product category. If consumers are unable to place a brand in its appropriate purchasing context, then the advantages of recognition and recall are greatly diminished. The surge of dot-com advertising in 1999-2000 illustrates this point to an almost absurd level, where many of the ads made *no attempt* to connect brand to product category.

At the lowest level, brand awareness is a consumer's ability to identify a brand as a member of the product category when provided with a list (aided recall). Although this is a minimal level of brand awareness, it can still make a difference, particularly in low-involvement purchase situations where brand choice is made at the point of sale. Much stronger brand awareness is indicated where a consumer is able, without assistance, to name the brand as a member of the product category (unaided recall). Leading marketers such as Procter and Gamble strive for "top of the mind" status, where a majority of consumers identify their brand *first* in an unaided recall test. Taking this top of the mind idea to the extreme, *dominant* brands are often the *only* brand recalled for a significant number of consumers. Consider "Arm & Hammer" baking soda, "Scotch" cellophane tape, "Jell-O" gelatin, and "Morton" salt. Having a dominant brand

provides the strongest possible competitive advantage because in many purchase situations no other brand will even be considered.

Conventional wisdom dictates that brand awareness (and therefore, brand equity) can be built only through repetitive advertising. However, promotions such as contests and sweepstakes provide frequent exposure with the added benefit of higher consumer involvement than traditional advertising. Publishers Clearinghouse, for example, has been particularly effective with its consumer promotions. Increasingly, event sponsorship is also seen as an effective high-exposure vehicle. Nearly all of the major college sports events have prominent commercial sponsors and the NASCAR auto racing circuit is now an \$8 billion annual enterprise. What makes event sponsorships so effective is the ability to connect the brand directly with lifestyle values that are held dearly by the target audience. It's virtually impossible to achieve this close connection through conventional advertising, no matter how creative, or frequent, the exposure. Finally, many firms are finding that the returns from contributions to high profile charities are far greater than when those same funds are spread over diffused corporate-run initiatives. Increasingly, these contributions are being allocated at the brand level, where the psychological ties to the market are closer and stronger.

Brand Image

Brands have many associations linked in memory. A brand's *image* is a set of associations that is organized in such a way as to produce a global impression. In other words, brand image isn't simply an enumeration of all of the brand associations that an individual may hold, but is instead a highly generalized synthesis of, typically, a subset of them. The associations underlying brand image will be stronger the larger the number of brand related experiences or exposures to communications. They will also tend to be stronger where they are consistent

with, and reinforce, each other. Inconsistent associations will work to tear down brand equity. This underscores the importance of consistency of vision in establishing a strong foundation for the brand, and the discipline to adhere to that vision.

A distinction needs to be made between brand image and brand positioning. They are similar ideas, but the latter idea is necessarily tied to competition whereas brand image is not. The strength and uniqueness of brand image is directly related to the ability to extend the brand, and by doing so widening its scope of influence and potentially enhancing its equity. Here, consistency is crucially important; otherwise, the web of associations runs the risk of becoming a tangle. Powerful brands, like Coca Cola and Disney, have developed countless opportunities to extend the brand into products and places that fit the family, fun, wholesome, and nostalgic values these brands symbolize, while carefully avoiding places that run counter to these values.

Brand Loyalty

Brand loyalty is a measure of how often a customer is inclined to choose the same brand when buying from the product class. If most customers are indifferent to brand names and buy primarily on the basis of features, price, and convenience, then very little brand equity exists. If, on the other hand, they continue to purchase a brand even in the face of competitors with superior features, price, and convenience, substantial brand equity exists. Brand loyalty is not simply present or absent, but is present in varying strengths. Nearly all customers, no matter how loyal, have some propensity to at least “take a look” at other brands from time to time. And even the most loyal customers will switch brands if their preferred brands fail them.

Brand switching is influenced not only by a customer’s brand loyalty, but also by the customer’s switching costs (time, money and risk involved in switching brands – not a part of brand loyalty). So, while measuring the occurrence of switching may not be an entirely valid indicator

of brand loyalty, it is a good indicator in most instances. Accordingly, customer retention rates and average customer lifetimes, particularly *changes* in these measures, are important indicators of brand loyalty and should be watched carefully.

Brand loyalty is the most important indicator of brand equity. Without brand loyalty, there can be no brand equity. Any brand that aspires to even second or third tier market status will require significant brand loyalty. Brands that are market leaders almost always have the highest brand loyalty. And, if we view niche brands as really being market leaders in narrowly defined markets, the loyalty-leads-to-market-share rule is essentially absolute. If brand awareness and brand image do not translate into brand loyalty, much of the effort and expense that has gone into building awareness and image has been wasted.

Brand loyalty is built on positive experiences. However, in any relationship, a single negative experience can offset a lifetime of positive experiences if trust and credibility are lost. In this regard, customer satisfaction measures can be very misleading. A 99% customer satisfaction rating means one thing if it means that only 1% of customers expressed dissatisfaction, and quite a different thing if it means that 1% of customer interactions resulted in dissatisfaction. Because problems tend to occur randomly, even a small number of problems can affect a large number of customers. Ignored, *any* of these incidents could be one that breaks a relationship. Strong brands are religious about follow-through and protecting *every* relationship.

Price Premium

Most brands that have positive equity should be able command a premium price. For the most part, these brands should compete on dimensions other than price. If a brand doesn't command a price premium, the whole equity exercise would be futile. It is important to differentiate between the ability to command a price premium versus a premium price. While the latter

suggests following a high price strategy, the former implies being able to command a premium over and above what an equivalent product would receive without the benefit of a brand name. Superior brands with a value proposition would also fall under this category. Ray Ban sunglasses would be an appropriate example. Interestingly, Microsoft, whose brand is the second most valuable name, has used a low-price strategy throughout most of its history. In an industry characterized by very high gross profit margins, and predominantly fixed costs, Bill Gates became convinced that one of the keys to market dominance was to price aggressively low. Thus, in the case of Microsoft, overwhelming market share and aggressively low pricing has combined to produce a price premium resulting in significant economic profits.

CONCLUSIONS AND RECOMMENDATIONS

We began by asking two questions, (i) what characteristics do strong brands have in common, and (ii) what actions can managers take to create and maintain high performing brands? We now offer our recommendations, in response to these questions.

Make sure your brand's vision is clear and consistent, and consistently communicated. Very strong brands stand for something, and they stand for it consistently. There is a sense of underlying values that goes well beyond product or product features. Marketers often speak of brand *personality* in connection with a brand's meaning. Although these ideas are somewhat abstract and difficult, they are impossible to implement unless the vision is communicated forcefully and frequently by the people involved in creating and nurturing the brand. Brand personality takes a long time to build, and a longer time to change. Oldsmobile's futile attempt to shed its "old man" image underscores the importance of a well thought out long-term brand personality, and the difficulty of changing an entrenched image.

Craft your identity – brand name, logo, and slogan - with forethought and balance. Brand identity is the core of a brand's communication efforts. Over time, a substantial investment will be made and much of the brand's equity will be inextricably tied to this identity. A product name can rarely be changed, so choose one with utmost care. Support it with a logo. Give the logo meaning related to the product class, unless it will have to apply to diverse product classes. Slogans can then be used to support advertising, and help position the brand, but consistency among all of the elements of brand identity is key. The Jaguar brand with its "Jaguar" logo, and the slogan, "The art of performance" epitomizes consistency between different branding elements as it blends performance *and* style.

Brand names cannot be changed, logos may be changed, slogans can and should be changed. Brand names cannot be changed without substantial risk and expense, so for planning purposes brand names should be viewed as permanent decisions. Logos may be changed. The change may be necessary to keep the logo's meaning consistent with a change in brand strategy, or it may be necessary to update a logo that has simply become out of date with respect to culture and marketing environment. Slogans should be changed to reflect the brand's positioning as the competitive environment and marketing strategy change. Thus, the brand name and (generally) the logo should serve as anchors that maintain continuity for the brand, while the slogan should adapt it to competitive changes. The name Pepsi has remained unchanged since its inception, and the logo, with some updating, has maintained its essential content. Pepsi's slogans, on the other hand, have evolved continuously to reflect the changing needs of the market. It started with "Cures nervousness. Relieves exhaustion" (1902), and have since included slogans like "Cost small! Liked by all! Bottle tall!" (1934), "More bounce to the ounce" (1953), "You've got a lot to live; Pepsi's got a lot to give" (1969), "Join the Pepsi People

Feelin' Free" (1973), "Pepsi – the choice of a new generation" (1980), and "Nothing else is a Pepsi" (1995).

Look beyond advertising to build brand awareness. Brand recognition and recall are important objectives, and advertising is central to achieving them. But there are other promotional activities that can be instrumental in creating stronger associations between your brand and your market. Promotions such as contests, sweepstakes, event sponsorships and publicity forge stronger connections because they involve your brand in aspects of your customers' lives that are meaningful and important to them.

Image is (almost) everything. If you're on your way to creating truly great brands, it's likely that along the way you'll extend them to products, services and causes that, while diverse, all complement and strengthen the brand's image. Each successful extension of this kind widens the brand's scope of influence, strengthening it more, *provided the image is consistent*. For example, the Coca Cola brand has successfully been extended to clothing, luggage, appliances, toys, collectibles, business accessories, and more.

Brand loyalty is precious, and precarious. Brand loyalty is the sine qua non of brand equity, and it grows from experience – the promises you make and the promises you keep. Don't be complacent with customer satisfaction measures that indicate a low incidence of customer complaints, no matter how low. Customer relationships, even the best of them, can hinge on the success or failure of a *single* incident.

Price premium doesn't have to mean premium price. The most profitable brands are often not the highest priced brands. Instead, focus on providing superior customer *value*. If this is done, a brand may command a price premium without needing a premium price. For many high equity brands, the primary strategy is rarely based on premium pricing.

Figure 2 Brand Performance Checklist	
Follow the leaders	<i>Make sure your brand's vision is clear and consistent, and consistently communicated</i>
	<i>Craft your identity – brand name, logo and slogan - with forethought and balance</i>
Rules of the road	<i>Brand names cannot be changed, logos may be changed, slogans can and should be changed</i>
	<i>Avoid the flavor of the month – what works for others probably won't work for you</i>
	<i>Look beyond advertising to build brand awareness</i>
	<i>Image is (almost) everything</i>
	<i>Brand loyalty is precious, and precarious</i>
	<i>Price premium doesn't have to mean premium price</i>