

Advanis White Paper Series: Number 1 – Brand Equity

Brand Equity Strategy & Tactics: **BEST Brands**



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"So the battle over brands will go on. Do not be fooled into thinking it is really about baked beans, soap powder or notebook computers. It is all about information. And it will continue for as long as buyers need and want that information." **The Economist, July 2-6, 1994.**

Why are some brands clearly worth more than others? What underlies this "brand equity" or brand value? Why does it take a huge investment to "build" a brand to the point where it is an important player in the market? Can too many product extensions damage a brand?

These are some of the important questions about brands and brand management that constantly bedevil firms. To address these and many other strategic brand building, maintenance and extension questions,

Advanis has developed a comprehensive approach called *BEST Brands*. *BEST Brands* refers to Brand Equity Strategy and Tactics for Brands, and is based on sound economic and behavioral theory and tested in the laboratory of business experience.

Advanis recognizes that at the present time there is no shortage of "brand equity monitors" offered in the market. However, few, if any, competing products or services address the fundamental issues of how brand strategy ultimately relates to the behavior of real consumers and real markets.

Thus, Advanis contends that measures and monitors that are not linked to bottom-line issues are clearly less useful than those that are, since this is of primary interest to senior managers.

The *BEST Brands* approach determines the key dimensions of brand value and links these measures to consumer choice behavior; replicating the real marketplace.

This, in turn translates to financial performance metrics like revenue and contribution margins etc.

BEST Brands was developed with leading academics, reviewed by academic experts, published in leading academic journals and tested empirically.

BRAND EQUITY

What is brand equity?

Why are brands important to consumers? This question was rigorously addressed by Erdem and Swait (1998), who concluded that a key problem in the myriad of papers and *ad hoc* approaches to measuring brand equity was a failure to clearly define the role that brands play in consumer choices. Their view can be summarized as follows:

1. Firms typically have more information about their own and their competitors' products than consumers do, which is called *information asymmetry*. This asymmetry causes consumers to be uncertain about what to expect.
2. Uncertainty affects consumer choices in two ways: a) It increases the risks of buying brands and follow-on consumption experiences. Risks should be higher for products and services that consumers must buy and experience in order to "know" the features or attributes (*experience goods*). If brand features or attributes can be learned easily before purchase (*search goods*), consumers should be more certain about them.¹ b) Uncertainty causes consumers to invest more time and effort in making choices. They incur 'information costs', resulting in more information search and cognitive effort.
3. Thus, the role of brands (i.e., names, logos, etc.) in choice is to serve as a 'shorthand' to reduce perceived risk and lower information costs.
4. The fundamental role of brands is to save consumers effort and time in making choices by helping to "insure" that future consumption experiences will be what consumers expect.

Thus, brand equity or value arises out of consumer choices, and brands cannot have value independently of consumer choices. That is, brand equity exists only because brands increase the utility of products to the consumers who buy them.

¹ Although pure search or experience goods really don't exist, many (if not all) consumer packaged goods largely fall in the latter category. Credence goods represent a third category, and even product experience can't remove uncertainty for them. For example, service attributes of life insurance can't be known by buyers after-death.

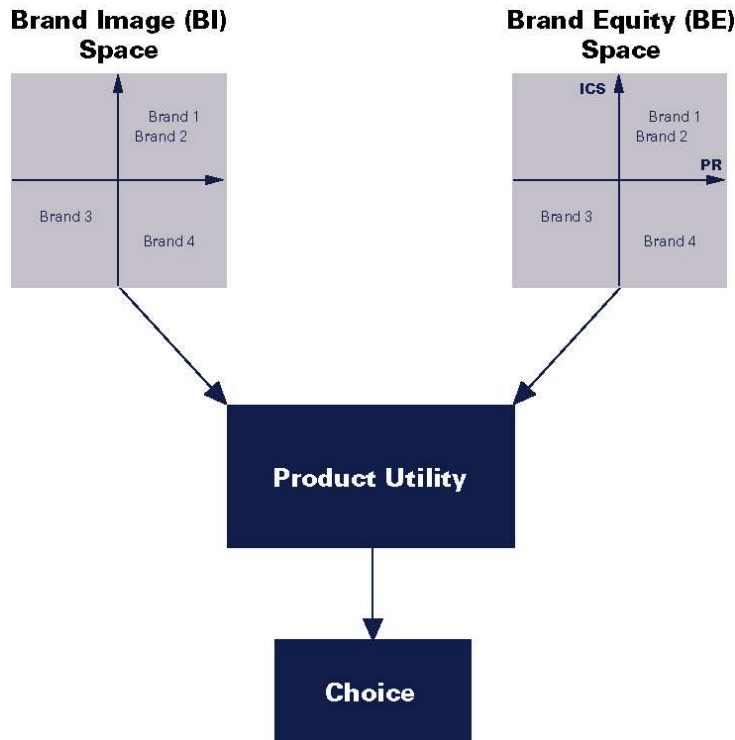


Figure 1

Moreover, Erdem, Swait and Louviere (2002) recently demonstrated that brand equity not only increases the utility of brands by saving consumer effort in making choices, but also raises/lowers sensitivity to price and other product attributes.

Does brand image = brand equity?

So, brand equity is all about saving consumers effort and reducing perceived risk of consumption. Yet, one often hears brand managers say something like this: “My brand has high equity because we ‘own’ the ‘fashionability,’ ‘reputation,’ ‘value-added,’ etc., dimension.” (Substitute your own favorite qualitative dimension in this statement!)

There is little doubt that such brand image dimensions can affect product utility, which has led both brand managers and academic researchers to equate brand image with equity intuitively. Erdem and Swait (1998) show that these two constructs are sufficiently distinct to warrant separate treatment in measurement models and the brand management process. Brand image components may be correlated with the underlying constructs of brand equity, but they are not the same construct.

Thus brand image “dimensions” are not the same thing as brand equity, although they do play an important role in choice processes. Clearly, any theory of brand equity creation, maintenance, and transfer must model and measure the effects of brand image and equity separately. Advanis’ *BEST Brands* approach does this, as we now explain.

MEASURING BRAND EQUITY

Phase I: Diagnostics

The Advanis *BEST Brands* approach measures three things, as shown in Figure 1 above:

1. information costs saved (ICS) and perceived risks (PR) reductions created by brands and competitors;
2. brand image spaces of product categories, and relevant brand positions in those spaces;
3. consumer choice responses to changes in brand and/or product features (Customer Decision Analysis, or ‘CDA’ tasks are used for this, see Advanis White Paper 2).

The above steps can be implemented in a survey instrument, and administered at one or more points in time for markets and segments of interest. *BEST Brands* provides an overview and diagnostics of the current state of brand health in the category.

Brand equity arises through product utility in the choice process; hence, *BEST Brands* can measure the dollar value of brand equity impacts to create a concrete metric to evaluate brand performance and market value.

Phase II: Brand Equity Monitoring

After an initial survey, smaller data survey efforts are undertaken periodically to monitor advertising, and other factors on brand equity.

For example, suppose a competitor launches an advertising campaign claiming that Brand A tells customers one thing but delivers another. This could raise questions about the credibility of the information provided by Brand A, which, in turn, may raise information costs and increase perceived risks. Similarly, this also should decrease brand equity. But by how much?

Advanis' *BEST Brands* approach provides ready answers to this question from models developed from data collected in Phase I and the continuing data collection of Phase II of *BEST Brands* projects.

Other Extensions

Advanis' *BEST Brands* approach to measuring brand equity also can be used to evaluate:

1. Strategic brand alliances
2. Co-branding opportunities
3. Line extensions
4. Umbrella branding and lots more

For example, suppose Company A is considering a line extension into a new, but hopefully related category that represents a good fit. Advanis' *BEST Brands* approach not only can measure the equity of Company A's brand in its own category, but it also can measure the equity it is likely to generate in the new category, as well as the equity of major competitors and its distribution in key segments or target markets. The latter feature allows Company A to evaluate value pricing strategies as well as estimate expected

revenues, contribution margins and/or profit levels. Because Advanis' CDA is an integral part of the *BEST Brands* approach, Advanis also can predict how Company A's strategic or tactical actions are likely to impact not only their own brand, but also competitor brands.

In summary, Advanis' *BEST Brands* approach to modeling and measuring brand equity provides a sound theoretical and practical way to understand and anticipate the health and value of your brand(s). In addition, you can develop and test proactive and reactive strategy and tactics designed to strengthen your brand and/or weaken your competitors' brands.

References

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