The Meaning of Brand

Brand is the most intangible of the firm's assets. It is defined partly by identifiable intangible assets, such as trademark, logo, slogan, colors and design, all of which can be legally protected. But the greatest value of a brand is even more intangible: it lies in its strength in the mind of consumers. Although brand is a highly intangible asset, it provides clear, identifiable, material benefits to the firm. Ultimately these benefits can be quantified and valued. While the relationship between a strong brand and firm value is intuitively self-evident, the measurement of the brand's contribution to the firm value is much more challenging. In order to identify these measurement tools and appreciate how the brand's attributes translate into value, we must understand the nature of a brand and the way it develops, survives, and grows in the marketplace.

A Major Branding Concept: Awareness

There are three progressive levels of branding: name, brand, and power brand (1). These three concepts are successive stages of life that a brand can traverse. The central marketing concept of awareness may help us understand the basic differences between these three levels. Nearly every product is branded. However, a brand name on a package is different from a brand name in the mind (2). Awareness can be defined as the strength of a brand's presence in the mind of its target customers. In order to assess the degree of awareness of a particular brand, marketing professionals typically use questionnaires and interviews with potential and/or existing customers, and employ techniques developed in coordination with professionals in psychology to analyze and interpret the data collected from samples of consumers.

Four levels of awareness are traditionally identified: recognition, recall, top-of-mind, and dominant (3). Recognition is assessed by the answers provided to such questions as: "Have you ever heard this name?" or "Do you recognize this product?" and measures merely the familiarity of consumers with a name, not necessarily with the related product or service. Recall is one step beyond recognition and evaluates how customers associate in their mind a specific brand to its product category. Recall is measured by the frequency of references made to a certain brand when consumers answer the following question: "In this specific product or service category, what brand names do you recall?"

When analyzing the answers provided for the previous question, another way to assess awareness consists of observing in which order consumers name the different brands they recall in a product category. This is the "top-of-mind" concept, and the brand whose name is cited first most often enjoys the strongest awareness among consumers. Lastly, the highest degree of awareness is attributed to a "dominant brand," which occurs when there is only one brand consumers recall in a product category. Intuitively, we can associate level of branding (that is, from name to power brand) and degree of awareness. The relationship is neither static nor the same for every firm, but we can assume that a product or service whose only score in a customer survey is in the recognition category does not have a brand, it merely has a name. On the other hand, top-of-mind and dominant brands belong most likely to the power brand level of branding. Evidently, awareness is not the only determinant of brand value, but the result of a strong presence in the mind of my consumers.

What is a Name?

The first level of branding we have identified is the name. If my product or my service "has a name", it simply means that consumers know my brand, they recognize the name, the logo, or the packaging of my product, and they might purchase it over other unknown products. *A name generates traffic.* Compared to the store's private label or other unknown names, my product might be preferred because customers like familiar products. Even though customers do not have an opinion about my brand, they will instinctively select this one if it is the only one they have ever heard or seen, because familiarity is reassuring.

However, a name is not enough to generate repetitive purchases and long-term relationships with customers. A name is merely a trademark, which is of very limited value if not leveraged and exploited. Said differently, *the collection of name, logo, slogan, color set, packaging style, design, and other material distinctive characteristics contribute to the value of a brand only if additional actions are undertaken that create a dynamics.* These dynamics can be interpreted as the feeling aroused among customers and other target communities that contributes to an enhancement of the firm's financial performance beyond a "normal" return on investment.

More Than Just a Name Brand

Additional branding activities must be taken in order to create a dynamic and graduate from name to brand. *"They made their name into a brand,"* said one analyst about a company's successful marketing program (4). Branding activities are aimed at exploiting the brand's levers. Successful branding activities are the ones that assure a brand the following characteristics: distinctiveness, consistency, and publicity. *The first element crucial to a strong brand is a degree of presence in the mind of consumers, such that it is easily differentiated from the other brands in its category.* Certain products are by nature readily differentiable. The distinctive value may be driven by the product quality and intrinsic features, the attached service, the universe of packaging or distribution possibilities, the target audience, etc. This is the case for the automobile industry, which has many segmented markets (based on size, engine power, price, style, utility, etc.) and offers many opportunities for car manufacturers to utilize branding strategies to emphasize a clear and distinctive position for their vehicles in the market. For other products and services that are less differentiable in nature, such as commodities, brand managers must be even more creative and take advantage of a panoply of branding activities in order to convert an apparently ordinary item into a unique product that consumers believe is distinguishable from the other articles offered to them in the same category. In emphasizing brand differentiation, firms seek to orient the purchase decision toward attributes other than the price. To summarize, whether the brand is intended to reinforce the distinctive value proposition of a product, or whether its role is to create a perception of singularity among products that are otherwise very similar in nature, *part of the brand's function is to establish and support the product's uniqueness as it will be perceived by the marketplace. The second element that branding activities should achieve in order to build a strong brand is consistency.* Consistency in delivery as well as consistency in message is essential to drive customers through the brand experience over time. Brand extension, brand contraction, and brand refocus are strategic business decisions that are neither necessarily reinforcing nor damaging to the brand.

However, consistency is a fundamental driver of brand strength and inconsistency almost always weakens a brand. By achieving consistency, firms allow customers to identify clearly their offering, their positioning, and their target audience, and avoid confusion in consumers' mind as to what their brands stand for. Consistency of meaning built over time strengthens a brand's position in the marketplace. Ultimately, consistency, just as distinctiveness, is aimed at reinforcing a brand's presence in the mind of its target customers. A long-term, consistent branding strategy is interpreted as a signal of success (the marketplace believes that companies allocate funds primarily to winning brands), (5) and consumers feel more secure with familiar, well-established brands with which some long-term, "authentic" relationships were developed. *The third element crucial to a strong brand is publicity. Broader than advertisement, publicity and communication comprise the set of mediums used to deliver the brand's key messages to the marketplace.* Such messages relate to the brand's unique characteristics and strengths. Communication should be aligned with delivery, that is, the publicity should serve the brand by sending images that reflect its values. While differentiation and consistency set the guidelines of the brand's strategic development, publicity is used to effectively communicate this strategy to the audience and make the brand live in the customers' mind.

Brand's Benefits

Now that we understand the basic elements of a strong brand, what does it do for the company in the marketplace? While a name generates traffic, a brand generates loyalty. Distinctiveness, consistency, and communication result in increased traffic but more importantly in customer loyalty. *Loyalty (the "stickiness" of a firm's customers to its brand) is a central concept in branding and marketing for two reasons: its effect on revenues and its impact on operating margins. Loyal customers are those who know a brand, perceive its superiority, and prefer it to other similar brands. In financial terms, loyal customers are beneficial to a company because they purchase more frequently and in larger quantities, which reduces the firm's vulnerability by enhancing sales predictability. But more importantly, loyal customers show less sensitivity to price, which permits the firm to maintain and enhance profit margins. The ability to charge premium prices without losing significant volume is one of the major determinants of brand value.* Customers are willing to pay a premium of up to fifty percent for a bottle of Evian because it is the strongest brand in the bottled water market, and the actual value of the Evian brand is driven by this price premium. Evian is obviously less exposed to the risk of new entrants than Crystal Geyser because its distinctiveness assured the brand a strong loyalty, which translates into lower sales volatility (the sales generated by the "price switchers"). If loyalty translates into stronger revenue levels, it also has a positive effect on operating margins. It is often said that it costs less to a firm to retain customers than to attract new ones. Although the implementation of frequent-buyer programs and other marketing databases is costly, the advertising, direct contact, and promotions necessary to reach potential new customers are more expensive. These customers might be themselves loyal to another brand, and whether they are strongly committed to it or their repetitive purchase results more from convenience than durable preference, the switching costs must be assumed by the new entrant firm. Because of these switching costs, the loyalty of existing customers represents a significant barrier to entry. *Loyalty is an essential driver of brand value, with effects at both the revenues and operating profit levels.* Therefore, if I have a strong base of loyal customers, my brand is valuable because the loyalty it generates allows me to charge premium prices, anticipate more stable revenues, and improves my operating margins.

Beyond the Brand: The Power Brand

The third level of brand that we have identified is the power brand, also called "megabrand" by certain authors. In many cases, the power brand is the corporate brand, but numerous product brands have reached the status of power brand. Whether the corporate brand should dominate the company's product brands or on the contrary be confined to a role of endorsement is a matter of strategy. Korean chaebols Hyundai and Daewoo chose to use the corporate brand for all their activities, including such diversified products as telecommunications satellites, microprocessors, automotives, electronics, and household appliances. Alternatively, such companies as Procter & Gamble and Unilever utilize their corporate brand as an endorser, while their range brands, product line brands, and sub-brands are the dominant brands, that is, the only brand names that customers are really concerned about. The power brand is the one that has reached, in addition to robust awareness and loyalty, the status of personality. A power brand has personality. More than a perception of quality, superiority, singularity, and authenticity, the power brand has created and delivered to the marketplace a certain vision, a set of values, a particular culture, a reflection of its own experiences. The audience of a power brand is not limited to its customers, but includes also such target communities as employees, shareholders, competitors, journalists, financial analysts, business partners, investors, political lobbyists, etc. A power brand has a positive reputation, and this reputation is built on credibility, reliability, trustworthiness, and responsibility (6).

What Does a Power Brand Do for the Company?

What are the financial benefits of a power brand from the company's standpoint? *Beyond direct impact on financial metrics such as substantial and sustained market share and premium prices, the benefits of a power brand lie in the set of opportunities it creates for the company.* Traditionally the power brand expands revenues and cash flows beyond saturated markets, and capitalizes on the opportunity to leverage the brand's potential to other areas. These benefits are more intangible in that they have an indirect effect on the company's performance. Specifically, the corporation that benefits from a very strong reputation can more easily attract, develop, and retain top employees when the latter are able to see both the tangible and intangible advantages of working for a reputable company. When the vision the firm developed for its brand equates the image perceived by employees and potential recruits, the company is more likely to attract adequate human resources who understand the brand and will actively contribute to its strength. In an optimal human resources management, the involvement of the staff and its sentiment of being part of an experience will play a valuable role in the development of a corporate culture. This culture reflects management's vision, as well as the employees' achievement, and is one element of a power brand. A culture strongly oriented toward the brand is likely to enhance the knowledge and familiarity of employees, and develop an emotional connection with this brand. Ultimately, a unique and distinctive culture, adapted to the brand's identity, will improve the organization's knowledge and efficiency, which will bring value to the brand.

How Strong Brands Create Shareholder Value

Shareholders and more generally, the financial community including investors and analysts, are also impacted by strong, or power brands. Studies have demonstrated a relationship between reputation and market performances (7). Because reputation is essential to the investing community, clear and relevant branding strategies are required from corporations to get the approval and trust of existing shareholders and investors.

Also, the loss of trust from the financial community, following a broad confusion with regard to the strategy, performance projections, or management choices, may have a direct effect on the subject firm's stock price, as well as an indirect influence on the firm's profit due to the dissemination of the bad news to consumers. Customers and investors interpret management's performances as signals of quality, integrity, and relevance of the corporate brand strategy, and they will express their reactions in terms of confidence.

Further, a study by Thomas J. Madden, Frank Fehle, and Susan M. Fournier (8) has demonstrated the existence of a relationship between strong brands (identified by Interbrand as the "World's Most Valuable Brands") and performance of the parent company's stock price in the marketplace. The authors of this study have found that a hypothetical portfolio comprised of strong-brand companies: (a) outperformed a benchmark portfolio consisting of all publicly traded U.S. companies other than the selected strong-brand companies, (b) generated a positive alpha (which means that the portfolio outperforms its risk-adjusted benchmark), and (c) displayed a below-average market risk (as measured by beta) (9). As the authors conclude: "strong brands yield returns to stockholders that are greater in magnitude than some relevant benchmark, and the increased returns from branding are not associated with higher risk" (10). Therefore, to boost the company's stock price, the Chief Executive Officer will examine brand-building activities.

In addition to the improvement of their stock price, the Madden-Fehle-Fournier study demonstrated that companies with strong brands are financially stronger compared to the control group comprised of all U.S. traded stocks excluding the strong-brand companies. In particular, the researchers found that the strong brand group had (11): (a) stronger liquidity ratios, which indicate a firm's ability to meet its obligations as they come due; (b) significantly shorter average collection periods; (c) a capital structure more weighted toward equity than debt, indicating a lower financial risk; and (d) stronger gross profit margins, operating margins, net profit margins, and returns on equity. Financial and operating strength is believed to be both the contributor and the effect of brand strength, and the payoff is an increasing stock price.

Conclusion

The enhancement of its brands increases the value of the company. A powerful brand may impact the company's value in different ways; indirectly through the improvement of its financial performance, and directly through the increase of its stock price. First, a strong brand is likely to increase the level of revenue of a company through the enhancement of its customer loyalty, its brand awareness, the potential creation of entry barriers, and the reduction of sales variability. Second, a powerful brand may improve the company's margins by affording the company the opportunity to charge price premiums and the potential for marketing cost reductions generated by a high loyalty rate. Third, a well-known corporate brand benefiting from a positive image is likely to be translated into a strong performance of its stock price. Because the market value of a company is frequently based in large part on the intangible assets' capacity for cash flow generation, the perception of a competitive, strong brand in the marketplace is an important driver of the firm's market value.

Footnotes

(1) *David Court, Anthony Freeling, Mark Leiter, and Andrew J. Parsons, "If Nike Can "Just Do It," Why Can't We?"*

(2) *Al Ries and Laura Ries, "The 22 Immutable Laws of Branding,"*

(3) *David A. Aaker, "Building Strong Brands," Chapter 1 "What Is a Strong Brand?"*

(4) *Al Ries and Laura Ries, "The 22 Immutable Laws of Branding."*

(5) *David A. Aaker, "Building Strong Brands," Chapter 1 "What Is a Strong Brand?"*

(6) *Charles J. Fombrun, "Reptation: Realizing Value from the Corporate Image."*

(7) *Sam Y. Chung, Ph.D., Amherst, Kristina Eneroth, and Thomas Scheeweis, working paper entitled "Corporate Reputation and Investment Performance: The UK and US Experience", April 1998.*

(8) *Thomas J. Madden, Frank Fehle, and Susan M. Fournier, "Brands Matter: An Empirical Investigation of Brand-Building Activities and the Creation of Shareholder Value," Working paper, 2002.*

(9) *Thomas J. Madden, Frank Fehle, and Susan M. Fournier, pp. 15-17.*

(10) *Thomas J. Madden, Frank Fehle, and Susan M. Fournier, pp. 22-23.*

(11) *Thomas J. Madden, Frank Fehle, and Susan M. Fournier, pp. 21-22.*

CONTACT COGENT VALUATION

Los Angeles Office
21700 Oxnard St., Suite 1080 — 818.905.8330 V
Woodland Hills, CA 91367 — 818.905.8340 F

Orange County Office
650 Town Center Dr., Suite 1200 — 714.668.0272 V
Costa Mesa, CA 92626 — 714.668.0137 F

San Francisco Office
601 California St., Suite 800 — 415.392.0888 V
San Francisco, CA 94108 — 415.392.7070 F

cogent valuation