



Brand Equity: What's Price Got to Do with it?

Perceptions about a brand's values, personality, and heritage all factor into consumer sentiment toward a brand. Typically, price is seen as something separate and distinct from other elements of brand equity, a factor that consumers weigh against their feelings about a brand.



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But really, a brand's price is just as important and integral to a brand's equity as any other association. Price is a source of meaning and identity for a brand, not a separate countervailing factor.

However, considering many traditional marketing practices, it is not difficult to see how this fundamental truth has been obscured. Too often pricing is used as a tactical lever that is pushed or pulled as needed to respond to competitors' actions. Price promotions are often used to gain short-term volume that has little positive impact over the long term. Ruthless price competition can destroy prodigious amounts of brand value. While consumers may enjoy the reduced prices that result from these actions, they may not be getting a bargain in the long term if brands are unable to invest in innovation or, worse, if they go out of business, leaving consumers bereft of choice.

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Price as Equity

When price *is* recognized as a critical element of a brand's association set, it is usually in relation to a luxury brand. The status of a brand such as Louis Vuitton, Prada, or Armani is underpinned by the price at which it is sold. Its high price sets it apart and makes it exclusive; it is an integral and crucial part of its equity. The high price is part of the badge value that the brand's customers enjoy.

But a brand's price doesn't have to be high to provide an emotional benefit to users. A mid-priced brand that offers a satisfactory brand experience can be loved as much as an expensive one that offers a superior experience. The fact is, a brand that gives us a good deal evokes a strong positive emotion in most of us.



This leads logically to the idea that a brand that is consistently priced as the cheapest in the market can have an incredibly strong position. Profitable and sustainable price differentiation can be more than a tactical maneuver; it can be a winning strategy for a brand. Everyday low pricing (EDLP) has been an acknowledged part of grocery retailer positioning for many years. Walmart's strategy in the United States has echoes in Lidl and Aldi in Europe, Ed in France, Kopeyka in Russia, and Shoprite in South Africa. Various car brands have positioned themselves as low-price/high-value options around the world: Kia in the United States, Fiat in Brazil, Skoda in the Czech Republic, and Tata in India.

Low Price as Identity: Ryanair

Ryanair, the leading low-cost airline in Europe, has built its strength on its ruthless pursuit of low cost; the budget carrier not only flies more passengers than British Airways but is also more profitable. As part of its quest to drive down prices, Ryanair created new routes to smaller airports to save money on landing fees. This has not only given the brand another point of differentiation – that it serves regions traditionally neglected by other airlines – but has also given the company significant leverage over the owners of those airports as well as local tourist industries.



To sustain low prices over the long term requires a commitment that has consequences for every aspect of the way a company works. For Ryanair, this involved rethinking not only the routes, but also the role of the cabin crew, the strategy for managing on-board and in-hold luggage, the algorithms used to price tickets, and so on.

Ryanair also recognizes that its singleminded pursuit of low costs will inevitably alienate a portion of the potential customer base. For example, some people will not accept the lack of assigned seating as a fair trade-off for a lower fare. And while many people may appreciate the transparency of Ryanair's "a la carte" approach to pricing (for priority boarding, legroom, food, and luggage), others will be put off by this practice. It is also true that lower pricing can result in lower margins and therefore creates a need to be a volume player in the market; Walmart makes high levels of absolute profit by balancing lower margin with enormous scale.

The Power of a Low Price

Pricing is a genuine and relevant differentiator in virtually every market. In the absence of any other perceived differentiation, a lower-priced brand is highly likely to win out over a more expensive one. Some consumers will choose the less expensive brand, while others will simply lack the means to pay more.

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As brands move from their home markets into developing markets, less affluent consumers are a huge source of potential revenue. Markets such as China and India are getting steadily wealthier, but the rural populations of these countries still number in the hundreds of millions. Luxury and premium brands will appeal to the emerging middle classes, but there will be huge demand from newly empowered consumers at the lower end of the economic spectrum. Thus there will be significant opportunities for companies that offer value brands.

Value

This brings us to the thorny issue of value and the question of how people come to determine that a brand is a "good value." In conjunction with Millward Brown, WPP publishes the Value-D study, which compares thousands of brands on the dimensions of "price" and "desire." Brands are classified into one of four groups based on their scores on these dimensions



in relation to the “Value Line,” the line on which the values for price and desire are equal. The four groups are: Good Value (desirable and cheaper), Justified Premium (desirable and more expensive), Poor Value (less desirable and cheaper), and Expensive (less desirable but higher priced).

Across markets, the distribution of the “most desirable” brands across these four groups varies. At the global level, of the 10 brands with the highest level of desire, four are Good Value (including Amazon, the most desired brand overall), five

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are Justified Premium, and one is Expensive. Pampers, the second-most-valuable CPG/FMCG brand in the world, is one of the brands in the Justified Premium group. It is clearly a brand that represents excellent value to consumers, even if its price premium would deter people from talking about it as a good value.

In India, eight out of the 10 most desirable brands are Good Value, while the other two are Expensive. This suggests that the price of the brands is a powerful part of their appeal. For those brands with the highest ratios of desire to price (the highest Value-D scores), six out of 10 globally are Good Value, while nine out of 10 in China and all of the top 10 in India are Good Value.

The Value Equation: Making Brands Affordable

In developing markets, it often happens that even when multinational companies reduce production and distribution costs as much as they can, the absolute cost of their brands remains high in relation to the income of the local population. In these instances, the brands can still be made available to aspiring consumers using creative approaches to pack sizing and payment options. For example, in India, Levi's offered consumers the option of buying jeans on a monthly



installment plan, thereby making the brand seem more affordable without actually reducing the absolute price. This approach attracted a large number of new consumers who had strong positive views about the brand.

Local brands can benefit from such approaches as well. Chik, a homegrown shampoo brand in India, was the first brand to tap the massive opportunity in rural markets via single-use sachets. These sachets now account for more than 20 percent of the Indian shampoo market, and Chik controls 90 percent of that sector. Nescafé adopted a similar strategy to develop the coffee sector in traditionally tea-oriented China.

By contrast, Starbucks charges the same price for coffee in China as it does in the United States. This has made Starbucks a very aspirational brand in China, one that is regarded as a special treat. In the major cities where it is available, the growth of Starbucks is progressing along with the growth in personal wealth.

Brand Portfolios

Many companies build brand portfolios consisting of products at different price points. For example, most car marques (makes) offer a variety of models: BMW has the 1, 3, 5, and 7 series, while Honda has the Accord, the Civic, and the Jazz/Fit. Johnnie Walker has Red, Black, Double Black, Green, Blue, and Gold Label options.



Such a strategy is often successful but is complicated to manage. It requires the company to understand and delineate the strategy for each individual brand in relation to the needs and values of various consumer segments. It must identify the differentiated experience that justifies the price of one brand over another, and it is then incumbent upon the brand to ensure that the value proposition of each product is clearly communicated.

Managing the Role of Price

Marketers need to actively manage the role of price in the equity of their brands. Ignoring it will not minimize its importance. Price *will* affect brand perceptions; marketers need to shape those effects.

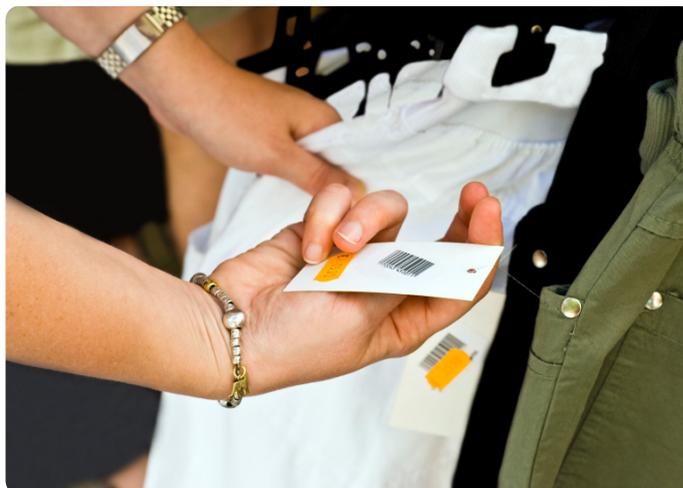
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The first step for marketers is to understand the way pricing is influencing brand associations. How strong are these associations compared with others? Are price perceptions in line with actual market prices? What about perceptions of value? How is desire balanced with price?

The next step is to decide if the existing price associations are optimal or if they need to be shifted. Is there scope to increase the price of a brand based on the desire it generates? A brand that is perceived as "poor value" needs a strategy for rebalancing the brand's associations.

Of course, these judgments can't be made without considering the situation of competitive brands. What price-related associations exist for them? Is one brand firmly established as the "price" brand in the market, or is that space available to be filled by a new or existing brand? What would be the advantages and challenges of occupying that position?

Finally, the chosen strategy relating to price and value must be executed through the full range of marketing activity. Price promotions, if they are used, need to be built into the strategy in ways that do not undermine the desired positioning. If a value positioning is chosen, especially one that promises the lowest price, management must ensure that basic quality



standards are maintained and promises kept. Should a value brand have a crisis or need to undertake a product recall, consumers may be quick to assume that the company cut too many corners to support the brand's low price.

Conclusion

Perceptions of price are inextricably woven in among the myriad of brand associations, both rational and emotional, that are created and reinforced at every consumer touchpoint. A brand's price, whether it is high or low, is as much a part of a brand's identity as the brand name or the packaging. To price a brand appropriately and to effectively build relevant and motivating associations around that price is to harness the power of one of the most important factors in the decision-making process for consumers.

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