

# What Price A Strong Brand?

As the world of brands becomes ever more cluttered and competitive, the marketer's task of building and maintaining strong brands becomes increasingly difficult. Senior management wants concrete evidence of return on marketing investment. Yet the challenge of demonstrating a brand's true value is complex. What proof do we have that strong brands really provide a financial benefit to brand owners and shareholders?

M I L L W A R D B R O W N ' S P O V

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A trusted brand is a treasured asset, prized by its owners and envied by competitors. Companies are bought and sold for vast sums of money, above and beyond the value of factories, patents and processes, on the strength of their brands. But when one company pays a premium to acquire a stable of brands from another, what are they really paying for?

Brands are valuable to companies because they are valuable to consumers. People will pay more for a branded product than a generic one, and more for a favored brand than the alternatives. It seems obvious, then, that a brand that has forged a strong and enduring relationship with consumers should provide a financial advantage to a company. But can this financial advantage be quantified?

## Demonstrating Brand Value

Demonstrating a causal relationship between consumer affection and sales results for a specific brand is not easy. Not everyone who buys a brand feels strong loyalty towards it; some people may purchase a brand because it's on sale or because it's the only one available. Further, many factors external to a brand will affect its sales performance, including business logistics and competitive activity, as well as wider social and economic trends. However, in spite of these complexities, we have been able to demonstrate that, all things being equal, stronger brands do outperform weaker brands.

## Summarizing brand strength

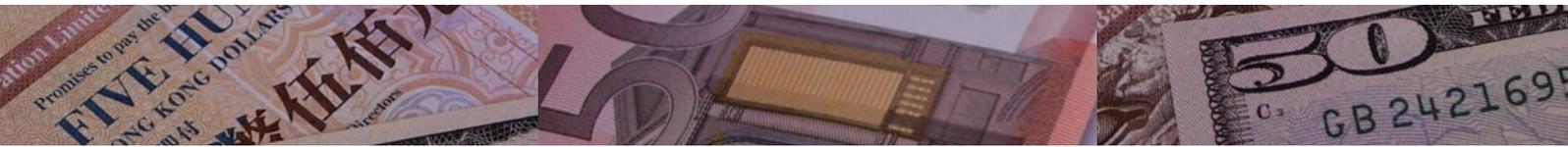
As the starting point for our analysis, we summarized the strength of a brand's relationship with consumers using two key measures, Presence and Voltage.

- **Presence** is a measure of how many people know about a brand and understand what it has to offer. A brand with a high level of Presence will enter a buyer's consideration set more easily than a brand with low Presence.
- **Voltage** is a relative measure of how efficiently a brand converts people from Presence to higher levels of attitudinal loyalty. Because higher levels of loyalty are associated with increased probability of purchase, a brand with a high Voltage score is positioned well to grow its share of sales in the category.



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### Measuring the return on brand strength

We plotted brands according to their values on Presence and Voltage to create a map of brand equity, in which the four quadrants are used to define four groups of brands. Figure 1 shows the average scores by quadrant on three key metrics. Market Value Share<sup>1</sup> at the time of the survey confirms the relationship between consumer attitudes and the relative size of brands in their categories. Percentage share change describes how well brands attract new customers (or sell more to existing customers). And volatility — the degree of variation in share year-on-year — measures the stability of brand income.

Figure 1 Brand Equity Map

Voltage	+	Market share 9%	Market share 15%
	-	Share change +5%	Share change +3%
		Volatility 1.1	Volatility 0.4
		Market share 3%	Market share 8%
		Share change -4%	Share change -1%
		Volatility 1.5	Volatility 0.6
		Presence	
		-	+

Source: Millward Brown analysis of third-party market share data based on 369 cases.

In comparing these metrics across the groups, we see that brands in the upper right-hand quadrant tend to dominate their product categories, with high market shares, good growth prospects, and low volatility. Brands such as Coke, Nike, and McDonald's are included in this group. By contrast, brands in the lower right-hand quadrant, which have strong Presence but weaker Voltage, tend to lose share year-on-year. The size of their market shares helps to reduce their volatility, but these brands are less likely to grow and are actually much more likely to lose share than their stronger counterparts. Brands in this quadrant are often described as being past their prime, and include familiar names like Chevrolet and Aquafresh.

The brands in the upper left-hand quadrant tend to be more volatile than the brands on the right-hand side of the map. Many do gain share, but a fair num-

ber decline. The brands in this region, which include the likes of ING, Costco, and Quiznos, run the risk that as they struggle to grow their footprint, they may move away from the branding formula that made them successful. These brands are also vulnerable to competitive actions, such as aggressive pricing and the introduction of "me-too" product offerings.

### Brands are valuable to companies because they are valuable to consumers.

The brands in the lower left-hand quadrant, which have both low Presence and low Voltage, face a high failure rate. Among this group, a high percentage of brands lose more than 5 percent of their share year-on-year, with an average loss overall of 4 percent.

### No guarantees

It is important to emphasize that, while these numbers represent the average performance of each group of brands, there were exceptions in each quadrant. Therefore, while Presence and Voltage may describe a brand's potential, they do not dictate its future. A number of factors, including some that are beyond the influence of marketers, will affect a brand's performance.

### Not all prospective buyers are of equal value.

But where marketing does have influence, it can play a pivotal role in shaping a brand's future. For example, consider the venerable British retailer Marks & Spencer (M&S). The chain was suffering from declining sales as shoppers deserted it in favor of trendier alternatives. Management recognized the need to refresh the stores and revitalize product lines, but also realized that M&S enjoyed a substantial reservoir of consumer goodwill. The IPA award-winning campaign *Your M&S* tapped into that goodwill, reminding people of what they loved about M&S and drawing them back to the stores. Customer visits increased by 19 million over the previous year. Food and general merchandise sales rose by 10 percent. As a result, the share price of M&S rose more than 60 percent, confounding experts who had predicted it would never rise again.

<sup>1</sup>Market Value Share: A brand's share expressed in terms of monetary units (dollars, Euros, etc.) rather than volume sales. A brand's dollar share, for example, is calculated as follows: \$ spent on brand/\$ spent on all brands in category



## Strong Brands Influence Shareholder Value

The M&S example notwithstanding, we know that brand sales and company share price cannot always be directly linked. Business efficiency, market growth, and investor confidence have an important influence on share price as well. But we have observed that companies that own stronger brands do tend to outperform the market as a whole. Again using Presence and Voltage, we created three portfolios of brands, each containing between 16 and 40 companies. The share price performance of these portfolios was then tracked from 1998 through 2005.

**Figure 2 Average Share Price, January 2006**

Voltage	+	\$3,280	\$1,810
	-	Not applicable	\$1,230
		-	+
		Presence	

*Benchmark: A \$1,000 investment in the S&P 500 Index, made in 1998, would have yielded a shareholder return of \$1,310 in 2005*

Figure 2 shows that an investment in the companies with stronger brands would have returned far more than an investment in a market index fund. But it is equally important to note that companies that owned the strong but lesser-known brands (those in the upper-left quadrant) outperformed the companies with the high-Presence, high-Voltage brands. This could have been due to the fact that lesser-known brands enjoy one simple advantage over more established ones: They can grow simply by making themselves known to more people. In some categories, this can result in a significant increase in business. For example, between 2001 and 2006, the U.S. insurance brand Geico achieved a significant increase in business by growing its Presence from 57 to 73 percent, without increasing its relative strength (as measured by Voltage).

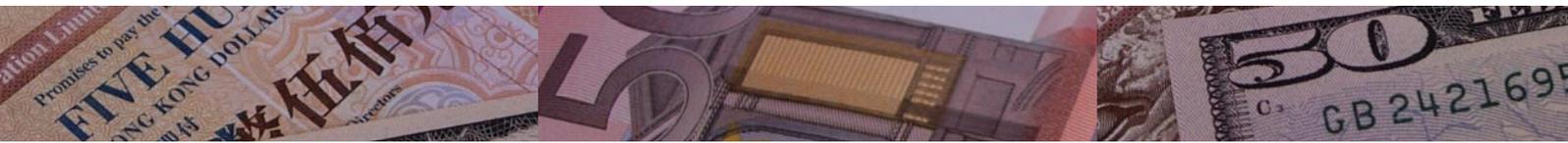
## Commanding a Price Premium

Brands that are already widely known need to find other ways to grow. In today's highly competitive product and service categories, most marketers focus on trying to increase their volume share, either by convincing existing customers to buy more, or by enticing new customers away from competitors. However, marketers would do well to remember that not all prospective buyers are of equal value. In every category, there are people who are more interested in getting a good price than the "right" brand. While consumers in this group are easy to sway with promotional pricing, they may not be worth the effort, because they are likely to be easily persuaded to switch away by some other brand.

Another way to extract value from a brand, which is sometimes overlooked by marketers, is to identify and target the customers who pay attention to brands and perceive real differences among them. This group is likely to pay a premium price for a brand if they think it is better than others. A recent Millward Brown analysis of 209 consumer packaged goods brands in the United States found that consumer esteem was the key underpinning of a brand's ability to command a price premium. Respondents were asked to associate brands with a number of general attributes, and among brands in the top tertile on "I have a higher opinion of it than others" the median price was 11 percent higher than the category norm.

***Price promotion, when overused, will attract price-sensitive shoppers and train loyal customers to buy on deal.***

The dimensions of esteem will vary from brand to brand and category to category, but the net effect will be the same. The consumers who care about getting the right brand will pay more for it if they can be convinced that it offers key advantages over others.



## Estimating Total Brand Value

By focusing on the strength of a brand's relationship with consumers, particularly those who believe brands are worth paying more for, it is possible to put a value on the current and future contribution that branding makes to a company's bottom line. The BrandZ Top 100 Most Powerful Brands ranking, produced by Millward Brown Optimor, does just that, by combining data from consumer equity database BrandZ with publicly available financial data from sources such as Bloomberg and Datamonitor.

The BrandZ Top 100 ranks brands according to the present value, in dollars, of all future earnings they are expected to generate. Key to the calculation of each brand's value is the determination of the "Brand Contribution," a score that quantifies the portion of intangible earnings attributable to the power of the brand itself. Developed using data from BrandZ, the Brand Contribution score represents the share of a brand's income that comes from its most committed consumers. People who choose products based on price rather than brand are excluded, as are those who buy a brand without having a strong attitudinal bond to it. Luxury goods like Louis Vuitton, Porsche, and Chanel typically have the highest Brand Contribution scores of the brands measured for the Top 100.

To reflect the fact that bigger, stronger brands tend to have more stable income streams, loyalty data from BrandZ is used again to adjust the discount rate of future earnings. A brand earnings multiple is created by combining a brand's loyalty profile with data on market valuations as well as the brand's risk and growth potential. Among the brands with the highest short-term growth potential in the 2007 rankings are Google, Starbucks and Porsche.

## The Implications for Marketers

All of the analysis presented here serves to illustrate the financial ramifications provided by strong brands. Brands do add value. But to maximize that value, marketers must navigate through an increasingly complex maze of brand-building activities. No one route will be right for all brands; the most effective actions will differ for each brand according to its category and context. However, marketers seeking to maximize the value of their brands should start by considering three fundamental points.

## *Understand underlying equities*

The route to any destination depends on the starting point. Brands in different areas of the brand equity map need different types of support to thrive and grow. An understanding of a brand's strengths and weaknesses will help inform decisions on strategy and tactics by which to grow brand value.

## *Check business basics*

In most product and service categories, we observe a close relationship between brand strength and market share. When a brand deviates from the basic category relationship, selling more or less than its equity might suggest, there may be a structural issue that deserves more investigation. Pricing might be out of synch with buyer expectations, for example, or distribution may be limiting sales.

## *Don't sell yourself short*

The segmentation of potential customers on the basis of their predisposition toward brands can guide the targeting of acquisition strategies. Price promotion may be a viable tactic in some categories, but when overused, such a strategy will not only attract price-sensitive shoppers to your brand, but will also train your current loyal customers to buy the brand on deal. A far safer and ultimately more profitable strategy would be to focus on less price-sensitive shoppers who can be convinced your brand is better than others and worth paying more for.

## Conclusion

Overall, our findings confirm that strong brands are built on the bedrock of sound business practice and a great brand experience. When solid fundamentals are accompanied by a clear, compelling brand proposition and a strong sense of momentum, a brand is likely to increase both sales and shareholder value.

**To find out more about the value of brands, please visit [www.mb-blog.com](http://www.mb-blog.com).**