

WhitePaper



Understanding Brand Value

A Review of Price, Performance, Equity, and Category Dynamics

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EXECUTIVE SUMMARY

Arriving at an improved understanding of the role of price and value in influencing a brand's success is a critical component in measuring a brand's in-market performance. Most brand equity models do a reasonable job in describing the attitudinal components of a brand's profile, but it is often the case that a brand with strong equity scores can suffer a decline in market shares. Likewise, a brand with weak-looking equity can increase in share over time, or become a major player in its category. Store brands sometimes fall into this latter category.

Usually, when these exceptions occur, it seems that the proper relationship between the forces of price, quality, and relative product performance, are playing critical roles. In other words, how close a brand's product performance comes to the "best in class" brand, when weighed against its relative price, is being reflected in its share performance.

The purpose of this paper is to explore these dynamic forces, in order to improve our understanding of brand value. We will show that it is possible to combine price and quality into a highly predictive measure of value. We will also demonstrate that when value is combined with other critical measures of a brand's success, we can better understand why certain brands grow to larger shares. We believe that this work can help improve a brand manager's process of managing his brand asset.

Therefore, the objective of this paper is to summarize our work in

- finding a useful measure of brand value;
- using this measure of value in the creation of a predictive model of brand size, and brand growth/decline;
- determining the relationships between value and other key equity measures;
- learning about this combination of measures and how they can be used to improve the successful management of brands.

The work described here is based on a variety of databases from our Equity*Builder products: the Equity*Builder R&D database of 400+ brands and 400,000+ individual brand assessments, measured between 1998 and 2003, including FMCG and non-FMCG brands; and a new Price/Value database of 100+ FMCG brands, measured in 2003. The questions included in the dataset are: behavioral measures (incidence, constant sum of last five purchases), equity measures (familiarity, relevance, uniqueness, popularity, and quality), category involvement, price measures (perception, price comparison), and dependent variables (purchase interest and price sensitivity).

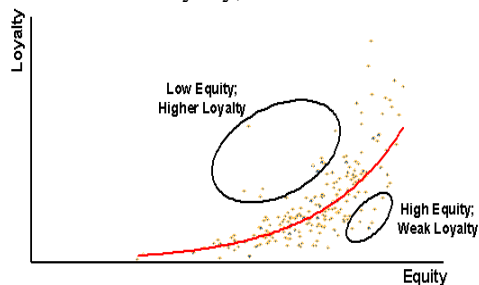
Definitions:

Loyalty: The behavior of buying the same brand many times

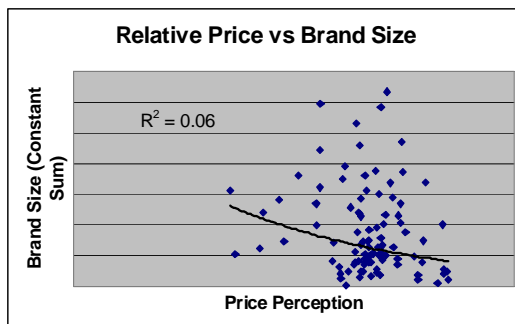
Equity: The attitudes, imagery, and emotions associated with a brand

Health: The in-market competitiveness or strength of the brand; equity in the context of pricing, category, sensitivity, and brand substitutability

We have chosen to separate the concepts of behavior and attitudes into two different measures. This is helpful because although attitudinal equity correlates with behavioral loyalty, we observe that not all brands with good equity provide good behavioral loyalty, and vice-versa.



We have learned that equity needs to be modified or adjusted by pricing, category involvement, and substitutability, to better understand purchasing. Overall, price alone has little relationship on purchase interest or purchase loyalty.



Many of the largest and most-successful brands are premium-priced. Marketers spend millions of dollars supporting these brands, not only in the form of advertising support of strong brand positions, but in the form of product development and related enhancements, to ensure that perceptions of product quality match the reality. In other

words, brand choice is not a function of price alone. It is a function of brand value.

MEASURING BRAND VALUE

Value is a simple equation. It is based on what you get for what you pay:

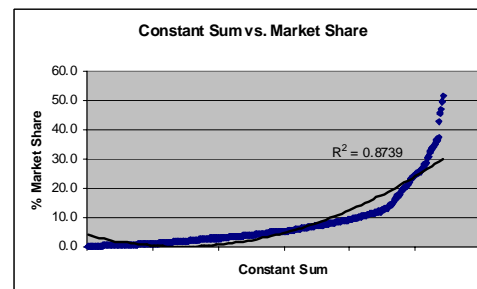
What you get

What you pay

For premium priced brands, we find that “what you get” is often equivalent to a brand’s equity. However, for lower-priced brands, “what you get” is better defined by product performance because these brands lack much attitudinal equity. Thus, the “simple equation” above is not so simple. The numerator changes in its meaning between the premium quality brands (equity) versus the cheaper price-brands (product performance).

OUR APPROACH

First, we chose market share (usage) to be the dependent variable for our analysis. That is, usage behavior is what we want to explain and describe. A standard measure of behavior in the Ipsos Equity*Builder suite is the constant sum (for example, “Please divide your last five purchases in this category among the brands.”) A constant sum question has been standard in Equity*Builder projects since the inception of the model. We have found that the constant sum acts as an excellent predictor of brand behavior and market share.



Base: 543 brands in the Equity*Builder database

DEFINING “WHAT YOU GET”

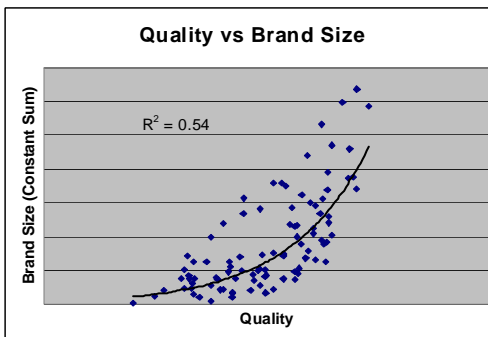
A brand supplies a variety of consumer wants and needs. We have found that the measures that best replicate this are found in a combination of product performance and measures of equity. As one example, we have found that—at least in the categories comprising the 2003 R&D database—product performance and perceived quality are highly related, at an R^2 of .95. Raw product performance measures and perceived quality measures correlate highly.



PREDICTING BRAND SIZE

The next step in our exploratory process was to determine the extent to which our measures could be used to predict brand shares, as estimated by the constant sum. We have already reviewed that the constant sum measure correlates well with market share. So what drives this constant sum?

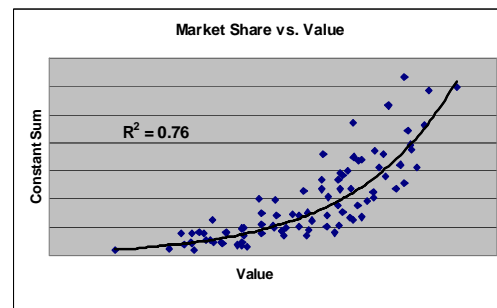
First, we determined that there is a reasonably strong relationship between measures of perceived quality (and/or perceived product performance) with brand size. In fact, it was also interesting that the relationship was not linear. Perceived quality, as a single measure, is able to predict 54% of the variance in market shares.



The next step in our modeling process was to attempt to improve the predictive power of our measures by combining the metrics of price and quality into one measure. In other words, it was our objective to define brand value, in operational terms, as follows:

$$\text{Brand Value} = \frac{\text{What you get}}{\text{What you pay}} = \frac{\text{Quality}}{\text{Price}}$$

It is possible to greatly increase the predictive power by the use of these measures. Value explains 76% of the variance in brand size.



CAN THE FIT BE IMPROVED?

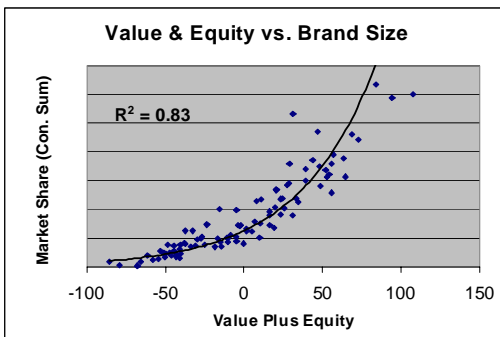
We also knew, based on prior R&D work, that not all variations in brand size or growth are likely to be explainable by perceptions in brand value alone. Other measures of equity also come into play. This prior work had indicated that, on average, measures of equity are influenced by a variety of contributing marketing and brand-building effects, including the product's performance, its packaging, the brand name, and its advertising.

	Explanation of Variance
Product Performance	44%
Pack Performance	15%
Brand Name	10%
Artwork	8%
Advertising	23%
TOTAL EQUITY	100%

As well, each of the key measures of equity has a strong and positive predictive relationship to brand size, but none is as strong as value. Here are the correlation coefficients:

	<u>R Squared coefficients to Brand Size</u>
Uniqueness	.44
Quality	.54
Popularity	.59
Familiarity	.65
Relevance	.74

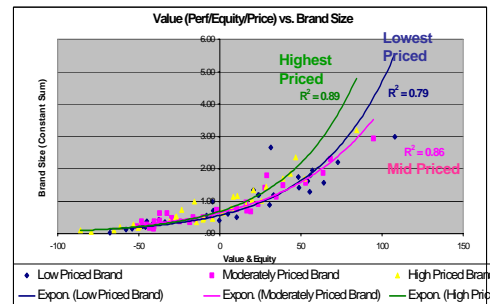
When a variety of Equity-related measures, including these, are weighted with brand value, it is possible to improve the model's predictability, to .83.



We have also been able to confirm that this relationship holds true across categories and across geographic boundaries. Here are the coefficients when this formula was applied to our original R&D databases, in categories such as household products, health & beauty aids (HBA)/personal care, and over-the-counter (OTC) medications:

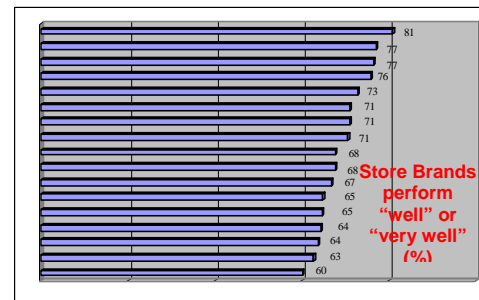
	<u>Predictive Relationship in:</u>
Household Products	.72
HBA/ Personal Care	.92
OTC Medications	.76

In addition, the relationship holds true for premium priced brands, to a slightly greater extent than mid-priced brands. And the weakest predictive relationship, at a still-high 79%, is observed for the lowest-priced brands.



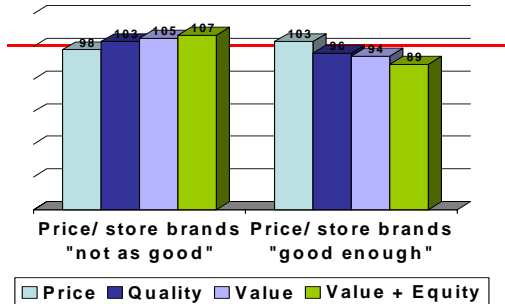
WHY PRICE BRANDS ARE SOMETIMES SUCCESSFUL

As part of this work, we also wanted to improve our understanding of the success of low-priced brands and store brands. There were 17 food categories in our 2003 dataset. In order to determine the extent to which low-priced/store brands were more or less likely to be successful, we asked consumers to tell us, in each category, whether or not they felt that low-priced /store brands were “good enough” to be considered. As you can see here, 60% to 80% of respondents, depending on the category, said that price or store brands perform “well” or “very well.” And this affects consumers’ willingness to buy them.



In categories where price brands are not perceived to perform well, the average quality of brands is perceived to be stronger. In other words, there is a category-level effect when it comes to quality perceptions. And as can be imagined, price brands and store brands tend to perform at a below-average level on the critical equity measures.

The following graph is the result of dividing the brands into three groups: (1) brands in categories where consumers feel that price/ store brands do not perform well, (2) brands in categories that are average on this question, and (3) brands in categories where price/ store brands do perform well. The average brands are not shown here, since their average indices were almost always close to 100. There were approximately 30 brands in each of the two groups of brands displayed here. As you can see, there is evidence of a clear category-level effect. In categories in which price and store brands are “good enough,” there was significant erosion in the key equity and value metrics for the main (national) brands.

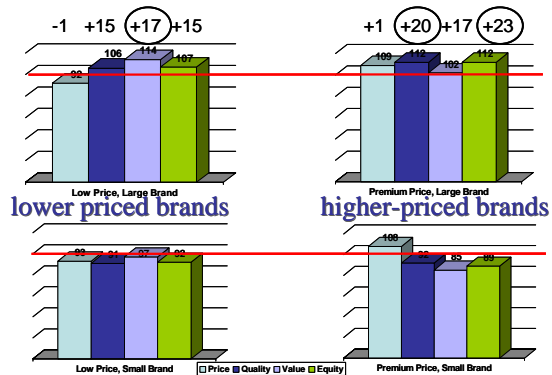


The next question in our investigation was whether or not this learning could be used in the prediction of brand growth. To do that, we took the Ipsos-ASI database and identified two basic groups of brands: the 100 brands with the highest perceived prices within their categories, and the 100 brands with the lowest perceived prices. We then subdivided these two groups of brands into two further subgroups of fifty brands each, based on their brand size (market share). Thus we were able to identify four groups, each comprised of 50 brands:

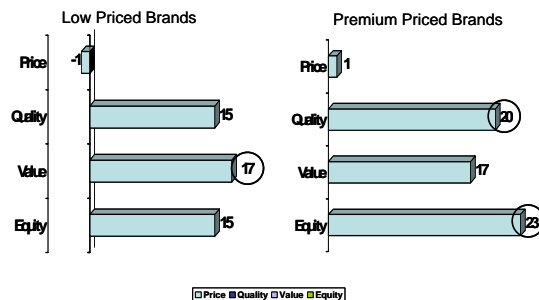
1. Large premium priced brands
2. Small premium priced brands
3. Large low-priced brands
4. Small low-priced brands

Then we calculated average indices of price, quality, value, and equity within each group. In the following graph, the two groups of lower priced brands are shown on the left side of the chart, while the premium-priced brands are shown on the right.

Smaller brands are arrayed along the two bottom quadrants, with the larger brands on top.



Price itself does not drive brand growth, neither among lower-priced brands nor among premium priced brands. Quality, value, and equity, however, all drive growth: all three metrics show significantly higher indices among larger brands than among smaller brands, regardless of overall price point. When the indices are compared between the lower and higher-priced brands, it can be seen that the key driver of brand growth for lower-priced brands is value. On the other hand, the key driver of brand growth for premium-priced brands is equity. Thus, in both cases, it appears that it is better to improve “What you get” than it is to minimize price



BUILDING A BRAND DEPENDS ON A FEW BASICS

Brand familiarity is the first step in building equity. Familiarity is a measure, which goes beyond simple awareness. Consumers must gain a fully developed understanding of the brand and its market position.

Uniqueness is somewhat important. A brand needs distinctiveness to justify and create its demand. Uniqueness can be based on price, but the brand needs to distinguish itself on more than price alone to be successful. A brand that is too unique runs the risk of becoming a niche brand.

Relevance has the highest load factor in our model. There must be a close fit between the needs in the category and the brand positioning. If so, brand relevance will grow. For price brands, uniqueness is often low. Relevance must be driven by a strong value equation for the brand to grow.

CONCLUSION

Managing a brand represents a careful balancing act among the three basic elements: performance and quality (versus the “good enough” brand alternatives); advertising/emotional equity/salience; and price/price gap and value.

Price is not as important as value. A premium priced-brand can be successful, provided that it maintains a performance/equity gap with cheaper alternatives. Attitudinal equity can often be built by advertising. Advertising has the power to differentiate the brand via emotions and imagery. But there is a limit to how much of a price gap a premium-priced brand can maintain before the price gap creates an impression that the brand is too expensive. In such a case, the cheaper price brands (and store brands) can grow based on their value perceptions. It is important to monitor the relative performance of price brands over time, and the balance of over-engineering the premium brand in order to anticipate the point at which value tips. Over-engineering a brand and raising prices to justify it may erode the brand’s value equation.

ABOUT IPSOS-ASI

Ipsos-ASI, the Advertising Research Company, is the Ipsos Group’s dedicated brand and advertising research arm, which provides global and regional marketers a full range of brand equity and advertising research services in North America, Europe, Latin America, and Asia. Ipsos-ASI is a

leading provider of brand equity and advertising research, and works with more top 100 advertisers than any other brand /advertising research company, with a focused goal of helping our clients build strong brands with strong perceived equity.

ABOUT THE AUTHOR

John Hallward co-founded Tandemar Research in 1986 after working at Procter & Gamble and Johnson & Johnson. Tandemar joined the Ipsos Group in 2000, and was aligned with Ipsos-ASI to specialize in advertising research. John is now responsible for product development within Ipsos-ASI worldwide, focusing on copy testing, Equity*Builder for brand health, and in-market tracking.