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profit's, or your personal brand.

BRAND EQUITY

LO 14-2

Describe the relevance of brand equity for marketers.

Large U.S. firms typically spend millions of dollars each year developing and promoting their brand in an effort to increase brand equity. **Brand equity** is the value the firm derives from consumers' positive perception of its products. Brand equity increases the likelihood that the consumer will purchase the firm's brand rather than a competing brand.

brand equity
The value the firm derives from consumers' positive perception of its products.

Young and Rubicam, a global advertising agency, developed the BrandAsset Valuator, which suggests that brand equity is based on four dimensions, as illustrated in Figure 14.1: differentiation, relevance, esteem, and knowledge.[4] Firms with high brand equity, like Apple and Disney, rate highly in these dimensions: They clearly stand apart from competitors (*differentiation*); are relevant to a large segment of consumers (*relevance*); are well known (*knowledge*); and are positively thought of by the majority of their target markets (*esteem*). Organizations with high brand equity enjoy significant advantages over other firms.

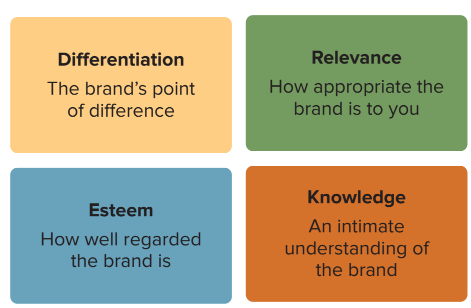
Benefits of Brand Equity

High brand equity is an asset to an organization; it provides three major benefits to marketers:

1. ***Brand equity increases a firm's ability to succeed in a difficult competitive environment.*** Competitors of all sizes try to tempt consumers with new features, catchy slogans, and reduced prices. A consumer who has tried and likes a product has brand loyalty and is more likely to continue to buy it, regardless of outside influences.
2. ***Brand equity facilitates a brand's expansion into new markets.*** For example, Microsoft's brand equity helped facilitate its move into the video game industry when it introduced its Xbox gaming system. Microsoft's relevance and knowledge as a technology leader helped the Xbox gain popularity and in a relatively short time vault ahead of established gaming-focused companies like Nintendo.[5]
3. ***Brand equity can contribute to positive perceptions of product quality.*** Mercedes-Benz, another company that is near the top of brand equity rankings, benefits from the fact that most consumers consider a new automobile introduced by the company to be of the highest quality, even before they have had any interaction with it.[6]

Each of the benefits of brand equity discussed also applies to your personal brand. If the work you produce for your employer is of significant value and builds your personal brand equity, the firm will be much more likely to view your future work as high quality; as a result, you are more likely to be promoted to a new position. High personal brand equity translates into a larger salary and more career opportunities than you might have received otherwise.

FIGURE 14.1 The Four Dimensions of the BrandAsset Valuator



Source: Y&R, "Y&R BrandAsset Valuator," n.d., http://young-rubicam.de/tools-wissen/tools/brandasset-valuator/?lang=en.

Microsoft has been ranked near the top of a list of firms with the highest brand equity and sees many benefits as a result, including the ability for its products like Xbox to succeed in a very competitive industry. *Barone Firenze/Shutterstock*

As you seek to establish personal brand equity, you must have a way to identify it and measure it. You may do so through formal performance reviews with your supervisor as well as casual conversations with colleagues. Similarly, firms looking to create brand equity use various techniques to define and quantify it. In the next section, we'll discuss some of the common qualitative and quantitative techniques firms use.

Measuring Brand Equity

marketing analytics

Measuring brand equity is fundamental to understanding how to build and manage a brand over time. Companies use several qualitative and quantitative research methods to measure brand equity.

Companies like Taco Bell can measure their brand equity using free association or projective techniques. Consider for a moment what comes to your mind when you hear the name *Taco Bell*. *Stan Rohrer/Alamy Stock Photo*

Qualitative Methods to Measure Brand Equity Qualitative research is particularly helpful in identifying the sources of brand equity and its role in consumer decisions.[7] Two important qualitative research methods are free association and projective techniques.

Free association involves asking consumers what comes to mind when they think about the brand.[8] For example, consumers participating in a focus group might be asked to list what comes to mind when they hear the word *Lexus.* They may respond with words and phrases such as *luxury, high quality,* or *very stylish.* These responses give marketers insight into what consumers think of the firm's brand and whether those associations are consistent with the firm's marketing-mix strategies.

Projective techniques are tools used to uncover the true opinions and feelings of consumers when they are unwilling or otherwise unable to express themselves.[9]

A common projective strategy involves asking a consumer to compare a brand to a person, animal, car, or country. For example, a consumer may be asked, "If Microsoft was a car, what kind of car would it be?" If the consumer likens Microsoft to a sports car, it might suggest that the consumer considers Microsoft a fast-moving, exciting brand. However, if the consumer compares Microsoft to a minivan, the consumer may believe Microsoft is a conservative, reliable brand that's less exciting than other tech firms like Apple or Google.

Quantitative Methods to Measure Brand Equity Qualitative techniques can provide interesting, in-depth consumer insights. But they typically involve very small samples of consumers, whose perceptions may not be generalizable to those of the larger population. In an effort to get a more complete understanding of brand equity, marketers also use several quantitative research techniques. Two common quantitative research techniques focus on measuring consumers' recognition and recall of specific brands.

Brand recognition research helps marketers understand two things: (1) which brands stand out in a consumer's memory and (2) the strength of his or her association with the brand. One basic type of brand recognition measure presents a list of single product names, images, or slogans in a survey and asks consumers to identify which items they've previously seen or heard of. Marketers typically include decoys in the list, items that consumers could not possibly have seen. The decoys allow marketers to tell if consumers are truly able to identify the brands they've seen and to distinguish between those and brands they have not been exposed to.

Brand recall refers to consumers' ability to identify the brand under a variety of circumstances.[10] Researchers often use cues to understand brand recall, such as, "When you think of great pizza, what brands come to mind?" Brand recall measures can be used to determine whether consumers consider the firm's brand when they are planning to make a purchase, and if so, whether they think of the firm's brand before they think of competing brands.

It is important to understand the link between brand equity and other important outcomes such as *customer lifetime value.* **Customer lifetime value (CLV)** is the total amount a customer will spend from acquisition through the end of a relationship with a brand. CLV can be calculated using the following formula:

customer lifetime value (CLV)
The total amount a customer will spend from acquisition through the end of a relationship with a brand.

$$\begin{aligned} \textit{Customer lifetime value (CLV)} &= \textit{Average value of a sale} \\ &\times \textit{Number of repeat transactions} \\ &\times \textit{Average retention time in months} \\ &\quad \textit{or years for a typical customer} \end{aligned}$$

For example, a local gym may offer special pricing to attract new residents in the community to become members. The marketers for the gym are willing to offer the first two months free because they know the average gym member will pay $20 per month every month for five years on average. As such, each new member whom the gym signs up can expect to generate $1,200 in revenue for the brand during their lifetime as a customer:

$$\begin{aligned} \textit{\$20 (average value of a sale)} &\times \textit{12 months (repeat transactions per year)} \\ &\times \textit{5 years (average retention time)} \\ &= \textit{\$1,200 customer lifetime value} \end{aligned}$$

Research has shown that brand equity has a predictable and meaningful impact on customer lifetime value and that marketing activities that built brand equity exerted both direct and indirect impacts on CLV. Marketers can use analytics to measure how effective different marketing tools, such as promotional strategies or pricing changes, are in building brand equity.[11]

As with any kind of marketing research, the tools for measuring brand equity have both advantages and disadvantages. Which method a company chooses depends on the costs of pursuing the research relative to the benefits from any insights uncovered. Firms use these insights to gauge the current strength of the brand. The insights also may reveal how firms may need to modify their brand strategy to be more successful in the future.