



Branding: Functional and Psychological Value

Session 9

Marketing Management

Prof. Natalie Mizik

- "Our company's name and trademarks are by far our most valuable assets."
 - Johnson and Johnson Corporate Management

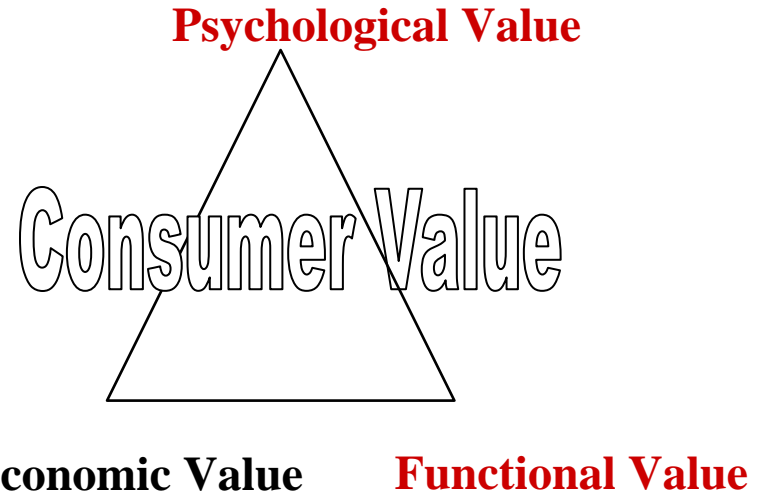
Outline

Functional Value

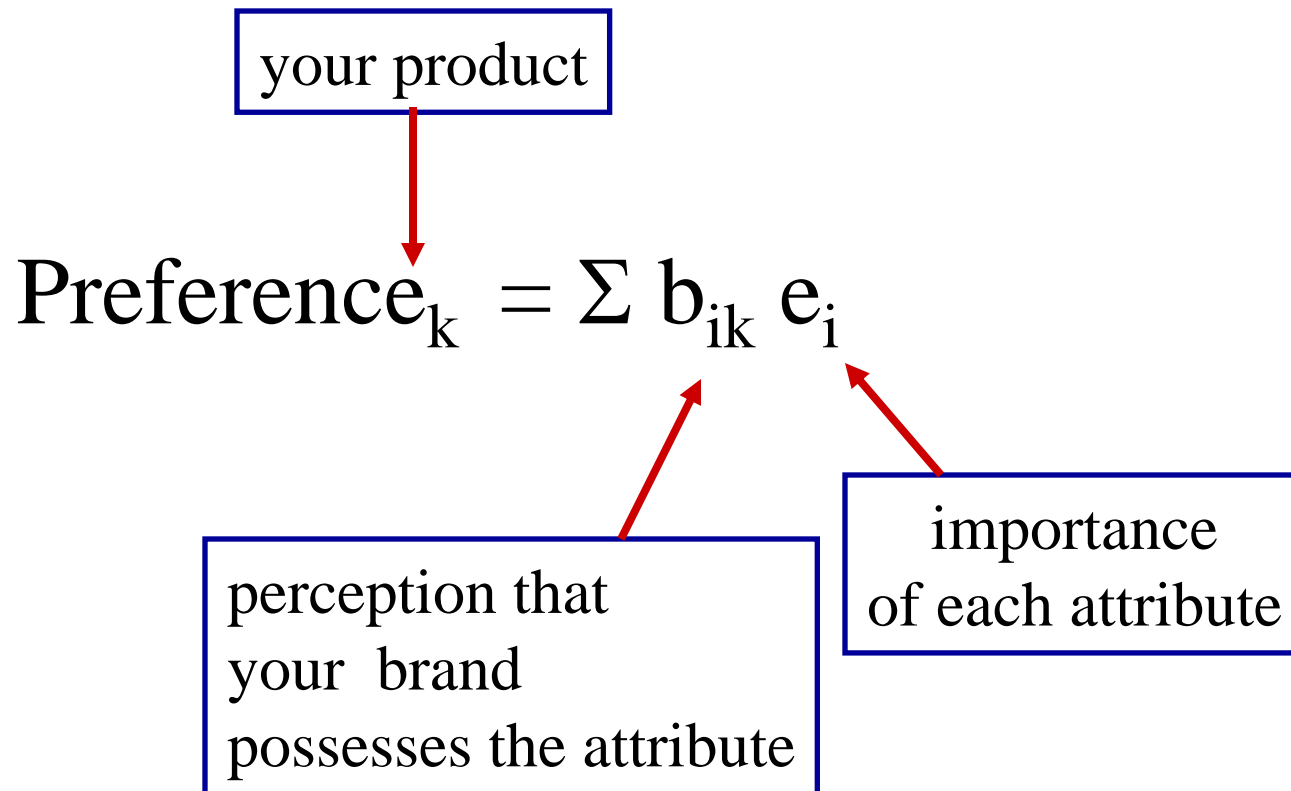
The multi-attribute model
Conjoint Analysis

Psychological Value: Branding

What is a brand?
How do you extend a strong brand?
How do you place a value on a brand?



Functional Value: Multi-Attribute Model



Products have Psychological Value

What is a Brand?

- . . . A name, term, sign, symbol, or design, or a combination of them intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition.
- . . . A promise that a firm makes to its customers.

Importance of Brands

- *“What’s in a name? That which we call a rose by any other name would smell as sweet.”*

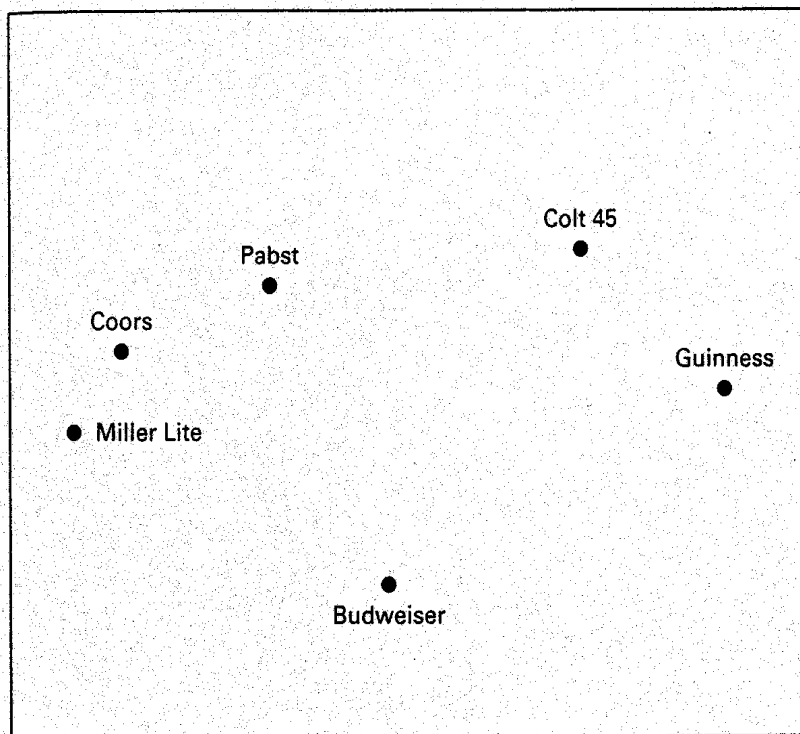
- William Shakespeare

- “Shakespeare was wrong. A rose by any other name would not smell as sweet ... which is why the single most important decision in marketing of perfume is the name.

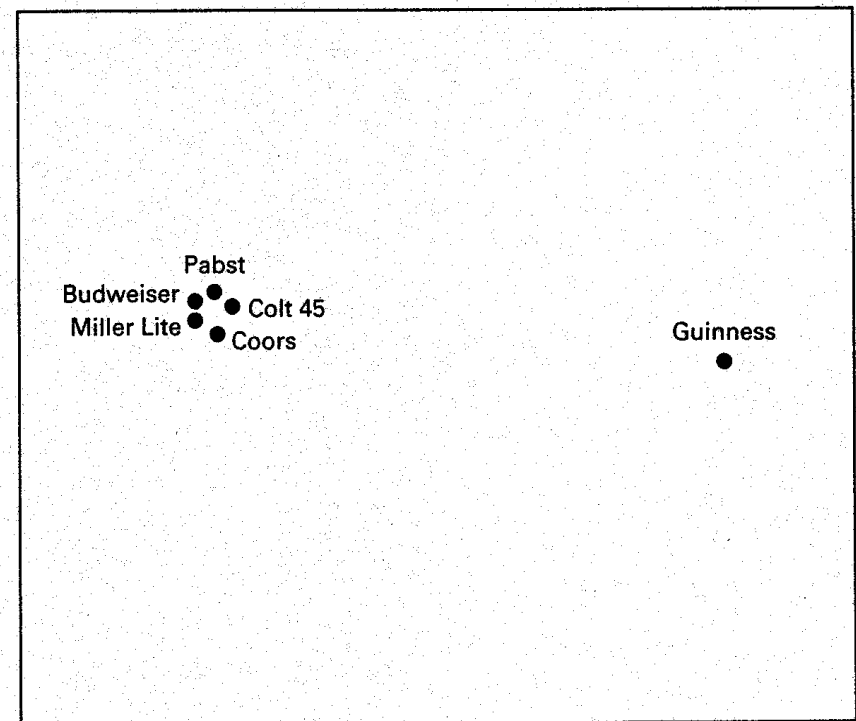
- Al Ries and Jack Trout, Marketing Warfare

Importance of Brands:

Brands impact how we experience products



A. Taste Perceptions of Six Beer Brands When the Drinker Knows What He Is Drinking



B. Taste Perceptions of Six Beer Brands When the Drinker Does **Not** Know What He Is Drinking

FIGURE 2-2 Results of "Blind" Beer Taste Tests

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Power of Brands: Brand Equity = Financial Power

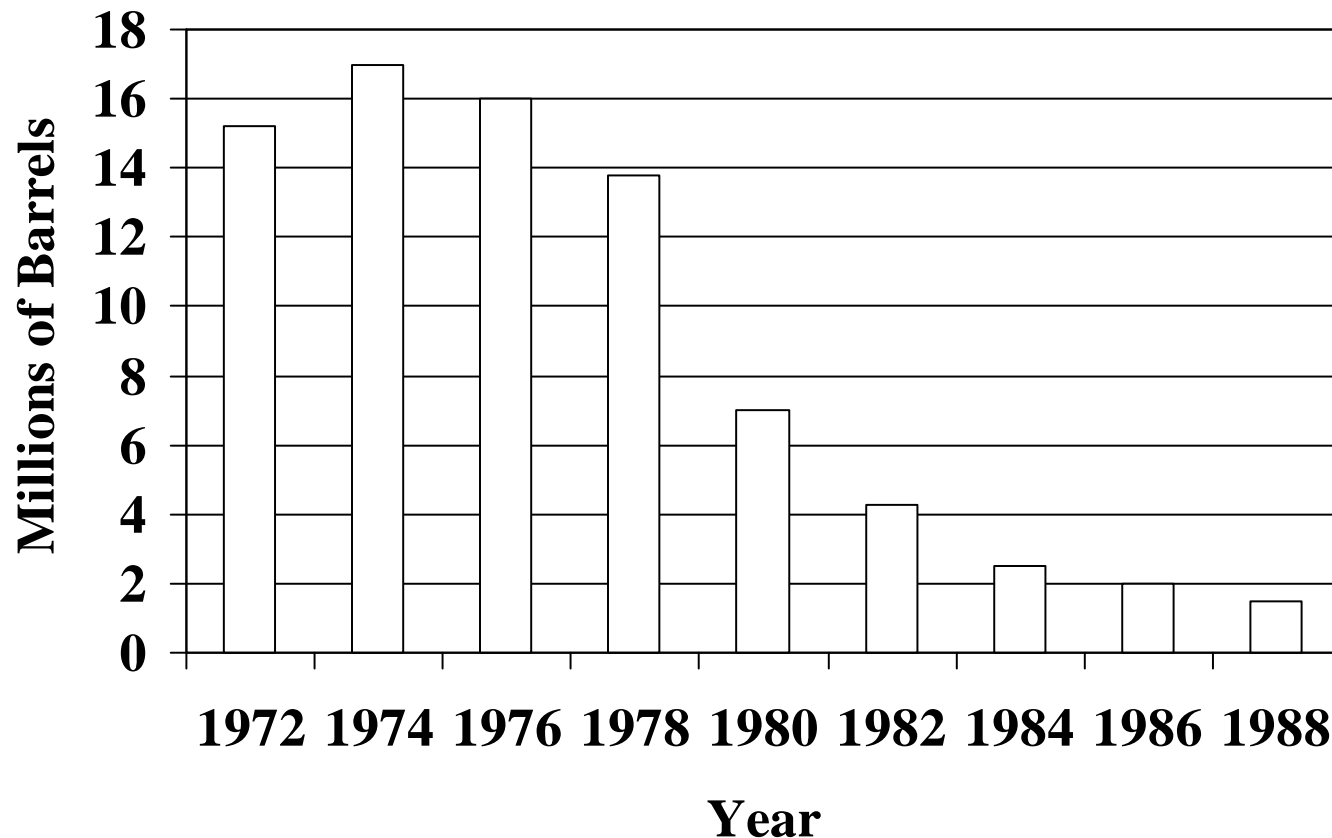
- **Consumer based**
 - Loyalty, reduced price sensitivity
- **Product market based**
 - Product differentiation
 - Price premium over unbranded alternatives
 - Barriers to competition
 - Ability to extend brand name to other categories
 - Leverage in distribution channels
- **Financial market based**
 - Willingness of firms to pay for established brands
 - Cost of “creating” a new brand
 - Value from licensing
- Half of market value of Fortune 250 is in intangible assets

Brand Salience:

Brand Name, Awareness and Associations

- Awareness ⇒ Familiarity ⇒ Attitude
- Inhibits recall of competing products
- Stays in consumer memory for a long time
- Names, symbols and slogans create associations which aid memory

Managing Brand Equity: Schlitz Beer Sales



Source: David Aaker (1991), *Managing Brand Equity*

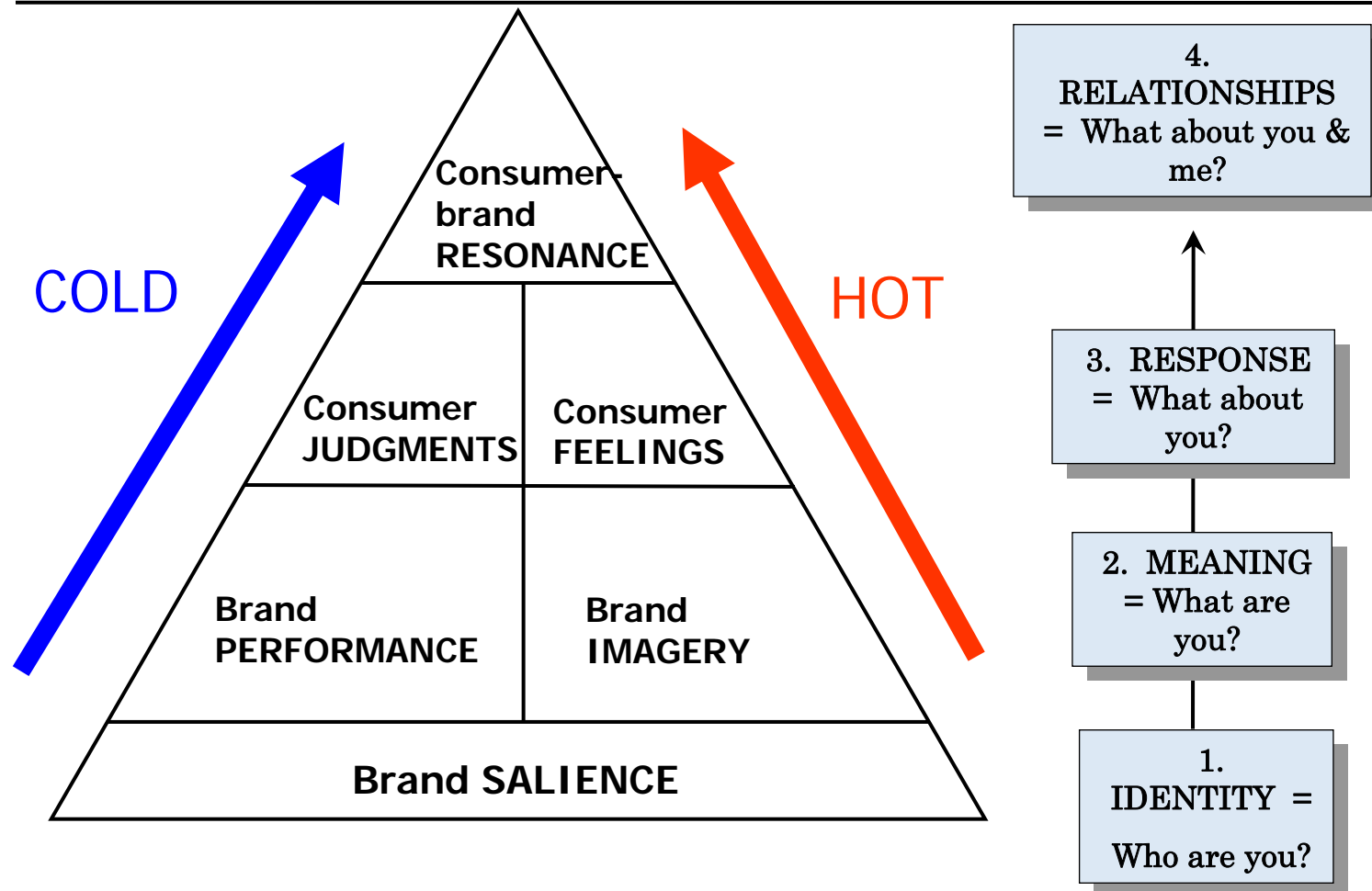
Building Brand Equity

- . . . Response to a product due to brand name over and above other aspects of the product offering.
- **Having it is good (we know this), but how do you build it (we don't know this so well)?**

Geo Prizm & Toyota Corolla are
"twin cars"

Both are manufactured in the same
factory in Fremont California. The
Toyota costs \$400 more and sales are
5 times higher for the Corolla. Toyota
earns 108M dollars more than GM.

Core Brand Values Pyramid



EXAMPLE: (COLD path of pyramid)

Building utilitarian associations with a brand

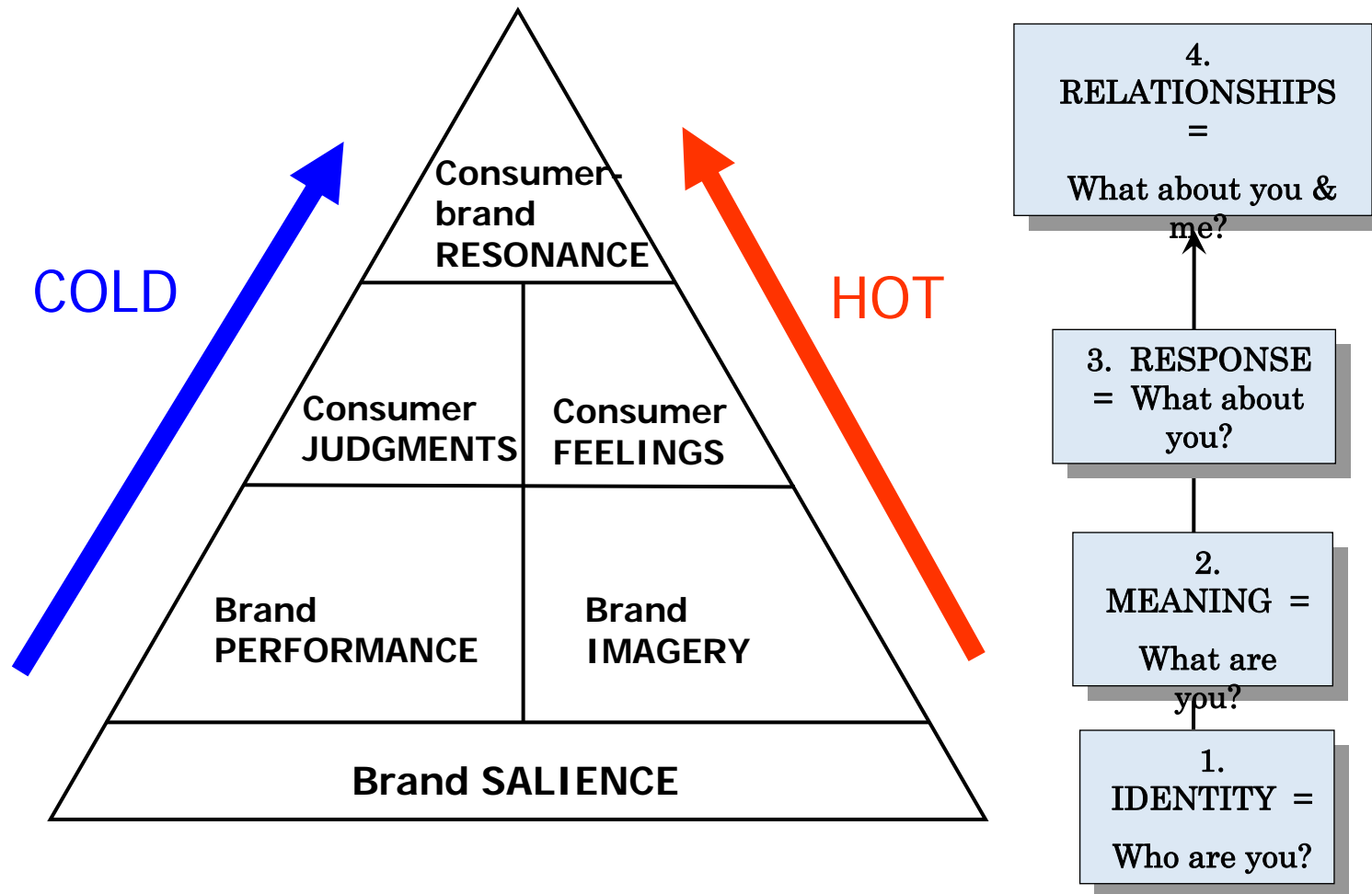
- Cadillac transforming image via performance
 - From Car and Driver Review:
 - “With a folding hardtop that completely disappears at the touch of a button, the XLR presents a sleek and clean profile”
 - “Under the XLR’s hood lies its most significant major mechanical distinction – the 4.6 liter Northstar V-8...upgraded in a variety of ways for improved performance, emissions, and fuel economy”
 - New ad strategy is to move from heritage—classic Caddies morphing into models—to performance (engineering and speed)
- Benefits to revitalizing the Cadillac brand
 - Average age of buyers has dropped
 - Resale values are rising

EXAMPLE: (HOT path of pyramid)

Building Imagery and Feelings to a Brand

- MasterCard and the Priceless Campaign
 - Visa and American Express were targeting high end
 - Yet – there was an increase in purchasing power of “Middle Class” Americans.
 - THEME: “Living the good life...was not the accumulation of material things, but the sharing of meaningful moments with loved ones and close friends.”
 - CATCH PHRASE: “There are some things money can’t buy. For everything else there’s MasterCard.”
 - BENEFITS:
 - Global Reach: Variations in 96 countries / 45 languages
 - Accepted at more locations around the world than any other card
 - # of Cards in US: MasterCard 319 Mil > Visa (270 Mil)

Reminder: where we are



Resonance: Brand Communities

- 3 core components of a community

Shared consciousness : members feel they sort of know each other

- “Who else drives Broncos: Guys like myself and guys who like engines...”

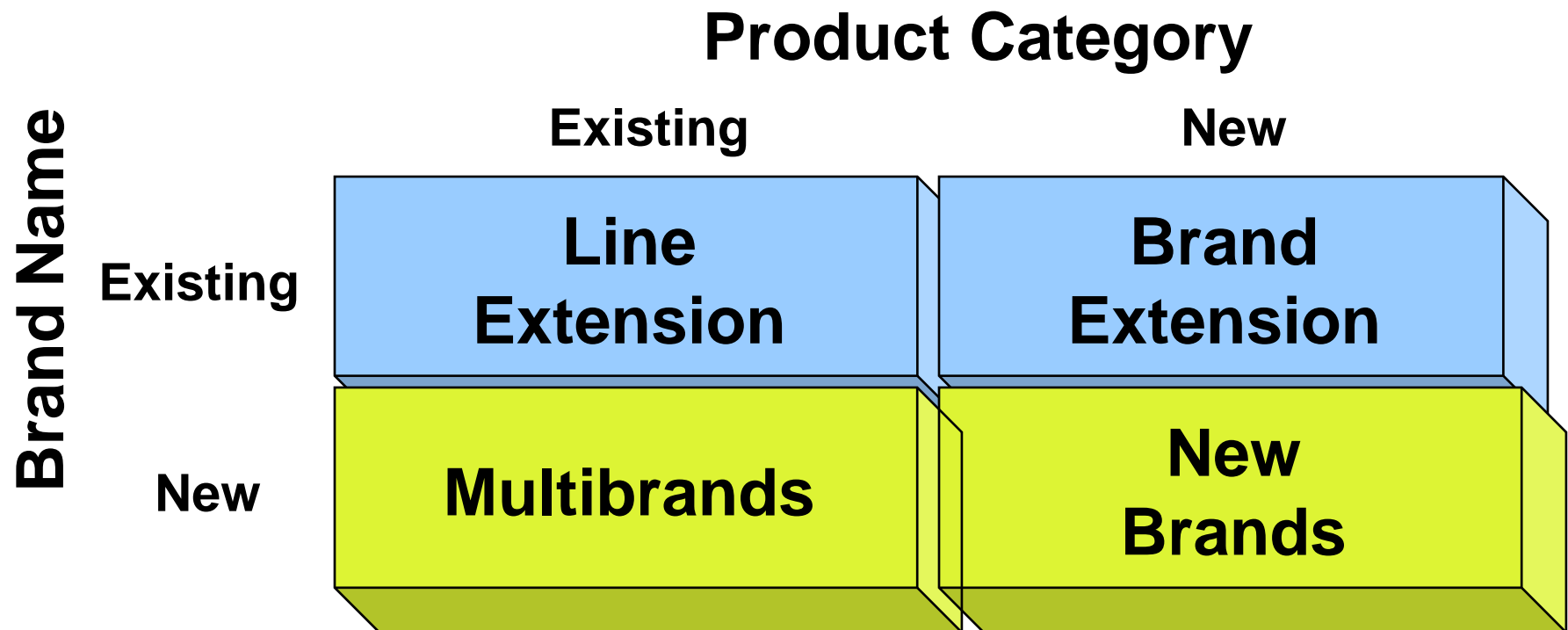
Rituals and traditions: way in which meaning of community is reproduced

- “If you drove a Saab, whenever you passed someone else driving a Saab on the road, you beeped or flashed your lights.”

Sense of moral responsibility: sense of duty to community as a whole

- “we see another Saab on the road, we pull over and help, no matter what it is”

Brand Extension



Extending a brand name may . . .

- Provide a point of differentiation
 - e.g., Weight Watchers
- Aid in gaining awareness
(less expensively)
 - e.g., Hershey pudding,
 - Starbucks ice cream, instant
- Aid in communication of complex idea
- Induce trial/reduce risk
- Increase favorability of evaluation

House of Brands vs. Branded House: Example of “Umbrella” Branding

- What company sells:
 - Airline travel
 - Credit cards
 - Cola
 - Vodka
 - Wedding coordination services
 - Movies (theatre)

**Brands are
Important and Powerful,**

but

**The trouble with Brand Equity is
that it has no consistent meaning....
No one knows how to measure it...**

Brand Valuation:

There are three main brand consultancies (among many) producing annual brand rankings:

Interbrand "Best Global Brands"

Published in *Business Week* in September
(since 2010 published in WSJ)

Millward Brown "Top 100 Lists"

Published in the Financial Times in April

Brand Finance "The World's 500 Most Valuable Brands"

Published on their website in April

**Interbrand and Millward Brown use the earnings split approach;
Brand Finance uses relief from royalty**

Highly Divergent Estimates of Brand Value

Brand	IB BV 09	Brand	MB BV 09	Brand	BF BV 09
Coca-Cola	68,734	Google	100,039	Wal-Mart	40,616
IBM	60,211	Microsoft	76,249	Coca-Cola	32,728
Microsoft	56,647	Coca-Cola	67,625	IBM	31,530
GE	47,777	IBM	66,622	Microsoft	30,882
Nokia	34,864	McDonald's	66,575	Google	29,261
McDonald's	32,275	Apple	63,113	GE	26,654
Google	31,980	China Mobile	61,283	HSBC	25,364
Toyota	31,330	GE	59,793	Vodafone	24,647
Intel	30,636	Vodafone	53,727	Hewlett-Packard	23,837
Disney	28,447	Marlboro	49,460	Toyota	21,995
Hewlett-Packard	24,096	Wal-Mart	41,803	Bank of America	21,017
Mercedes	23,867	ICBC	38,056	McDonald's	20,003
Gillette	22,841	Nokia	35,163	Nokia	19,889
Cisco Systems	22,030	Toyota	29,907	AT&T	19,850
BMW	21,671	UPS	27,842	Verizon Wireless	18,854
Louis Vuitton	21,120	Blackberry	27,478	China Mobile	17,196
Marlboro	19,010	Hewlett-Packard	26,745	Orange	16,799
Honda	17,803	BMW	23,948	Disney	16,750
Samsung	17,518	SAP	23,615	Budweiser	16,692
Apple	15,443	Disney	23,110	Tesco	16,408

Source: Type 2 Consulting

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No Agreement on the Direction of Change

Brand	09 vs 08 I'BRAND	09 vs 08 M BROWN	09 vs 08 B FINANCE	Sign change consistent?
Coca-Cola	3%	16%	-28%	NO
Microsoft	-4%	8%	-31%	NO
Google	25%	16%	-32%	NO
IBM	2%	20%	-17%	NO
GE	-10%	-16%	-26%	YES
McDonald's	4%	34%	-8%	NO
Apple	13%	14%	-37%	NO
Nokia	-3%	-20%	-40%	YES
Toyota	-8%	-15%	-16%	YES
Hewlett-Packard	2%	-9%	-30%	NO
Disney	-3%	-3%	-15%	YES
Intel	-2%	4%	-45%	NO
BMW	-7%	-15%	-21%	YES
HSBC	-20%	3%	-28%	NO
Gillette	3%	6%	-75%	NO
UPS	-8%	18%	-20%	NO
Cisco Systems	3%	-25%	-40%	NO
Mercedes	-7%	-14%	-51%	YES
Oracle	-1%	-6%	17%	NO
Pepsi	3%	-3%	-38%	NO

Source: Type 2 Consulting



Measuring Brand Value: Customer Based-Approaches

- Indirect approaches
 - Brand awareness and association measures
- Direct approaches
 - “Brand blind” experiments
 - Willingness to pay
 - Conjoint analysis

Brand	Price Premium \$
IBM	295
Compaq	232
Apple	195
Dell	92
HP	76

Source: McKinsey & Company, 1995

$$U_{IBM} = BE_{IBM} + a_1 speed + a_2 memory + \dots \quad BE_{IBM} = U_{IBM} - U_{Base-Brand}$$

$$U_{Base-Brand} = a_1 speed + a_2 memory + \dots$$

Measuring Brand Value: Accounting and Financial Market-Based Approaches

- “Goodwill” in balance sheet
- Acquisition cost - Tangible assets
- Cost of launching new, successful brand
- Earnings split method
- Stock Market Response to change in Brand quality/ awareness/ perceptions/ etc. measures

Brand Value and Market Value

Do brand perceptions affect capital market valuation?

- Data: 2000-2006 (perceived brand **Differentiation, Relevance, Esteem, Knowledge, Energy**)
- Method: Regression-based model
- Results: brand perceptions data significantly improves enterprise valuation accuracy: % improvement in mean absolute forecast error by sector

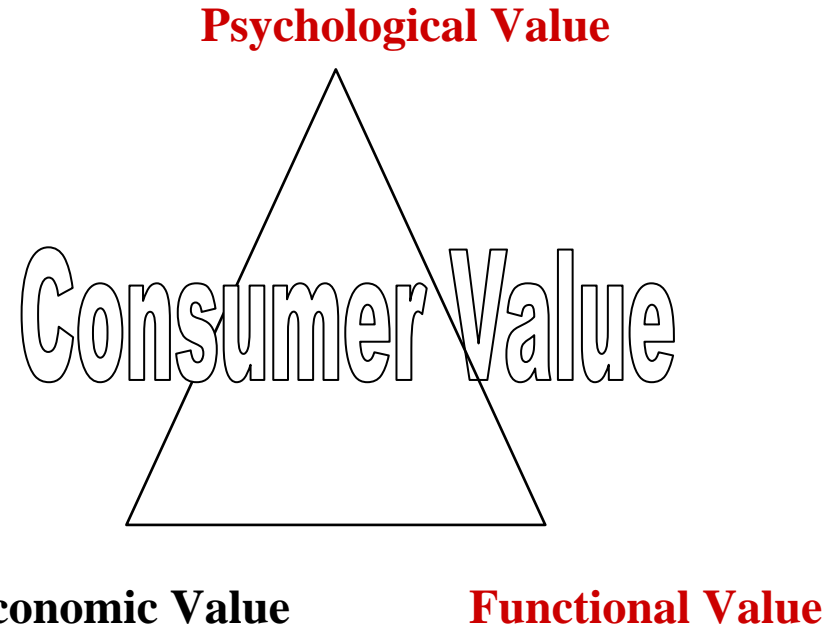
(1)	industrial	17.4%
(2)	finance	7.6%
(3)	retail, apparel	2.4%
(4)	high-tech	7.0%
(5)	nondurables	9.3%
(6)	durables	30.2%
(7)	travel, transport	15.7%

Mizik, Natalie and Robert Jacobson (2009), “Valuing Branded Businesses,” *Journal of Marketing*, 73 (6), 137-153

Mizik, Natalie and Robert Jacobson (2008), “The Financial Value Impact of Perceptual Brand Attributes,” *Journal of Marketing Research*, 45 (1), 15-32

Conclusion

- Functional value
 - multiattribute model
 - conjoint analysis
- Brands are valuable assets
- Key elements of customer state-of-mind brand value:
 - awareness
 - perceptions
 - associations
- Measuring brand value is possible, though more refinements are needed
- Brands value needs to be managed and enhanced



15.846: Branding

- **This course will provide you with the tools to manage brands in unpredictable markets.**
 - Cases from a variety of industries.
 - Examine brands at various stages in the life cycle (from start-up, to mature, and in-between).
 - Quantitative and qualitative methods.
 - Relevant to novices and experienced brand managers, people interested careers in Brand Management, Consulting, Media, Advertising*, Entrepreneurs, and anyone who has ever purchased a branded item.

**Sorry, you will not be trained to be the next Don Draper.*

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