"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
- 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

Preference\textsubscript{k} = \sum b_{ik} e_i

- your product
- perception that your brand possesses the attribute
- importance of each attribute
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
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 $\rightarrow$ Familiarity $\rightarrow$ 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

1. **IDENTITY** = Who are you?

2. **MEANING** = What are you?

3. **RESPONSE** = What about you?

4. **RELATIONSHIPS** = What about you & me?

**Core Brand Values Pyramid**

- **Brand SALIENCE**
  - **Brand PERFORMANCE**
  - **Brand IMAGERY**
  - **Consumer FEELINGS**
  - **Consumer JUDGMENTS**
- **Consumer-brand RESONANCE**

**HOT**

**COLD**

by Kevin Keller

Prof. Natalie Mizik – 2010 MIT 15.810
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

1. **IDENTITY** = Who are you?
2. **MEANING** = What are you?
3. **RESPONSE** = What about you?
4. **RELATIONSHIPS** = What about you & me?
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

Product Category

Existing

New

Line Extension

Brand Extension

Existing

New

Multibrands

New Brands
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

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<th>Brand</th>
<th>IB BV 09</th>
<th>Brand</th>
<th>MB BV 09</th>
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Source: Type 2 Consulting
## No Agreement on the Direction of Change

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<td>Google</td>
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Source: Type 2 Consulting

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Measuring Brand Value: Customer Based-Approaches

- Indirect approaches
  - Brand awareness and association measures

- Direct approaches
  - “Brand blind” experiments
  - Willingness to pay
  - Conjoint analysis

\[
U_{IBM} = BE_{IBM} + a_1 \text{speed} + a_2 \text{memory} + \ldots
\]

\[
U_{Base-Brand} = a_1 \text{speed} + a_2 \text{memory} + \ldots
\]

\[
BE_{IBM} = U_{IBM} - U_{Base-Brand}
\]

<table>
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<tr>
<th>Brand</th>
<th>Price Premium $</th>
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<td>HP</td>
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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

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<tr>
<th>Sector</th>
<th>Improvement</th>
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<tr>
<td>finance</td>
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</table>

Conclusion

- Functional value
  - multiattribute model
  - conjoint analysis
- Brand 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.*