

Story 2189

Title: Brand Leadership in the New Economy

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Editor's Introduction

How can companies measure and manage the value of their brands as assets in the changing rules of a new economy? In June of 2000, the Center on Global Brand Leadership at Columbia Business School presented a two-day conference on brand valuations, which brought together academic researchers and industry practitioners. Karen Vrotsos, a business writer and doctoral candidate at Columbia University, provides an overview of the conference in this Fathom essay.

Story

In the 1990s, one of the key issues of concern to business managers was branding--how to promote, manage and profit from the brands that identified their products and services to customers, be they the Nike swoosh, the Coca-Cola logo or the confidence that computer consumers place in the words "Intel inside." At the start of a new decade, as the world economy shifts dramatically in response to the rise of Internet technologies and an increasingly digital marketplace, brands continue to be seen as crucial. But businesses face a host of new challenges now in managing their brands on a global scale and in the new marketplace of the Internet.

In June of 2000, Columbia Business School's Center on Global Brand Leadership, directed by Prof. Bernd Schmitt, hosted a two-day conference dedicated to the topic of "brand valuations"--how companies can measure the value of their brands as assets, and manage that value under the changing rules of a new economy. It was part of a series of summer conferences that also included events at the affiliated Centers on Global Brand Leadership at the University of Munich in Germany and at China Europe International Business School (CEIBS) in Shanghai, China. At the conference in New York, the audience brought together executives from a wide range of industries--including financial services, technology, durable goods, packaged goods, pharmaceuticals, media and utilities--as well as consultants in design, advertising, brand strategy and corporate identity, and researchers from academic institutions in the US and abroad.

Chuck Pettis, author of *TechnoBrands* and president of Brand-Solutions, Inc., was the keynote speaker of the first day, speaking on "Using Brand Strategy to Increase Stock Price." He began by defining a brand as: a trademark, a name or logo; a trustmark; a promise to the customer; and a perceptual identity that exists in the minds and hearts of a company's customers, employees and suppliers. A brand consists of the proprietary visual, rational, emotional and cultural image surrounding a company, organization, product or person. A brand implies a quality product and marketing, and its purpose is to differentiate, to provide a springboard for new products, to maintain enduring profitable growth and to increase perceived value--i.e., to enable premium pricing (for example, customers are willing to pay nearly twice as much for a Coke as for a generic soda even if there is little discernable difference between the products themselves). Brand equity also affects stock price, and brand strategy programs will produce positive stock market return.

Pettis argued that the entry point for all brand strategy activities is brand identity development. A strategy must focus on the most compelling aspects of the brand (purchase factors, selling message, organizational values, etc.) and then link brand identity to operations. He gave the example of Sun Microsystems, which

expanded from manufacturing technical workstations and repositioned itself as a maker of computers and business servers. Sun capitalized on its brand equity, reinventing itself under the name Sun Ultra Enterprise Servers. Analysts issued "buy" recommendations, and Morgan Stanley predicted the stock would climb to \$70. In two weeks, the stock rose from \$47 to \$67, making headlines in the *Wall Street Journal*. Simon, the leading developer and manager of shopping malls in the US, provided another example. In 1999, the company was virtually unknown to shoppers. No mall management category existed. By launching a brand identity campaign--"Simon. Simply the best shopping there is"--name recognition was increased to 53 percent of shoppers by January 2000. Simon now rules the mall category and commands a \$37-per-square-foot margin over the industry average, making brand equity profitable as well as forceful in stock market valuation.

For a variety of reasons, brand extension also drives stock price. It is less expensive to extend a brand (The Gap to Baby Gap and Gap Maternity) than it is to launch a new brand; good trademarks are not easily found; extensions can circumvent strong competition for distribution and gain quick acceptance of products. A brand extension introduced under conditions of high brand awareness and positive brand attitude can increase stock prices by as much as 9 percent. However, Pettis warned, if you introduce a defective product or a product that is too far afield from your category, you run the risk of actually reducing brand equity.

Pettis also examined the effects of "quality" brand building for 34 major US corporations and found that an increase in perceived quality would also increase stock return. When Intel, the microprocessor manufacturer, began advertising its products based on quality, consumers began to demand computers with Intel processors, enabling an increase in price and driving up stock value.

Another strategy to increase stock price is the announcement of advertising slogans and ad changes. On average, these brought a 15 percent increase in market cap and resulted in substantial increases in firms' annual profits. Ad

changes must, however, be publicized effectively and appropriately to reap these benefits.

Name change can also signal improved profit performances and increase stock price because name changes are often perceived as signaling a change in activities or other improvements. For example, on March 1, 1999, InfoSpace.com announced that it was dropping its "dot com" to become InfoSpace. It publicized the change as a reflection of its "position as a leading global infrastructure company for both the online and offline worlds." Within a few days, InfoSpace's stock price rose from 217 to 261.1.

In high-tech markets, Pettis observes that stock return can be influenced by a change in brand attitude. He identified the drivers of brand attitude as visible and dynamic new products, aggressive comparison advertising and highly visible changes in top management. Brand attitude is negatively affected by product problems and legal actions or lawsuits.

Brand equity may also be built "from the inside out" by such strategies as increasing employee satisfaction and attitude, which in turn increases the likelihood of customer satisfaction, retention and recommendation. Superior financial performance and revenue growth will translate to higher stock prices.

Pettis also offered some special strategies for dot-com brand building: create balanced symbolic communications, diverse yet consistent; balance novelty with familiarity (the name Amazon.com provides a metaphorical link to the earth's largest river); present a compelling story; use effective symbolism on the site. He advised dot-com companies to take competitive actions: attack or defend by brand identity; or redefine an industry paradigm (Barnes & Noble's "The World's Biggest Bookstore" is redefined in Amazon.com's "The Earth's Largest Bookstore"). Pettis also advised building close, communal relationships and participating in networks that increase reach and leverage--such as using personalized messages; inviting customers to talk to one another; knowing customer preferences; providing opportunities for employee interaction,

conversation and sociability; and developing proactive investor relations communications.

Pettis argues that reputation--i.e., brand equity--is one of the key determinants of competitive success for Internet firms, and that the more an Internet firm invests in reputation by committing resources to marketing and advertising, the higher its market value will be. Investment continuity is imperative, as the impact of such strategies lasts about two or three quarters. Media exposure and creating a market "buzz"--as InfoSpace has successfully done--are especially key for Internet companies.

In conclusion, Pettis recommended eight basic brand strategies for increasing stock price: 1) Carefully research, define and execute your company and product brand identities; 2) Know the top-ranked reasons buyers purchase your brands (don't rely on internal opinions, which usually don't match customer opinions); 3) Link the brand to operations; 4) Track the level of brand awareness and positive/negative esteem to predict future business performance; 5) Track employee and customer satisfaction to produce superior financial performance; 6) Avoid "brand-name-itis": centrally manage new brand-name and brand extension decisions; 7) Develop and execute ongoing programs for raising perceived quality to earn the associated increase in stock return; 8) Publicize brand strategy news within the investment community.

Donald R. Lehmann, George E. Warren Professor of Business at the Columbia Business School, spoke at the conference on the topic of "Measuring Brand Equity." Lehmann began by defining brand equity as "the value of a branded product over and above the value of an unbranded product with the same (performance) attributes," and then asked what we should look for in a tool that measures brand equity. From a researcher's perspective, a measure of brand equity should be complete (difficult if the measurement is a single number); easy to apply; persistent and reliable; intuitive (easy to explain its logic to others); and able to capture relative value (i.e., show changes in brand equity over time, and

their relative amount vs. competitors) if not an absolute dollar value. Lehmann emphasized that to effect real organizational change, any measure should be able to appeal to CEOs, CFOs and other top executives.

Lehmann then surveyed some of the commonly existing measurements of brand equity. Most of these, he said, are "customer mind-set" measures such as measures of customers' attitudes, the strength of their preference and their perception of a product in blind vs. branded tests (i.e., whether Coke tastes better if you drink it from a Coke can vs. an unlabeled cup). One example was a Dow Jones survey done in 1993 and 1995 asking computer purchasers, "How much more will you pay for this brand vs. a generic clone?" The results--which showed the Dell and Hewlett-Packard brands on the rise and DEC's declining in value over those two years--show that, in some cases, even this crude a brand equity measure was a good diagnostic tool for future company performance.

Many more complicated models devised by various brand agencies also attempt to measure customer mind-set. For example, Y&R's Brand Asset Valuator, Milward-Brown's measurement, Research International Equity Engine and David Aaker's "Building Strong Brands" all attempt to measure the customer's mind-set in criteria that fall into four general categories: brand awareness, brand associations (identification, approval, differentiation, quality), attitude toward the brand (esteem, affinity) and brand attachment (loyalty, bonding).

But Lehmann suggested that a customer mind-set measure of brand equity is not always enough. While it provides good feedback for product developers within a company, it is not close enough to the bottom line to be effective in influencing decisions and investments at the top levels of a company, where emphasis is on market performance and executives need to know the financial asset value of a brand, and its connection to the company's price/earnings ratio. Lehmann argues that, instead, companies need to develop a "product-market level" measure of brand equity. This sort of measure can examine issues such as the ability to increase price without affecting market share ("elasticity"), penetration (what

percent of households purchased the brand in the last year) and the measure on which Lehmann focused--revenue and share premium vs. generic labels.

Giving a hypothetical scenario of competition between the "Schmitt brand" (referring to the center's director, Bernd Schmitt) vs. a generic "Lehmann brand," he said that the bottom-line difference in brand equity between competitors with roughly comparable services and products is in the difference in their revenues at the end of the day.

Moving on to look at real-life examples of Quaker and Snapple, he showed how the hard numbers of market share and price difference between them vs. generic brand competitors show how you can measure both a volume premium (how much more of market they hold due to brand equity) and a pricing premium (how much more they are able to charge). These premiums can be easily measured in dollars of extra revenue that Quaker and Snapple earned each year as a result of brand equity (with adjustment for variable costs). An annual measure of brand equity as an asset can then be easily derived from these revenue figures.

The strong advantages of this kind of measure of brand equity as a financial asset are that it can be very effective in communicating with CEOs, it can be easily benchmarked and it may actually predict future market performance.

Dick Wittink, George Rogers Clark Professor at Yale School of Management, presented a speech to the conference titled "From Product Focus to Customer Focus: Implications for Brand Valuations." In it, Wittink looked at the history of branding and argued that, with the advent of new technologies, a "customer perspective" will become increasingly critical to the valuation of companies, decreasing the importance of brand valuation in some industries and radically changing the role that brands will play in the marketplace.

In the twentieth century, he reflected, branding arose as mass production and television advertising created a need and means to increase customer awareness of products being sold to diverse markets. Branding also provided a means for

companies to position and differentiate their products among a wide variety of competitors. From a customer perspective, brands have been indicators of quality and reliability, ensuring trust and simplifying choice among products.

Historically, brands also raised the level of purchase decision-making within businesses so that product and service choices were made at higher executive levels. However, the effectiveness of branding has also been challenged by late-twentieth-century market segmentation (brands may mean different things to different customers), and by globalization (the loss of brand value in one region may affect the brand's reception internationally, as in the Belgium Coke fiasco). Yet brands do still offer companies many sources of value, such as allowing them to capitalize on existing brands in the introduction of new products--as in the case of Nike's new line of technology products.

In the future, however, the "product perspective" inherent in brand management--as traditionally taught in most business schools--is increasingly giving way to a "customer experience perspective." Wittink pointed out that professors Sunil Gupta and Donald Lehmann of Columbia Business School are currently developing a model to predict market value of companies by examining factors more relevant to this perspective, such as customer acquisition and retention, customer loyalty and the lifetime value of customers.

In the current day, brands and what they sell are becoming increasingly heterogeneous for several reasons: the proliferation of channels for advertising, inconsistency in sourcing materials over time and between regions, brand extensions (such as Ralph Lauren paints), an economy increasingly based on services (which are less easily standardized than goods), mergers and acquisitions, and customization (increasingly individualized products and services).

Customization in particular has increased the need to consider the value of the individual customer experience. As the Internet displaces traditional seller-buyer relationships, these will be replaced by new technological interactions. Because of all these changes, business strategy in the twenty-first century must focus on understanding the needs of different customer groups and using them to match

target customers to the core competencies of a company--be they in operational excellence (efficiency, dependability, cost savings), product leadership (innovation and technology) or customer intimacy (customization and personalization).

In the new Internet-driven economy, Wittink predicts that branding will be important only insofar as it affects the customer experience. There will be a shift in business management from a continuous focus on sales, market share and pricing to more customer-focused management, with a continuous focus on measuring customer preferences, choices, satisfaction and future intentions. Profitability will be measured in terms of customers (expected lifetime value) vs. products (profit margin).

The Internet will soon provide customers with information on a nearly infinite range of buying alternatives. Wittink speculated that computerized "decision support systems" in the form of specialized search engines ("infobots") will easily search the Internet and provide customers with much of the information that brands formerly projected: product awareness, pricing offers and potentially much more. Such infobots would act like a *Consumer Reports* ranking of products on a list of criteria, except that they could be customized to the criteria that are most important to a given customer. The result may be that the significance of brands will change and their remaining meaning may be confined to "signaling"--a non-rational association, the way the Nike swoosh has a meaning to customers. Brands will function less in their traditional, more rational roles as indicators of quality and reliability, and more as signals of a kind of lifestyle choice.

Peter Dickson, Arthur C. Nielsen, Jr., Chair of Marketing Research at the University of Wisconsin-Madison, delivered a speech on "The Dynamics of Brand Equity in Cybermarkets." In it, he looked at how consumers' access to knowledge about products and services on the Internet will likely evolve and how it will affect consumer loyalty, a major factor in brand equity. Dickson challenged business models that ignore the possible development of infobots (specialized search engines that supply consumers with information such as price and, potentially, quality of products and services) and that are based on existing assumptions about consumer loyalty. He also argued that sellers must gain quality information about how the evolution of e-commerce is changing long-term buyer behavior. Using several case studies, Dickson examined some of the dynamics of these issues.

For example, a case study of recent European travel indicated that most US customers are still not active cyberspace shoppers, and Dickson predicted that a change in this behavior might take as long as 15 to 20 years to fully emerge. However, as it does emerge it will bring on more dynamic pricing that is responsive to consumers' price sensitivity. As a result, loyal customers--those who do not take advantage of Internet price shopping--will pay a premium for their loyalty, which he argued was a dangerous business practice. Companies could offset such a premium by increasing services such as use of slack capacity (for example, surplus seats on airline flights) to reward customer loyalty.

A case study of Home Depot indicated that the company's success resulted from Internet-enhanced services (in supply-chain management and target marketing of services) combined with the fact that habitual loyalty to Home Depot, in the form of family shopping patterns, does in fact transfer to cyberspace. The Internet does not promise to be an effective means of advertising, however. Internet ads have not proved effective and--as customer-screening mechanisms evolve--may be screened out. This indicates that advertising will become a less potent way of increasing brand equity.

Warning that growth in cybermarkets has been coming largely from an increase in Internet users that will level off in years to come, Dickson challenged the financial market's enthusiasm about e-businesses and questioned whether long-term use of the Internet would change consumer behavior and demand. Inquiring whether demand will really increase as consumers become more habituated to Internet shopping, Dickson presented a study aimed at determining consumer behavior in various markets in relation to consumers' years of Internet shopping experience. Studies indicated some good news for brand equity in that there appeared to be no change in customer loyalty as Internet experience increased. On the other hand, the common policy of offering frequent shopper incentives online does not seem to build brand loyalty, and current selling strategies based on pricing competition are teaching consumers to shop by price instead of reinforcing brand shopping. Price-based promotions in fact squander brand equity, putting a high price on keeping customers. Amazon.com provides one example of a company that may fall to such strategies.

Dickson observed that it is in the interest of sellers to set up search engines that appear to be objective but instead serve the seller by offering very limited information to users, and he warned that this might challenge the effectiveness of Internet markets. He also observed that customer intentions to use the Internet for shopping seem to have increased with use in three main areas--travel and recreation, investing and banking--and proposed that this might justify the market's valuation of certain Internet company stocks.

In closing, while perceiving some strengths in brand equity and the reach of existing retailer consumer franchises, Dickson proposed the idea that Internet markets will become increasingly complex, changing the dynamics of supply and demand forever, and that companies must closely follow the development of infobots, use B2B information innovations to increase efficiency, and track the evolution of Internet consumer shopping and of consumer responses to Internet advertising and online marketing gimmicks.

The Center on Global Brand Leadership will continue to host conferences of this kind to provide a forum for the exchange of cutting-edge ideas and best practices among academics, industry practitioners and brand strategists. The center is also currently engaged in a reach-out effort to secure new affiliate institutions in southern Europe, South America and northern Asia. To find out more about its research activities and upcoming events, you can sign up for its new e-newsletter on its website.

Relevant links

Bernd Schmitt (www.meetschmitt.com)

Center on Global Brand Leadership (www.globalbrands.org/resources/data.htm)

Brand Solutions, Inc. (www.brand.com)

3. Author Bio

Karen Vrotsos has taught business writing and professional speaking for Columbia's graduate Program in Economic Policy Management and is a doctoral candidate at Columbia University. A business and website writer located in New York City, she has written content for a variety of business and educational websites and print publications. She has also taught literature and writing courses at Barnard College and Columbia University. She collaborates in multimedia theater and music productions in venues throughout New York City.

4. Recommended products

Aaker, David A. and Erich Joachimsthaler. "Brand Leadership" (2000, The Free Press)

Carpenter, Phil. "eBrands: Building an Internet Business at Breakneck Speed"
(2000, Harvard Business School Press)

Perrier, Raymond, ed. "Brand Valuation" (1997, Premier Books, London)

Pettis, Chuck. "Technobrand : How to Create & Use 'Brand Identity' to Market,
Advertise & Sell Technology Products" (1994, ??)

Schmitt, Bernd. "Experiential Marketing: How to Get Customers to Sense, Feel,
Think, Act, Relate to Your Company and Brands" (1999, The Free Press)

5. VIDEO Captions

Chuck Pettis talks about the need for brand research.

Donald Lehmann talks about brand equity in competition.

Dick Wittink talks about the future of the Internet and branding.

Peter Dickson talks about the strength of existing brands that move to cyberspace.