101

Measuring Brand Equity

1. The Lowdown

Brand equity is a widely accepted concept in marketing and brand strategy. Yet ask 20 marketers to define the term, and you may very well receive 20 different answers. Further, while "brand equity growth" is often cited as a principal justification for a marketing initiative, there is no generally accepted technique or approach neither for measuring brand equity nor for assessing its contribution to business value creation. To complicate matters further, the term "equity" has different meanings and connotations in the financial community. No surprise, then, that marketing business plans that contain the phrase "brand equity" frequently become lightning rods when budget approval time comes along. If you want to use brand equity to make the case for marketing investment, make sure that you do the upfront work required to ensure alignment and buy-in.

2. Why do I need to know about it?

Brand equity can serve as a compelling component of a marketing business plan. The trick is to make brand equity relevant to decision making in your organization.

Marketers who seek approval for initiatives targeted at building the equity of their brands face the challenges of:

1) Establishing a definition for brand equity that is accepted by both the finance and marketing functions.

2) Applying a framework for measuring brand equity that is relevant and productive in developing marketing initiative business cases and to increasing business value.

3. Where to start?

1) Define what brand equity means in your organization.

Since the term "equity" likely means something very different to the finance and accounting functions, marketing must ensure that all functions are working with similar definitions. From the marketing perspective, brand equity is typically used in the context of understanding the value associated with consumer attitudes and behaviors associated with a brand. Examples of brand attitudes include: brand awareness of the brand, perceived attributes, personality and value, etc. Examples of consumer behaviors include: purchase intent, willingness to pay a price premium, purchase frequency, permission/extension, promoter, etc.

2) Create a framework for how brand equity drives business value.

For the concept of brand equity to have meaning and relevance in your organization, there must be a shared understanding of how brand equity drives business value. Senior management wants to know how (and how much) changing customer attitudes and behaviors will drive sales and profits and how much investment will be required to do so. This means that marketing must understand and communicate the logical linkages between marketing activities, customer attitudes and behaviors, and sales and profits. The representation of these linkages is often referred to as a brand equity framework.

Creating a brand equity framework involves addressing the following questions:

1) How are customers' attitudes about your brand created and reinforced?

2) How does marketing activity impact these customer attitudes?

3) What customer behaviors drive business value?

4) How does marketing activity impact these customer behaviors?

There are many techniques and approaches for creating a useful brand equity framework. One excellent example is the Brand Value Chain approach, based upon the work of Kevin Lane Keller of Dartmouth and Don Lehmann of Columbia <LINK>.

3) Establish a research and measurement plan for evaluating and improving the brand equity framework.

It is unrealistic to assume that any organization will have complete knowledge of all of the complexities of the relationship between their brands and their customers. Furthermore, many of these relationships do not readily lend themselves to measurement. So how does a marketer "prove" the relationship between marketing activities, brand equity, and financial outcomes?

Successful brand equity measurement programs tend to tackle the problem with the following approach:

1) Document and organize assumptions in a brand equity framework

2) Identify the most-critical and uncertain assumptions

3) Develop a prioritized market research agenda

4) Conduct and evaluate research

5) Revise assumptions – repeat cycle

4. The thing to remember is…

- Brand equity can help form the basis of a compelling business case for marketing investment, but a shared organizational definition and understanding are essential

- There is no "silver bullet" single measure of brand equity—understanding of impact is derived through iterative experimentation and refinement.

- A well-defined conceptual framework of brand equity's contribution to business value creation can be effective, even without definitive detailed data. Critical thinking and judgment can compensate for data that may not be readily available.

Related Resources

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