How Do Brands Cr

eate Value?

Value emerges through a unique chain of events.

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One of the most valuable assets for any firm is the intangible asset represented by its brands. Therefore, it's important to properly manage brands to maximize their value—or brand equity—to the firm. Profitable brand management requires successfully designing and implementing a brand equity measurement system. Crucial to developing such a system is an understanding of how brand value gets created. Toward that goal, we believe a model of brand value creation that we call "the brand value chain" can help marketers trace the value creation process for their brands and better understand the financial impact of marketing expenditures and investments. It offers a holistic, integrated approach to capturing the value created by brands.

The brand value chain makes it clear that numerous individuals within an organization affect brand equity and should be cognizant of relevant branding effects. Different individuals, however, make different brand-related decisions and need different types of information. Accordingly, the brand value chain provides insight to support brand and category marketing managers, chief marketing officers, and managing directors or CEOs.

This model is based on several basic premises. Fundamentally, it assumes that the value of a brand ultimately resides with customers. Based on this insight, the model assumes that the brand value creation process begins when the firm invests in a marketing program targeting actual or potential customers. The marketing activity associated with the program then influences the customer "mindset" with respect to the brand—what they know and feel about the brand. This mindset, across a broad group of customers, then results in certain outcomes for the

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EXECUTIVE briefing

The brand value chain offers a holistic, integrated approach to understanding the value created by brands. According to the model, brand value creation begins with the firm's marketing activity. This influences customers who, in turn, affect how the brand performs in the marketplace and is ultimately valued by the financial community. Three important multipliers moderate the extent of transfer between these value stages: the program quality multiplier, the marketplace conditions multiplier, and the investor sentiment multiplier.

brand in terms of how it performs in the marketplace—the aggregate of individual customer actions regarding quantity purchased and the price that they pay. Finally, the investment community considers brand performance and other factors, such as replacement cost and purchase price in acquisitions, in terms of their future prospects (growth rate) to arrive at an assessment of shareholder value in general and brand value in particular.

The model also assumes that a number of factors intervene between these stages. (See Exhibit 1.) These linking factors determine how value created at one stage transfers or "multiplies" to the next stage. Three sets of multipliers moderate the transfer between the marketing program and the subsequent three value stages—the program quality multiplier, the marketplace conditions multiplier, and the investor sentiment multiplier. In this discussion, we provide examples of both positive and negative multiplier effects and draw some branding implications.

Marketing Program Investment

Any marketing program investment that potentially can affect brand value development, either intentionally or not, falls into this category. Some of the bigger marketing expenditures relate to product research, development, and design; trade or intermediary support; marketing communications (e.g., advertising, promotion, sponsorship, direct and interactive marketing, personal selling, publicity, and public relations); and employee selection, training, and support.

Program Quality Multiplier

The amount of financial investment committed to the marketing program does not guarantee success in terms of brand value creation. The ability of that investment to transfer or multiply further down the chain will depend on qualitative aspects of the marketing program via the program quality multiplier. There are a number of different means to judge the quality of a marketing program. First is the clarity evident in the marketing program. Will consumers properly interpret and evaluate the meaning conveyed by brand marketing? Second is the relevance of the marketing program to customers. Will consumers feel that the brand is one that should receive serious consideration? Third is the uniqueness of the marketing program, as compared to those of competitors. How creative or differentiating is the marketing program? Fourth is the consistency and integration in the marketing program. Do all aspects of the marketing program combine to create the biggest impact with customers? Does the marketing program relate effectively to past marketing programs and properly balance continuity and change, evolving the brand forward in the right direction?

Not surprisingly, a well-integrated marketing program that has been carefully designed and implemented to be highly relevant and unique to customers is likely to achieve a greater return on investment from marketing program expenditures. For example, despite being out-spent by such beverage brand giants as Coca-Cola, Pepsi, and Budweiser, the California Milk Processor Board was able to reverse a decades-long decline in consumption of milk in California partly through their well-designed "Got Milk?" campaign. On the other hand, numerous marketers have found that expensive marketing programs do not necessarily transfer to sales. For example, in the beverage category, brands such as Michelob, Miller Lite, and 7 UP have seen their sales decline despite sizable marketing support, arguably because of poorly targeted and delivered marketing campaigns. More broadly, numerous dot-coms succeeded in burning a great deal of cash through ill-advised marketing programs that failed to attract many customers.

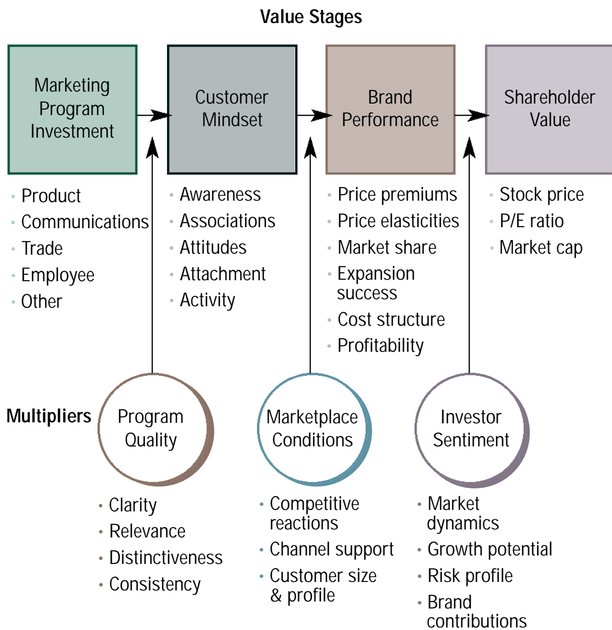
Customer Mindset

The customer mindset includes everything that exists in the minds of customers with respect to a brand (e.g., thoughts, feelings, experiences, images, perceptions, beliefs, and attitudes). Marketing program investments result in a number of such different customer-related outcomes. In what ways have customers been changed as a result of the marketing program? How have those changes manifested themselves in what we call the customer mindset?

Five key dimensions have emerged from prior research as particularly important measures of the customer mindset. The first is brand awareness and the extent to which customers recall and recognize the brand and can identify the products and services associated with it. The second dimension is brand associations, which include the strength, favorability, and uniqueness of perceived attributes and benefits for the brand. Brand associations often represent key sources of brand value, as they are the means by which consumers feel brands satisfy their needs. The third dimension is brand attitudes and

Exhibit 1

Brand value chain



overall evaluations of the brand in terms of its quality and the satisfaction it generates. The fourth dimension is brand attachment, or how loyal the customer feels toward the brand. A strong form of attachment refers to the resistance to change and the ability of a brand to withstand bad news (e.g., a product or service failure). In the extreme, attachment can even become addiction. Finally, the fifth dimension is brand activity, the extent to which customers use the brand, talk to others about it, and seek out brand information, promotions, and events. A good example of brand activity is the development of clubs (e.g., Harley-Davidson) and online brand communities (e.g., Saab).

There is an obvious hierarchy in the dimensions of value: Awareness supports associations, which drive attitudes that lead to attachment and activity. Brand value is created at this stage when customers have a high level of awareness; strong, favorable, and unique brand associations; positive brand attitudes; intense brand attachment and loyalty; and a high degree of brand activity. The right customer mindset can be crucial to realizing brand equity benefits and value. For example, AMD and Cyrix found that achieving product performance parity with Intel's microprocessors did not reap immediate benefits in 1998 when OEMs were reluctant to adopt their new chips because they lacked brand image and reputation.

Marketplace Conditions Multiplier

Success with consumers or customers may not translate to success in the marketplace, however, unless other conditions also prevail. The ability of the customer mindset to create value at the next stage depends on various contextual market factors external to the customer. Three such factors are competitive superiority (i.e., how effective the quantity and quality of the marketing investment are vs. those of other competing brands); channel and other intermediary support (i.e., how much brand reinforcement and selling effort is put forth by various marketing partners); and customer size and profile (i.e., how many and what types of customers are attracted to the brand).

The value created in the minds of customers translates to favorable brand performance when competitors provide no significant threat, when channel members and other intermediaries provide strong support, and when a sizable number of profitable customers are attracted to the brand. The competitive context faced by a brand can have a profound effect on its fortunes. For example, McDonald's benefited in the 1990s from the marketing woes of its main rival, Burger King. On the other hand, MasterCard has had to contend for the past decade with two strong, well-marketed brands in Visa and American Express and consequently has faced an uphill battle gaining market share. As another example, Clorox found its initially successful entry into the detergent market thwarted by competitive response once major players such as Procter & Gamble countered. Similarly, Arm & Hammer's expansive brand extension program met major resistance in categories such as deodorants when existing competitors fought back.

Brand Performance

The customer mindset and marketplace multipliers affect how customers react or respond in the marketplace to the brand in a variety of ways. There are six key aspects or dimensions of that response. The first two (related) dimensions are price premiums and price elasticities. How much extra are customers willing to pay for a comparable product because of its brand? And how much does their demand for the brand increase or decrease when the price rises or falls? A third dimension, market share, measures the success of the marketing program in driving brand unit sales. Taken together, the first three dimensions determine the direct revenue stream attributable to the brand over time. Brand value is created with higher market shares and greater price premiums, which result partly from more elastic responses to price decreases and inelastic responses to price increases.

The fourth dimension is the success of the brand in supporting line and category extensions and new product launches into related categories. This dimension captures brand expansion potential and the ability to add enhancements to the revenue stream. The fifth dimension is cost structure or, more specifically, the ability to reduce marketing program expenditures for the brand because of the prevailing customer mindset. In other words, because customers already have favorable opinions and knowledge about a brand, any aspect of the marketing program is likely to be more effective for the same expenditure level. Alternatively, the same level of effec-

tiveness can be achieved at a lower cost because ads are more memorable and sales calls are more productive. When combined, these five factors lead to brand profitability, the sixth dimension. In short, brand value is manifested at this stage by profitable sales volumes.

Investor Sentiment Multiplier

How much the value manifested in the performance of a brand translates to shareholder value again depends on external factors reflected in the investor sentiment multiplier. Financial analysts and investors consider a host of factors in arriving at their brand valuations and investment decisions. First, what are the dynamics of the financial markets as a whole (e.g., interest rates, investor sentiment, or supply of capital)? Second, what's the growth potential or what are the prospects for the brand and its industry? For example, how helpful are the facilitating factors and how inhibiting are the hindering external factors that make up the firm's economic, social, physical, and legal environment? Third, what is the risk profile for the category in general and the brand in particular? How vulnerable is the brand likely to be to various facilitating and inhibiting factors? Fourth, how important is the brand as part of the firm's brand portfolio and all the brands it has? Said differently, big volume and flagship brands have more impact than small, mature ones.

An important component of the investment multiplier relates to the option value of potential brand expansion. This component depends, in addition to factors such as competition and economic growth, on the ease with which the firm can expand into other categories. The ease of expansion, in turn, depends on the customer mindset, which determines what markets the brand has the customer's permission and support to expand into. For example, in spite of having the name "electric" in its name, GE customers thought it was also appropriate for the company to make gas ranges—and even thought that they did—before the company began to do so.

The value created for the brand is most likely to be reflected in greater shareholder value when the firm is operating in a healthy and growing industry without serious environmental hindrances or barriers and when the brand contributes a significant portion of the firm's revenues and appears to have bright prospects. An extreme example of brands that benefited from a strong investor sentiment multiplier—at least for a while—were the numerous dot-com brands such as Priceline and eToys. The huge premium placed on (basically negative) brand performance, however, quickly dissipated. On the other hand, many firms have lamented what they perceive as under-valuation by the market. For example, repositioned companies such as Corning found it difficult to realize what they viewed as their true market value due to lingering investor perceptions from their past (i.e., dishes vs. optical fiber). Of course, they were also subject to the recent general devaluation of the tech sector.

■ Exhibit 2

Brand value chain measurement approaches

Customer Mindset	Product Market	Financial Market
Generic		
Awareness Associations Attitude Attachment Activity Satisfaction Brand relationship	Repeat rate Market share Price premium Revenue premium Marketing mix elasticities Brand extension success	Stock price EVA Residual in valuation Value in a sale
Commercial		
Young & Rubicam's Brand Asset Valuator Millward Brown's BrandZ Research International's Equity Engine	Interbrand	Interbrand Stern-Stewart
Primary User		
Brand/product managers	Brand/product managers CMOs COOs	CFOs CEOs

Shareholder Value

Based on available information about a brand, as well as many other considerations, the financial marketplace formulates opinions and makes various assessments that have direct financial implications for the brand value. Three particularly important indicators are the stock price, the price/earnings multiple, and ultimately overall market capitalization for the firm. Other measures such as economic value added are also useful. These may be fairly insensitive indicators, however, for a brand that accounts for only a small portion of the value to a firm.

Tracking Value Creation

Marketers create value first through shrewd investments in their marketing program and by maximizing, as much as possible, the program quality, marketplace conditions, and investor sentiment multipliers that translate those initial expenditures into bottom-line financial benefits. The brand value chain thus provides a structured means for managers to understand where and how value is created and suggests where to look to improve that process. Certain stages, however, will be of greater interest to different members of the organization.

1. Brand and category marketing managers are likely to be more interested in the customer mindset and the impact of the marketing program on customers.
2. Chief marketing officers are likely to be more interested in brand performance and the impact of customer mindset on actual marketplace behaviors.

3. A managing director, CEO, or CFO is likely to be more interested in shareholder value and the impact of brand performance on investment decisions and market capitalization.

The brand value chain provides a detailed road map for tracking value creation that should facilitate marketing research and intelligence efforts to inform each of these three different constituents. As defined, each of the stages and multipliers has a set of assessment measures (Exhibit 2), although customer mindset measures by far are the most commonly available in the marketing function. In general, there are three main sources of information for understanding the brand value chain, and each source of information taps into one value stage and one multiplier. The first stage, the marketing program investment, is straightforward and can come from the marketing plan and budget. Customer mindset and the program quality multiplier can both be assessed by customer surveys. Brand performance and the marketplace conditions multiplier can both be captured through market scans (e.g., via IRI and Nielsen scanner data) and internal accounting records. Finally, shareholder value and the investor sentiment multiplier can be estimated through stock price and P/E ratios, investor analysis, and interviews with analysts.

What It Takes

A number of implications arise from the brand value chain. First, value creation begins with marketing program investment. Therefore, a necessary—but not sufficient condition—for value creation is a well-funded, designed, and implemented marketing program. It's rare that marketers "get something for nothing." Nevertheless, value creation involves more than the initial marketing investment. Each of the three different multipliers can increase or decrease market value as it moves from stage to stage.

Unfortunately, in some cases, factors that can potentially inhibit value creation may be largely out of the hands of the marketer. Recognizing the uncontrollable nature of these factors is important to help put in perspective the relative success or failure of a marketing program. Just as in sports where coaches should not be (but often are) held accountable for unforeseen circumstances—such as injuries to key players or financial hardships that make it difficult to attract top talent—marketers cannot logically be held accountable for certain market forces and dynamics with their brands. Specifically, the farther to the right along the brand value chain marketers get, the less control they have over brand value creation. So it's critical to generate momentum with the marketing program at the beginning of the brand value chain so value will carry through the rest of the chain.

That said, each multiplier in the brand value chain must be maximized to the greatest extent possible to ensure that the initial value created by the marketing program has the best opportunity to affect stock price. Beyond designing a high-quality marketing program to maximize the program quality multiplier, it's critical to enhance the marketplace conditions and investor sentiment multipliers. Improving these multipliers involves a myriad of different activities. But perhaps one of the most important is to communicate the amount and nature of brand value that's been created at the previous stage to all relevant parties in the next stage and make them fully aware of the potential benefits that could accrue from maintaining and potentially enhancing that brand value.

For example, increasing the marketplace conditions multiplier could involve making sure that retailers and other intermediaries are aware of the brand value that has been potentially created by the marketing program (e.g., via improved store traffic or category profits) and how they can share in that value creation through supporting activities. Enhancing the investment community multiplier involves ensuring that investor relations and other such activities appreciate the value that has been created in the marketplace as well as future growth plans. For example, attempts to convey the value at this stage may include name changes—such as when American Home Products changed their name to Wyeth—in order to signal to the investment community the category in which a company intends to compete.

Several possible enhancements to the brand value chain could expand its relevance and applicability. First, a number of feedback loops are possible. For example, stock prices can have an important effect on employee morale and motivation and hence on the program quality multiplier. Second, in some cases, value creation may not occur sequentially. For example, stock analysts may react directly to an ad campaign for the brand—either personally or in recognition of public acceptance—and factor those reactions directly into their investment assessments. Third, some marketing activity may have effects that are only manifested over the long term. For example, cause-related or social responsibility marketing activity might affect customer or investor sentiment slowly over time. Fourth, both the mean and variance of some of the measures of the brand value chain could matter. For example, in terms of the customer mindset, a niche brand may receive very high marks but only across a very narrow range of customers. Nevertheless, such a brand may be much more valuable at least potentially than a bigger brand that had some low or average position.

In spite of such caveats, however, the brand value chain shows considerable promise both at the conceptual level to organize managerial decisions and as a basis for measuring and assessing marketing performance. ■

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