The Brand, And It's Value [1999]

1. Introduction.

There has been much debate about the value of the brand against the value of a product per se (a badge). This note is written to pull together some of the thinking relevant to the discussion.

It must be noted that the brand is core to much of today's business thinking and the subject matter is very diverse, and in some cases contradictory. It should also be expected that for every example cited here someone could find, or develop, a counter argument.

Also, much of the information and debate has been generated by marketing and advertising practitioners & agencies so they have a vested interest. They are however, close to what is happening and specialise in the field. In the discussion there has been every effort made to remove some of the enthusiasm or bias from such organisations.

2. What is a Brand?

To date there does not appear to be a good definition of a brand or of the brand franchise (why people vote for it - by buying it in preference to other offerings); but some of the thoughts on the subject are:

K Dixon *- Past Chairman of Rowntree Mackintosh*

> "A brand franchise is the very stuff of the brand. It is the unique sum of its taste and texture, flavour and smell, appearance and associations. A strong brand franchise reassures, gives confidence and like an old friend, promises the certainty of pleasure. From all this comes the probability of long-term profits"

J P Jones *- Associate professor, Syracuse University*

> [paraphrase] A product is a functional item, whilst a brand offers something in addition to functionality in the form of added values that some customers value enough to buy. These added values come from: a) experience of the brand, b) who uses the brand, c) a belief in the effectiveness of the brand and d) the appearance of the brand.

Stephen King

> [paraphrase] A brand is something which must fulfil a need, a want or a desire; must possess coherent totality, and must be a unique blend of appeals relevant to the senses, reason and emotion.
> - An unbranded product becomes a commodity.

Whilst these definitions begin to give some feel for a brand as opposed to a product, there are a number of benefits which branding brings to the consumer as well as to the supplier. These are developed in section 4.

3. The inability to quantify the value of branding.

This section appears out of context in order to strengthen the following argument. It may be worth re-visiting later.

Dominic Cadbury and ***Peter Mitchell*** (Guinness) both agree that in periods of vigorous corporate support there is a favourable, if unquantifiable, impact on brand performance.

Branding is about communicating the awareness of benefits, personality, image etc. and as such is highly dependent upon advertising in some form or another.

J P Jones comments that advertising professionals know that their best efforts can only either reinforce or slightly modify attitudes that are built into people's psyches - in reinforcing attitudes in the right way there is considerable power in building brands. But in no way can advertising overcome inadequacies in the marketing mix.

The "Goodness of Fit" of all products to their ideal market niches must differ; some fitting better and some less well, such that the effectiveness of the communications about attributes and benefits will vary from product to product in terms of effectiveness. And hence in terms of establishing the strengths and values of different brand franchises.

In most instances measurement of brand effectiveness has been through empirical observation as there is no known model of the perfect "Goodness of Fit" of the ideal brand to its market, in order to allow valid numerical comparison. However, where there has been observation, the brand leader always outperforms the rest financially [!].

- ***J P Jones***, who uses Wegman's supermarket for basic data notes that unbranded cornflakes sold at $0.79 per lb. And take 4 shelf facings, Kellogg's sold at $0.97 per lb. And take 18 facings.
- In controlled tastings of three breakfast cereals the preference during a blind test was 47:27:26. When identically repeated but with the packages identified the ratios changed to 59:26:15 - an increase of 12% in terms of preference for the top product.
- It is generally recognised that in pricing exercises the brand leader commands about a 7% premium over the average price for a particular type of product.

The available evidence would suggest that, in an oligopoly, the brand is relevant in terms of business benefits. The exact extent of that relevance has not adequately been quantified, although there appears to be a definite benefit in terms of pricing and volume sales - usually to the extent of about 10% additional revenue.

4. The Purpose of Branding.

The following is in the form of a list which is not necessarily exhaustive, and there is overlap between categories. There is also overlap into logo style and choice of name.

There is no particular order to the list as different opportunities may have different priorities.

- To simply identify the product - as a name or a style of label
- To give the product distinctiveness - Heinz shield, OXO script
- To facilitate communication.
- To allow consumers to communicate their good luck.
- To allow statements of benefits and features:
  - Real benefits - stops you being hungry
  - Manufactured benefits/features - foil wrapped for freshness
  - Imaginary benefits - refreshes certain parts of your anatomy
- To devise a product 'family' e.g. Dunlop adhesives
- To simplify education and communication, e.g. if product x in a family is good, then product y will also be good. There is the need to first establish the goodness of x.
- To allow the development of implied status - e.g. a UK manufactured vodka called Vladivar, a sake called Taramaya.
- To develop (or prevent) associations with other goods and services
- To guarantee quality and homogeneity
- To help develop a definite identity
- To allow the product to develop (or have developed for it) a personality, an image and targeted benefits
- To better withstand competitors price cutting
- To better withstand price rises from suppliers
- To more easily implement price increases
- To facilitate diversification more easily

The one purpose relevant to development or diversification is the opportunity to develop an image or personality which will offer not only tangible benefits but also imaginary or perceived benefits.

5. Some approaches to branding.

There appear to be four main approaches:

1. Do nothing
2. Brand the company
3. Brand the product
4. A mixture of 2 and 3

5.1 Do nothing. Continue to sell as a commodity which will remain volume dependent and unsupportive of development. Every new product or development will be a product in its own right and unable to cash in on the heritage of other lines in the same stable.

5.2 Corporate branding such as IBM, Mitsubishi or Zanussi tends to advertise the company rather than the products. The weakness is in not being able to adequately describe individual goods, only corporate strap lines such as "The appliance of science". This could lead to a weakening of the brand franchise for individual product sectors.

5.3 Branding the products such as practised by Mars, Proctor and Gamble and Unilever can be a very expensive exercise in that media costs have tended to rise ahead of inflation. There can be brand proliferation; there may be a risk of confusion with too many different messages being developed in relatively specialist market sectors.

5.4 To mix branding product and branding company can give the worst of all worlds if planning is not absolutely clear. It is possible to spend significant money, create confusion and put across the wrong message by giving every product a personality which might be at variance with the corporate. However, Heinz somehow avoids the confusion.

<u>6. Some of the benefits of branding.</u>

6.1 <u>Development and responsiveness</u>. In the normal course of events development will put a new product into an existing market or an existing product into a new market. In either case a branded existing product in an established market will have created a personality and an appropriate image. This image or personality can now be attached to the new development - one example being Dettox, basking in the reflected glow of Dettol.

6.2 <u>Image</u>. A sharpening of a brand image can sharpen a corporate image. It is interesting to note that the City image of conglomerates seems to slip when advertising and other brand communication is reduced (see also point 3 Cadbury & Mitchell).

6.3 <u>Positioning.</u> The brand positions the product in the market place. There has been a significant study into the failure of the British machine tool industry in the face of Japanese machine tools produced in the UK with British management and workers. The Japanese attended so well to product positioning that the UK product is seen simply as a commodity.

The rule seems to be that if you do not position your product appropriately i.e. segment the market; the market will segment you - normally by price.

It's also worth considering water. Tap water is a commodity to bath in, Evian or Perrier are positioned as luxuries - and look at the differences in cost.

6.4 <u>The continuation of good business</u>. There is always discussion about product life cycles (see below) and how they are continually shortening. Back in 1981 a study by ***Qualls et al*** showed the product life cycles to be falling.

<u>Introduction</u> <u>Period of growth</u>

From 1922 to 1942 Clothes washers 12.5 years
Toasters 33.8 years
Portable heaters

From 1945 to 1964 Dishwashers 7.0 years
Black & white TV 19.5 years
Food mixers

From 1965 to 1977 Calculators 2.0 years
Colour TV 6.8 years
Digital watches

It is now (1999) reported that the period of growth (equivalent to product life cycle) for a new software product is 72 days and getting shorter.

7. The fallacy of the product life cycle

There is an argument that runs that as industry has had to tighten its belt and become more competitive the level of brand support has also been reduced - the promotional and R&D revenues being used elsewhere.
The brand has drifted more towards a commodity and been allowed to become obsolete. The concept of product life cycle is argued by some to be no more than a device to hide inadequate responsiveness on the part of the brand owner.

Some companies have continued to support their products e.g. Mars with funsize, bigger bars, differentiated packaging etc. and continue to grow.

8. Brand inertia[1]

The original research into why people purchase a product or brand was conducted in the 1980's by ***Gronroos*** who identified that 50% of the purchase decision is based on tangible or delivered benefits (tolerances, flavour, other functionalities). The other 50% of the purchase decision is based on perceived benefits (well lit shop, brand attraction, nice people to deal with).

Since that research the balance is thought to have moved to 40% tangible benefits and 60% perceived benefits - much through the intervention of technology making it easier to mimic, copy, improve or develop what is already available. These technological improvements make brand development and support more important today than ever before in communicating the intangible.

The perceived benefits of a product are getting more significant and once people are persuaded that their decision to buy that brand is the correct one they are slow to change, even if the promise is not delivered (equivalent to admitting to have made a mistake). For major concerns such as a supermarket chain this residual loyalty can take eighteen months or more to be eroded.

The converse is also the case, that the sustained effort to rise again in the consumers' minds takes a long time; and usually longer to regain loyalty than to lose it because the company the consumer now uses needs to get it wrong before the deserters are persuaded to return. Or the deserted company needs to make a significantly stronger offer (identified as at least 20% better or cheaper) to get a shift change in loyalty, purchase or usage.

The expense in regaining lost ground is usually significantly greater than the cost of well considered, properly targeted continuing brand support.

[1] See also ‘The Fifth Discipline’ by Peter M Senge ISBN 0-7126-5687-1

9. In Summary

The purpose a branding is to give a product or company an identity, image and personality which confers imaginary benefits as well as tangible benefits (which are getting progressively less important in the purchase decision). The intent is that the purchaser not only buys more often but also buys a particular brand in preference to other offerings.

There are negative aspects to branding essentially cost (although usually less than recovering a neglected product or company) and risk of name proliferation if not carefully managed.

The major aspects of the brand are:

- The development of a communicable image and personality
- To imply features and benefits (full of fitness) to distinguish from commodity items
- To build resilience to price changes and support price increases.
- Branding can be costly yet needs to be sustained
- Branding gives a product authority and longevity when done properly
- Strong brands tend to be distinctive
- Development should be easier if goods are branded
- Brand distinction is generally balanced between functional benefits and discriminatory (perceived) benefits. ***James Webb Young*** comments that "subjective values are no less real than tangible ones"
- Brand weakness can come from trying to attract too wide a field of consumers. Targeting must be quite specific.