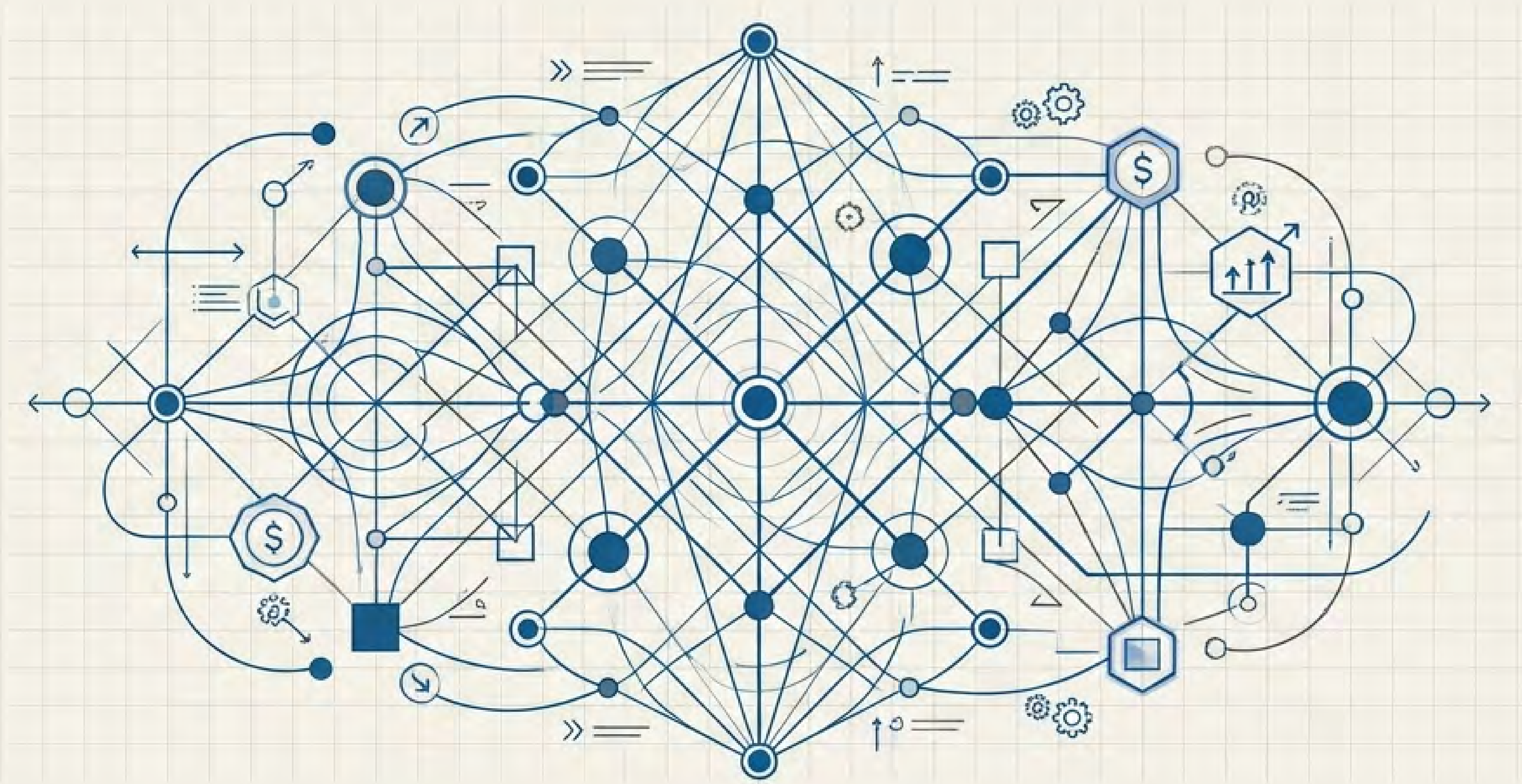
Brands as a Tool for Creating Market Value



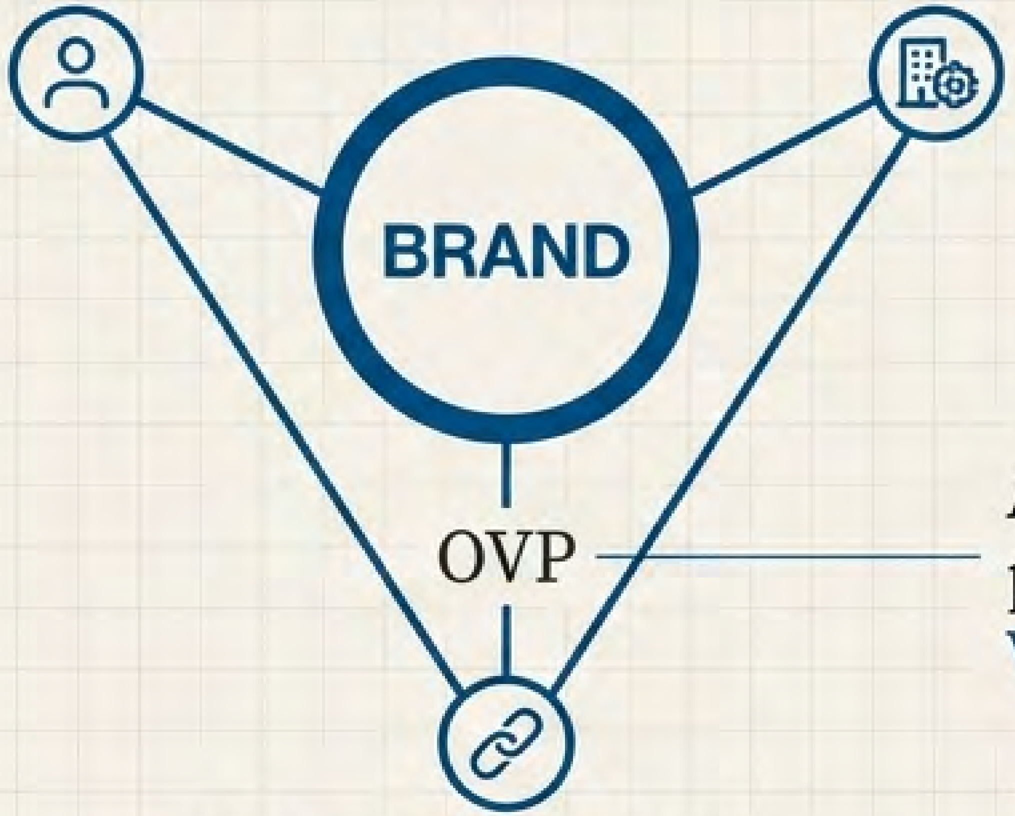
A strategic framework for building powerful and profitable brands.

The Market Value Principle: A Brand's Core Purpose

A brand's primary purpose is to create optimal value for three main entities: its **Customers**, the **Company** managing the brand, and its **Collaborators** (e.g., distribution channels, co–branding partners).

Customer Value

Company Value



Collaborator Value

A brand that adheres to this principle achieves an **Optimal Value Proposition (OVP)**.

"Strong brands create superior value for their target customers in a way that benefits the company and its collaborators.'"

The First Pillar: Creating Superior Customer Value

Understanding how a brand creates value for customers is fundamental. This value is created across three distinct, though often overlapping, domains.

Customer Value

1. Functional Value

The benefits and costs linked to the practical aspects of an offering (e.g., performance, reliability, ease of use).

2. Psychological Value

The emotional and self-expressive benefits and costs associated with an offering (e.g., social status, lifestyle, sense of belonging).

3. Monetary Value

The financial benefits and costs associated with an offering (e.g., price, resale value, loyalty points).

"The value a customer derives from a brand is idiosyncratic, depending on their unique needs, preferences, and experiences."

How Brands Deliver Functional and Monetary Value

Creating Functional Value	
	Identifying the Offering: Helps customers recognize and differentiate products, minimizing search effort (e.g., Tide's branding vs. inspecting ingredients).
	Signaling Performance: Communicates functional benefits, especially when performance isn't immediately assessable (e.g., Crest signals tooth protection, DeWalt signals durability).
	Enhancing Perceived Performance: Shapes how customers experience a product, a phenomenon known as the 'brand placebo effect' (e.g., beer tastes better, medication seems more effective).

Creating Monetary Value	
	Signaling Price: Communicates the offering's price point and value perception (e.g., Walmart's brand promotes an image of low prices).
	Commanding a Price Premium: Offers inherent monetary benefits, such as higher resale value for branded goods (e.g., Hermès bags or a Ferrari 250 GTO commanding huge resale prices).

The Brand's Superpower: Creating Psychological Value

Brands are uniquely positioned to communicate a broader spectrum of emotions and deeper meanings than product attributes alone.

1. Creating Emotional Value

Elicits positive emotions.

Examples: Allstate ("You're in Good Hands") conveys peace of mind; Hallmark ("When You Care Enough to Send the Very Best") stirs feelings of love.

2. Creating Self-Expressive Value

Empowers individuals to express their identity and social status.

Examples: Pepsi ("The Choice of the New Generation") for youth identity; Harley-Davidson for lifestyle; Rolls-Royce for wealth.

3. Creating Societal Value

Fosters moral gratification through contributions to society.

Examples: TOMS, (PRODUCT)RED, and Doctors Without Borders champion humanitarian causes, giving customers the satisfaction of positive social impact.

The Marketing Mix Interplay: Aligning All Value Drivers

Brand
Identity, Reputation & Perception

Psychological Value
Emotional Connection, Status, & Self-Expression

Product & Service
Features, Quality, Support & Experience

Functional Value
Performance, Utility, & Reliability

Price & Incentives
Monetary Cost, Discounts, Offers & Payment Terms

Monetary Value
Cost Savings, Resale Value, & Financial Benefit

Key Nuance: Roles are not exclusive; all elements influence each other to shape the brand image.

Product Influences Brand: Coca-Cola's iconic bottle and Tiffany's blue box contribute significantly to psychological value.

Service Influences Brand: The impeccable service at The Ritz-Carlton is a crucial part of its brand identity.

Price Influences Brand: Low prices can undermine an upscale brand's image, while high prices can clash with a value-oriented one.

The Second Pillar: How Brands Create Company Value

Strategic Value (Non-Monetary Benefits)

- **Bolstering Customer Demand:** Makes offerings more attractive, promotes greater usage, and inspires advocacy.
- **Ensuring Collaborator Support:** Strong brands secure better terms, enhanced distribution, and promotional backing from partners.
- **Attracting & Retaining Talent:** A brand aligned with employee values makes it easier to recruit, retain, and motivate top talent.
- **Amplifying Other Attributes:** Branded products are perceived as more reliable, effective, and desirable than unbranded counterparts.

Monetary Value (Financial Benefits)

- **Generating Incremental Revenue & Profit:** Drives higher sales volume and enables premium pricing.
- **Lowering Labor Costs:** Employees may accept a lower salary to work for a respected and desirable brand.
- **Creating a Separable Asset:** Brands can be sold for significant financial windfall (e.g., P&G sold Pringles for $2.8B and Duracell for $4.8B).
- **Increasing Company Valuation:** The monetary value of the brand (Brand Equity) directly increases the company's overall valuation.

The Third Pillar: How Brands Create Collaborator Value

Strategic Value (Non-Monetary Benefits)

- **Bolstering Customer Demand:** Popular brands (e.g., Versace at H&M) attract loyal customers and increase store traffic for retailers.
- **Strengthening Collaborator Brands:** A 'halo effect' from co-branding increases prestige and credibility (e.g., Ferrari enhances Puma; Breitling refines Bentley).

Monetary Value (Financial Benefits)

- **Enabling Premium Pricing:** Partnerships allow collaborators to charge more (e.g., luxury cars with Bang & Olufsen audio systems; Luxottica selling designer eyewear with Chanel or Prada).
- **Enhancing Cost-Effectiveness:** Partnerships can lead to shared marketing costs (e.g., the 'Intel Inside' campaign) and leverage strong brand recognition for higher margins (e.g., Starbucks & PepsiCo's bottled Frappuccino distribution).

The Payoff, Part 1: Defining Brand Power

Brand Power is a brand's ability to influence the behavior of market participants (customers, collaborators, employees). If a brand's presence does not impact behavior, the offering is essentially a commodity.

Example: The Grey Goose brand drives premium-priced demand in the vodka category—a product defined as being "without distinctive character, aroma, taste, or color." The brand itself is the primary value driver.

Neue Haas Grotesk Display Pro

The **Amplification Effect:** A strong brand enhances the effectiveness of every other marketing activity:

- **Enhanced Product Experience:** Branded products are perceived as higher quality. Customers are more forgiving of performance inconsistencies.
- **Greater Willingness to Pay:** Strong brands command a price premium over generic equivalents (e.g., Bayer's aspirin, Morton's salt).
- **Increased Incentive Effectiveness:** Customers respond better to promotions from brands they trust.
- **Greater Communication Effectiveness:** Messages from strong brands get more attention and are more persuasive.
- **Greater Effort to Acquire:** Customers will bypass convenient retailers to purchase a preferred brand.

Spotlight: Tylenol and the Tangible Value of Trust

1. Context (1982): Tylenol was J&J's most profitable brand, holding 35% of the over-the-counter analgesic market.

2. The Crisis & Response: Cyanide-laced capsules led to several deaths. Market share plummeted to under 7%. Capitalizing on decades of built-up trust, J&J launched a direct, transparent communication campaign and recalled 31 million bottles.

3. The Result: Tylenol regained most of its pre-crisis market share within six months, a testament to the power of the brand's accumulated trust.

"We were cashing in on nearly a hundred years of trust that has been built in."

— James Burke, CEO, Johnson & Johnson.

The Payoff, Part 2: Defining Brand Equity

Brand Equity is the **monetary value** of a brand, representing the financial premium added to a company's valuation due to brand ownership.

Key Distinction: Brand Equity is a part of Goodwill, an accounting term for all intangible assets. Goodwill is broader, also including patents, copyrights, licenses, etc.

Why Valuation is Critical:

Mergers & Acquisitions: Helps determine the premium a buyer should pay over book value.

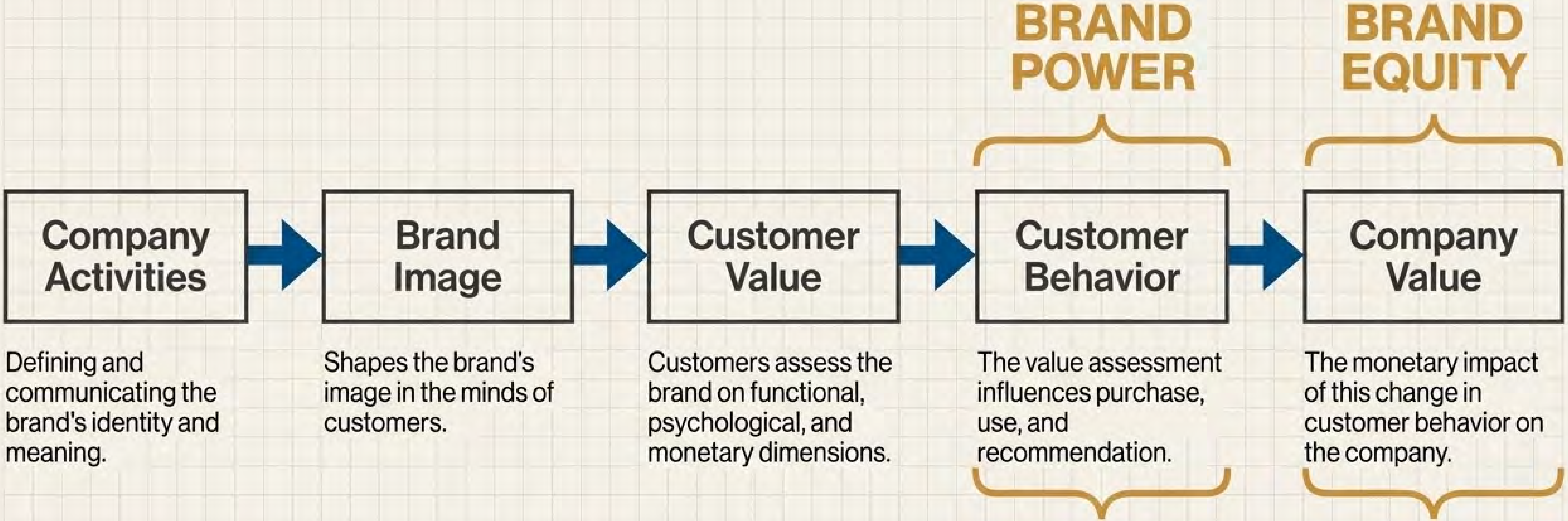
Stock Valuation: Essential for assessing the total value of the company.

Licensing: Helps set the price premium charged to licensees for using the brand.

Litigation: Aids in determining monetary compensation in brand damage cases.

Resource Allocation: Justifies brand-building expenditures and helps allocate resources across a brand portfolio.

The Power-to-Equity Engine



Brand Power is the brand’s ability to create value and change behavior.
Brand Equity is the monetary result of that change.

Why Greater Brand Power Doesn't Always Equal Greater Brand Equity

A brand can be powerful but not financially optimized. The ability to translate power into equity depends on several factors.

Key Factors

- **Internal Strategy:** Poor quality, pricing, communication, or distribution can prevent customers from acting on a favorable perception.
- **Market Size:** A powerful brand in a small niche market can be worth less than a weaker brand with a broader reach.
- **Competition:** Aggressive competitor actions can hurt market share despite strong brand power.
- **Collaborator Actions:** A brand that gets prominent retail support is more likely to generate greater revenue.
- **Economic Environment:** Slow economic growth can make customers more price-conscious and less brand-loyal.

Concrete Examples

Automotive Market

Honda's brand equity is estimated to be higher than Porsche's, despite Porsche's stronger brand power (reflected in price premium).

Luxury vs. Mass Market

Volkswagen and Kia have higher brand equity than Audi and Range Rover.

Retail & Fashion

H&M and IKEA have higher brand equity than Prada and Tiffany.

Spotlight: Unlocking Value by Reviving Dormant Brands

Brands with undervalued equity, whose power is not fully leveraged for financial gain, offer opportunities for value creation.

Example 1: Brim Coffee

History: A popular General Foods brand discontinued in 1995 (Equity = $0).

The Opportunity: Research showed nearly 90% of people over 25 still recognized the brand. This is **residual brand power.**

The Revival: In 2014, Sensio acquired the name and launched a new line of coffee machines, leveraging nostalgic appeal to target 40+ year-olds.

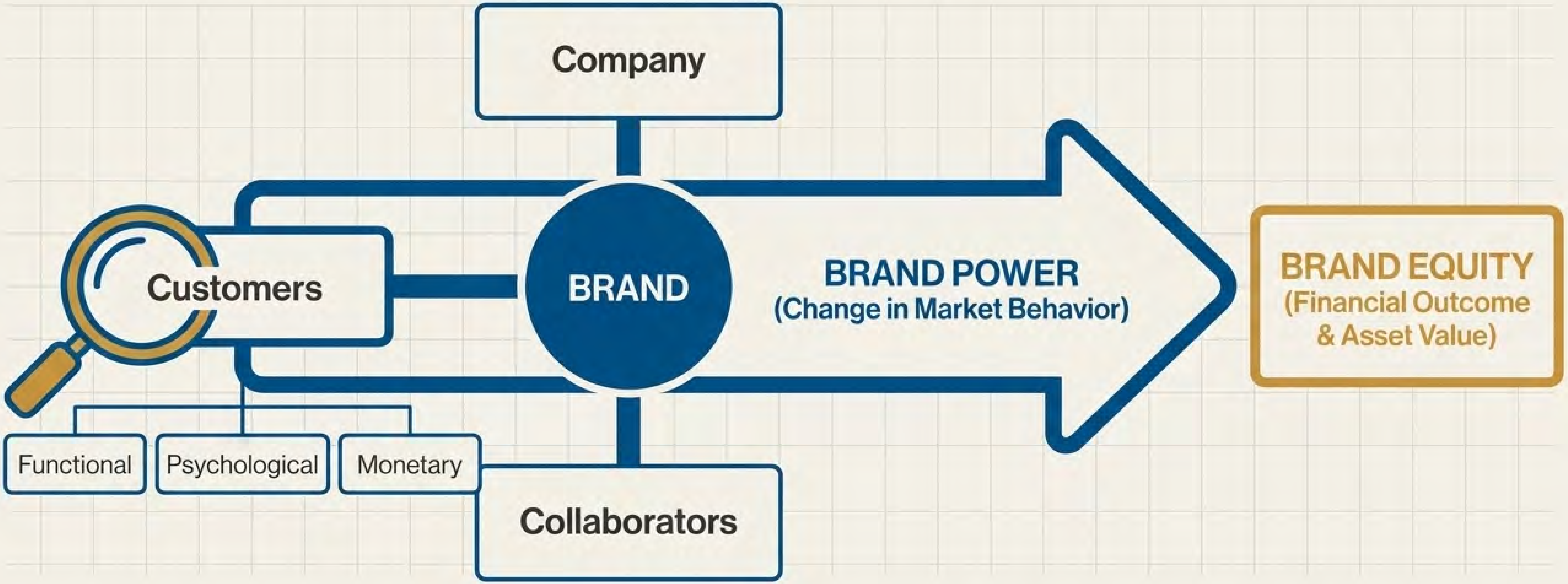
Example 2: White Cloud Bathroom Tissue

History: A P&G brand discontinued in 1993 to focus on Charmin. The trademark lapsed.

The Opportunity: A new company claimed the trademark and signed an exclusive deal with Walmart.

The Revival: Relaunched as a Walmart private label, sales reached $600 million, directly competing with P&G and eventually earning a *Consumer Reports* Best Buy rating.

The Integrated Framework of Brand Value



Building a powerful and profitable brand requires a systematic approach to creating, delivering, and monetizing value for customers, the company, and its collaborators. This framework provides the blueprint for that process.