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Creating Brand Equity

Marketing Management:

An Asian Perspective
(5th edition)

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Creating Brand Equity

Building a strong brand requires careful planning and a great deal of long-term investment. At the heart of a successful brand is a great product or service, backed by creatively designed and executed marketing. One of the hottest brands around is Google.

9



Learning Objectives:

- Understand what a brand is and how branding works
- Understand what brand equity is
- Understand how brand equity is built, measured, and managed
- Understand the important decisions in developing a branding strategy

Importance of brand management

- Marketers of successful 21st-century brands must excel at the strategic brand management process.
- **Strategic brand management** combines the design and implementation of marketing activities and programs to build, measure, and manage brands to maximize their value

The **four steps** of strategic brand management

1. Identifying and establishing brand positioning
2. Planning and implementing brand marketing
3. Measuring and interpreting brand performance
4. Growing and sustaining brand value

What is Brand Equity?

- The American Marketing Association defines a brand as “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.”

Key dimensions of branding

- A brand is thus a product or service that **adds dimensions** that differentiate it in some way from other products or services designed to satisfy the same need.
- These differences may be **functional, rational, or tangible-related** to the product performance of the brand.
- They may also be **more symbolic, emotional, or intangible-related** to what the brand represents.

The Role of Brands

Identify the maker

Simplify product handling

Organize accounting

Offer legal protection



The Role of Brands

Signify quality

Create barriers to entry

Serve as a competitive advantage

Secure price premium



The Role of Brands:

Brands identify the source or maker of a product and allow consumers to assign responsibility to a particular manufacturer or distributor.

- A. **Consumers learn** about brands through experiences with the product and its marketing program.
- B. Brands perform **valuable functions** for the company.
- c. Brands can **signal** a certain **level of quality** so that satisfied buyers can easily choose the product again.

The Role of Brands (cont'd)

- D. Brand loyalty provides **predictability** and **security** of demand for the firm and creates barriers for other firms.
- E. Branding can be seen as a powerful means to secure a **competitive advantage**
- F. To firms, brands thus represent enormously valuable pieces of **legal property** that can influence consumer behavior, be bought and sold, and provide the security of sustained future revenues to their owner.

Branding in Asia:

- Branding, however, has not been a historical imperative for many Asian businesses. The reasons are:
 1. **Asian businesses were more involved in performing the distribution function such as imports and exports.**
 2. **Ideological reasons led countries such as China and Vietnam to discourage branding in the past.**
 3. **Many companies (e.g., those in Taiwan) have been successful in contract manufacturing under global brand names.**
 4. **Others have benefited as franchisees or as regional joint-venture partners of Western franchises.**
 5. **Previously protected domestic industries and markets also meant there was less need to invest in brand building.**

Requirements for successful branding for Asian firms:

1. Overcome inherent parochialism
2. Adopt a corporate culture which sustains global perspective
3. Keep Asian brand identity - go global
4. Rise above cheap low-quality image
5. Think global despite being small

The Scope of Branding:

1. Branding is endowing products and services with the power of a brand.
2. Branding is all about creating differences between products.
3. To brand a product, it is necessary to teach consumers “who” the product is, “what” the product does, and “why” consumers should care.
4. Branding involves creating mental structures and helping consumers organize their knowledge about products and services in a way that clarifies their decision-making and provides value to the firm.

The Scope of Branding (cont'd)

5. For branding strategies to be successful and brand value to be created, consumers must be convinced that there are meaningful differences among brands in the product or service category.
6. The key to branding is that the consumer must not think that all brands in the category are the same.
7. Brand differences are often related to attributes or benefits of the product itself.
8. Branding can be applied virtually anywhere where the consumer has a choice.

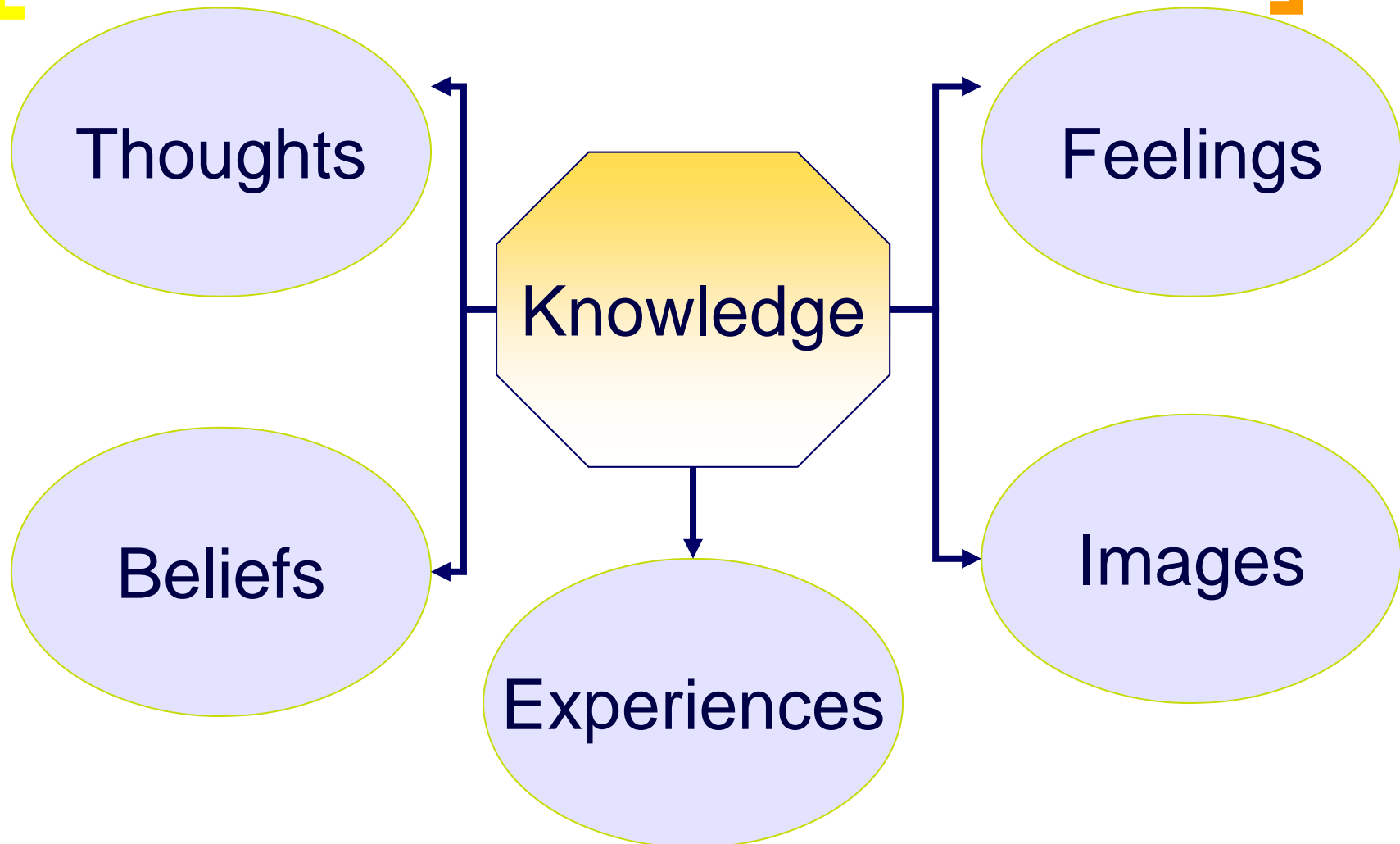
Defining Brand Equity:

- It may be reflected in how consumers, think, feel and act with respect to the brand as well as the prices, market share and profitability that the brand commands for the firm.
- Brand equity is an important **intangible asset** to the firm that has psychological and financial value.
- **Customer-based brand equity** can be defined as the differential effect that brand knowledge has on consumer response towards the marketing of that brand.

Positive and Negative Customer Brand Equity:

- A brand is said to have **positive** customer-based brand equity when consumers react more favorably to a product and the way it is marketed when the brand is identified as compared to when it is not.
- A brand is said to have **negative** customer-based equity if consumers react less favorably to marketing activity for the brand under the same circumstances.

Brand Knowledge



Brand Equity and Brand Knowledge:

- Brand knowledge consists of all thoughts, feelings, images, experiences, beliefs, and so on that become associated with the brand.
- Marketers need to build a strong brand by ensuring that customers have the **right type of experiences** with products and services and that their marketing programs create the desired brand knowledge structures for the brand.

Advantages of Strong Brands:

Table 9.1 Marketing Advantages of Strong Brands

- Improved perceptions of product performance.
- Greater loyalty.
- Less vulnerability to competitive marketing actions.
- Less vulnerability to marketing crises.
- Larger margins.
- More inelastic consumer response to price increases.
- More elastic consumer response to price decreases.
- Greater trade cooperation and support.
- Increased marketing communications effectiveness.
- Possible licensing opportunities.
- Additional brand extension opportunities.

Brand Equity as a Bridge:

- Marketing dollars spent each year on products and services should be thought of as investments in consumer brand knowledge.
- It is actually possible to “overspend” on brand building if money is not spent wisely.
- A brand is essentially a marketer’s **promise** to deliver predictable product or service performance. A brand promise is the marketer’s vision of what the brand must be and what it can do for consumers.

Asian brands (Ian Batey): Four Types of East Asian **Assets**

1. **Golden Assets:** Tiger Balm, Boh Tea
2. **Acquired Assets:** Raffles Hotel, Infosys
3. **Potential Assets:** Hailer, Tsingtao
4. **Combine Acquired & Potential Assets**

MARKETING MEMO

• A CHECKLIST FOR DEVELOPING GLOBAL ASIAN BRANDS

Batey developed the following checklist of fundamentals for "an owner of a popular discretionary Asian brand" wishing to develop it into a "global power brand":

1. Do you see marketing as the dominant driver in your quest for global fame?
2. Do you consider your brand your most valuable financial asset?
3. Have you a brand strategy that you believe will take your brand into the global premier league?
4. Have you marketing staff with the experience and ambition to match your global ambition?
5. Do you have creative marketing communications resources and talents?
6. Do you plan to retain firm control of your global brand strategy and the quality/focus of your marketing programs worldwide?
7. Do you plan to embrace R&D and regular product enhancements with a passion?
8. Have you the financial resources needed to seriously compete in the global power brand game?

Source: Adapted from Ian Batey, *Asian Branding: A Great Way to Fly*, (Singapore: Prentice Hall, 2002), p. 54.

Brand Equity Models:

- 1. Brand Asset Valuator (BAV) Model**
- 2. Aaker Model**
- 3. BRANDZ Model**
- 4. Brand Resonance Model**

Brand Asset Valuator Model

- Advertising agency Young and Rubicam (Y&R) developed a model of brand equity called Brand Asset Valuator (BAV).
- The four key components of brand equity according to BAV are:
 - **Differentiation**
 - **Relevance**
 - **Esteem**
 - **Knowledge**
- Differentiation and relevance combine to determine **brand strength**.
- Esteem and knowledge combine to create **brand structure**.
- Brand strength and brand structure can be combined to form a **power Grid** that depicts the stages in the cycle of brand development in successive quadrants.

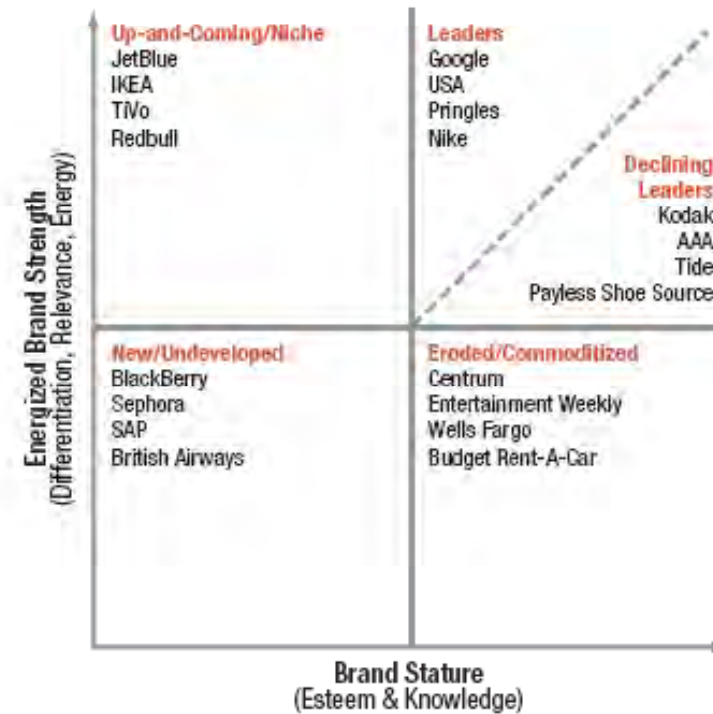
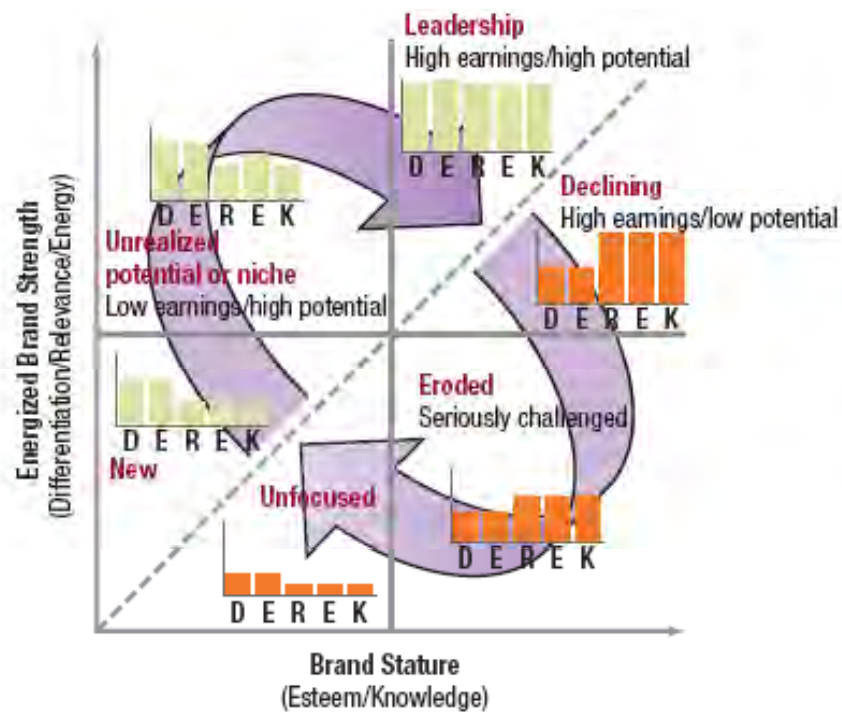


Figure 9.1 BAV Power Grid

Aaker Model

- 5 Categories of Brand Assets and Liabilities:
 1. **Brand loyalty**
 2. **Brand awareness**
 3. **Perceived quality**
 4. **Brand associations**
 5. **Other proprietary assets such as patents, trademarks, and channel relationships.**

Aaker sees brand identity as consisting of twelve dimensions organized around **four perspectives**:

1. **Brand-as-product** (product scope and attributes, quality/value, use, users, country of origin)
2. **Brand-as-organization** (organizational attributes, local versus global)
3. **Brand-as-person** (brand personality, brand-customer relationships)
4. **Brand-as-symbol** (visual imagery/metaphors and brand heritage)

Aaker also conceptualizes brand identity as including a **core** and an **extended** identity

1. **Core identity** —the central, timeless essence of the brand
2. **Extended identity** —includes various brand identity elements, organized into cohesive and meaningful groups.

BRANDZ Model

- According to this model, brand building involves a **sequential series of steps**, where each step is contingent upon successfully accomplishing the previous step.
- Research has shown that bonded consumers build **stronger relationships** with the brand and spend more of their category expenditures on the brand than those at lower levels of the pyramid.

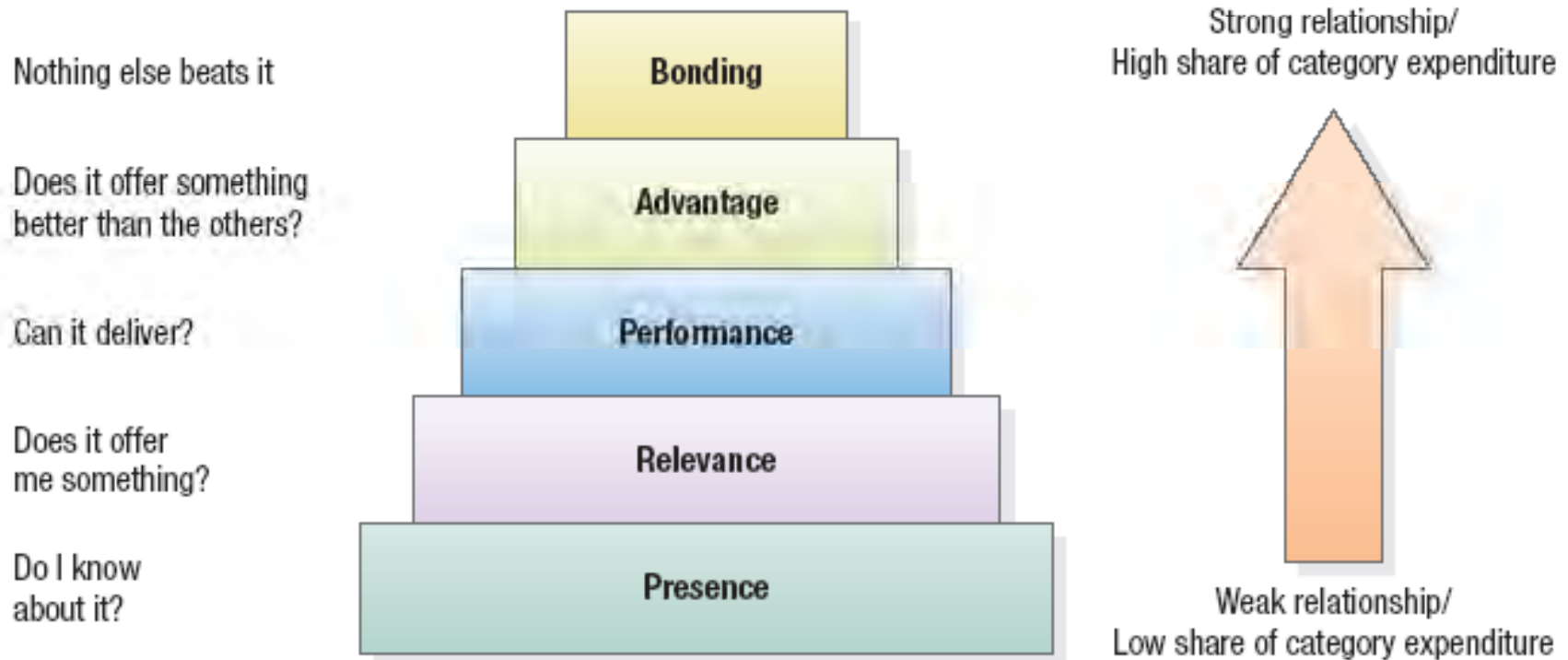


Figure 9.2 BrandDynamics™ Pyramid

Brand **Resonance** Model

- Views brand building as an ascending, sequential series of steps, from bottom to top.
- Enduring identification of the brand with customers and an association of the brand in customers' minds with a specific product class or customer need.
- Firmly establishing the totality of brand meaning in the minds of customers by strategically linking a host of tangible and intangible brand associations

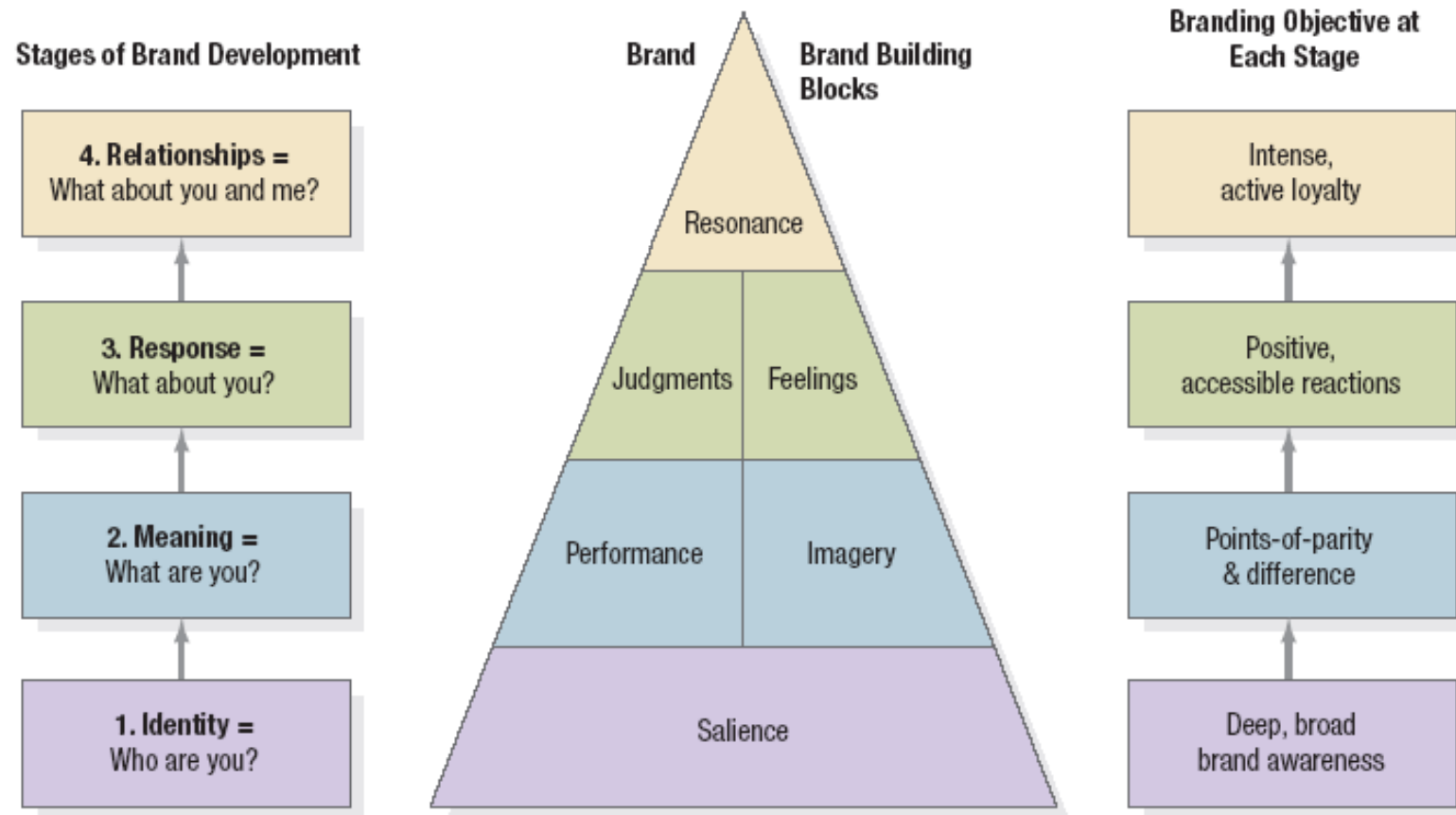



Figure 9.3 Brand Resonance Pyramid

How to reach the ‘pinnacle’ of the pyramid?

- 
1. Brand **salience** is how often and easily consumers think of the brand
 2. Brand **performance** is how well the product or service meets customers' functional needs
 3. Brand **imagery** describes the extrinsic properties of the product or service
 4. Brand **judgments** focus on customers' own personal opinions and evaluations
 5. Brand **feelings** are the customers' emotional responses and reactions with respect to the brand.
 6. Brand **resonance** refers to the nature of the relationship customers have with the brand and the extent to which they feel they're "in sync" with it.

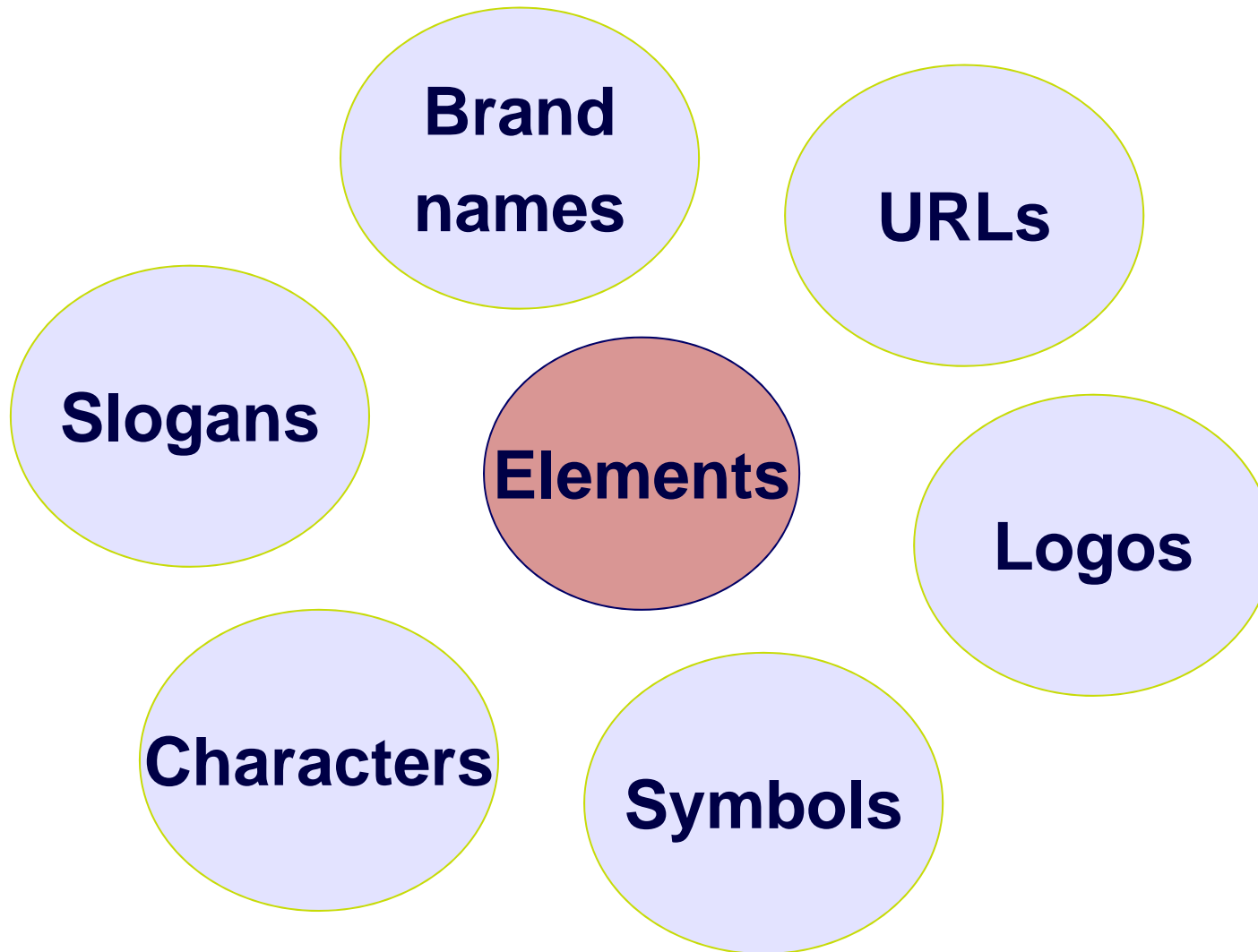
Building Brand Equity:

- Creating the right brand knowledge with right consumers
- 3 brand equity drivers:
 1. Initial choices for **elements** that makes up the brand
 2. Product, marketing **activities & programs**
 3. **Other associations** passed to the brand when linked to other entity

Choosing Brand Elements

- Brand elements are those trade-markable devices that identify and differentiate the brand.
 - **Choose brand elements to build as much brand equity as possible.**
 - ***Test and see what consumers would think or feel about the product if they only knew about that particular brand element.***

Brand Elements



Brand Elements Choice Criteria

1. Memorable
2. Meaningful
3. Likeability

First three characterized as “brand building” in terms of how brand equity can be built through the judicious choice of a brand element

4. Transferable
5. Adaptable
6. Protectible

The latter three are more “defensive” and are concerned with how the brand equity contained in a brand element can be leveraged and preserved in the face of different opportunities and constraints.

Brand Elements

■ *Memorable*

- Brand - easily recalled, recognized?
- Name - *look* distinctive – memorable

■ *Meaningful*

- Values consumers seek
- Asia Pacific - probe taboos, religious connotations - colors, numbers

Building Brand Equity

- Choosing Brand Elements

Eg: *Memorable*



Korean electronics manufacturer LG
incorporates name in slogan, "**Life's Good**"
Simple-to-pronounce letter-name reinforced by slogan & logo
elements makes brand name ***memorable***

Meaningful



Cathay Pacific uses Chinese calligraphy for its brushwing logo and in its ad visuals to suggest its “Heart of Asia” heritage. This photo shows a Cathay Pacific bus ad promoting Hong Kong as a destination.

Asian examples from text:



Hyatt—When Hyatt Hotel entered China, it realized that the name “Hyatt” does not translate easily and confers no meaning, as most Chinese are unfamiliar with American brands. To develop its Chinese brand equity, it used the name *Yue* (悦) which means “imperial,” a characteristic that many rich Chinese aspire to be. The organization then came up with courtly variations to match its subbrands: *Kai Yue* (凯悦), *Jun Yue* (君悦), and *Bo Yue* (柏悦) for the Regency, Grand, and Park Hyatt hotels, respectively.³⁰



Biotherm—This French skincare brand goes by the Chinese name pronounced as *Bee Er Chuen* in most Asian markets with the exception of China. China’s cosmetics market is dominated by foreign brands and Biotherm wanted to highlight its international status with its name *Bee Oh Chuen* (碧欧泉), where the middle character *Oh* (欧) refers to Europe.³²

Brand Elements

- ***Likeability***

- Is it likable visually, verbally?
 - *Eg: Fuji/Xerox Shagaku, a handheld copier, fits image well*

- ***Transferable***

- Can be used to introduce new products in other categories?

Brand Elements

- *Adaptable*
- How adaptable & updatable is brand?
- Asian brands - retain traditional values as they modernize

Dutch Baby—Dutch Baby began producing and marketing its milk products in Malaysia in 1965. It has a reputation of being “Malaysia's Milk Specialist” and changed its name to Dutch Lady in 2000, a name it was often referred to by customers and retailers. Management felt the new name harnessed the strength of its brand in the market, was more recognizable, and reflected a modern image.³³

Brand Elements

- *Protectible*
- How legally protectible is it?
- Unique brand name can be intimately identified with product category
 - *Eg: Scotch Tape & Post-it notes*

Protecting the Brand



In China, local coffee shop, U-Like Coffee, copied Starbucks, from its Chinese name to logo and store design. Starbucks sued and won.

Developing Brand Elements

- Elements to identify products – marketers have many choices
- Likeability & appeal are critical
- Brand elements can play a number of brand-building roles
- Less concrete benefits, essential that elements capture brand's intangible characteristics

Choosing Brand Elements

- Slogans are powerful brand elements
- Represent the “Hooks”: what is a brand & special qualities about the brand
- Helps to summarize and translate the marketing intent

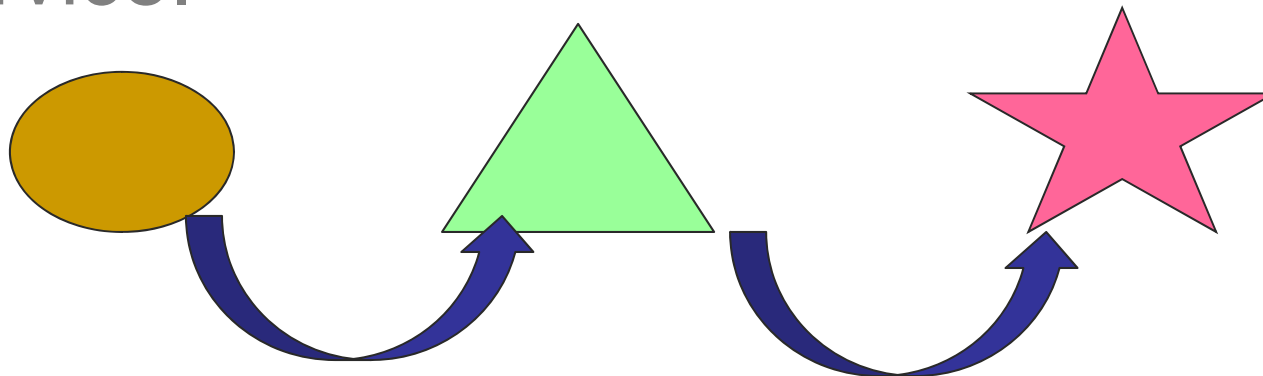
*Example: **Capturing inherent brand meaning in slogans***

“A Great Way to Fly” Singapore Airlines

“Connecting People” Nokia

Brand “Contact Points” and the importance of Holistic Marketing

- A brand contact can be defined as any information-bearing experience a customer or prospect has with the brand, the product category, or the market that relates to the marketer’s product or service.



Advertising alone does not build brands...

- Customers come to know a brand through a range of contacts and touch points:
 - **Personal observations**
 - **Personal use**
 - **Word of mouth**
 - **Interactions with company personnel**
 - **On-line or telephone experiences**
 - **Payment transactions**

Designing Holistic Marketing Activities

- Holistic marketers - 3 themes - brand-building marketing programs:
 - Personalization, integration & internalization

Personalization

- The rapid expansion of the Internet has created opportunities to personalize marketing.
 - From a branding point-of-view, it is about getting the consumer **more actively involved** with a brand by creating an intense, active relationship.
 - Personalizing marketing is about **making sure that the brand and its marketing is relevant to as many customers as possible.**

“Permission Marketing”

- Permission marketing is the practice of marketing to consumers only after gaining their express permission.
- It is based on the premise that marketers can no longer use “interruption marketing” via mass-media campaigns.
- **Participatory marketing** may be a more appropriate concept

Personalization in Asian Marketing

- Brand management in Asia - **brand relationships** with customers
 - *In Asia: Trusted agent-friend, not outsider*
- **Brand-driven customer relationship management** – establish relative positions for brand & customer
- **Relationship brand manager** - find products for customers

Integration

- Integrating marketing is about mixing and matching marketing activities to maximize their individual and collective effects.
 - Marketers need a variety of different marketing activities that **reinforce** the brand promise.
 - Integration is especially critical with **marketing communications**.
 - From the perspective of brand building, all communication options should be evaluated in terms of ability to affect brand equity.

Integration (cont'd)

- Each communication should be judged in terms of the effectiveness and efficiency that it affects, brand awareness and whether it creates, maintains, or strengthens brand image.
- Brand awareness is the consumers' ability to identify the brand under different conditions, as reflected by their brand recognition or recall performance.
- Brand image is the perceptions and beliefs held by consumers as reflected in the associations held in consumer memory.

Internalization

- Marketers must adopt an **internal perspective** to consider what steps to take to be sure employees and marketing partners appreciate and understand basic branding notions, and how they can help—or hurt brand equity.
- **Internal branding** refers to activities and processes that help to inform and inspire employees.
- Brand bonding occurs when customers **experience** the company delivering on its brand promise. The brand promise will not be delivered unless everyone in the company lives the brand.

Internalization example:

- Customer experience with staff influences brand perception:
 - *Example: Inflight service by the Singapore Girl*
 - *Critical ingredient of Singapore Airlines' branding success*



Principles of Internal Branding

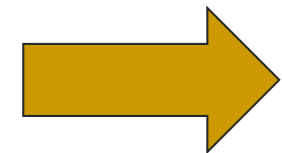
- Some important principles for internal branding are:
 1. Choose the right moment
 2. Link internal and external marketing
 3. Bring the brand alive for employees

Leveraging on Secondary Associations

- The third and final way to build equity is, in effect, to “borrow it.”
- That is, create brand equity **by linking** the brand to other information in memory that conveys meaning to consumers.

Secondary “brand associations”

- The brand may be linked to certain source factors:
 1. The company—through branding strategies
 2. Countries or other geographical regions—identification of product origin
 3. Channels of distribution—channel strategy
 4. Other brands—ingredient or co-branding



Secondary brand associations

5. Characters—licensing
6. Spokespeople—endorsements
7. Sporting or cultural events—
sponsorships
8. Other third party sources—awards or
reviews

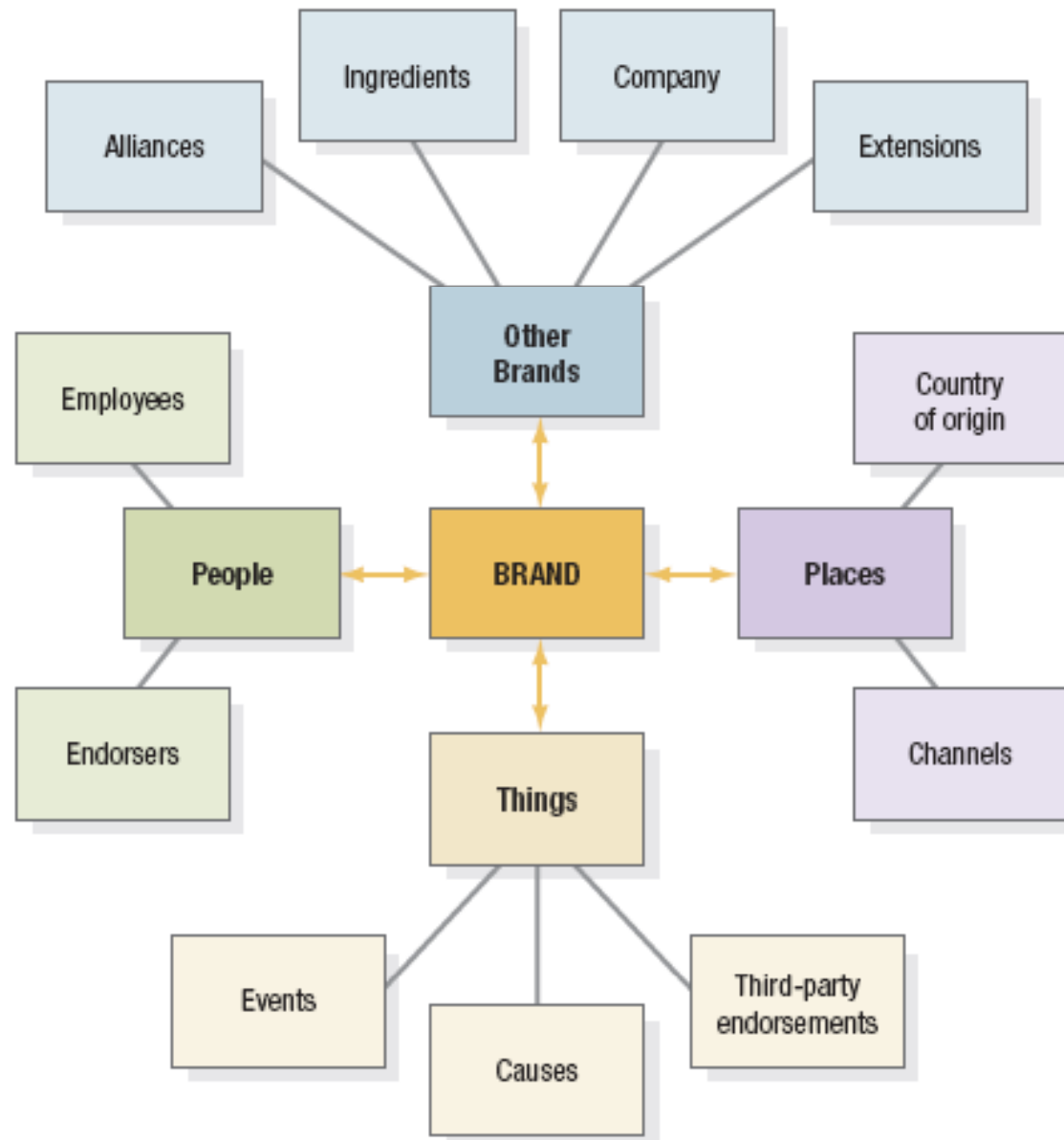


Figure 9.4 Secondary Sources of Brand Knowledge

Measuring Brand Equity

- *Brand Audits*

Brand audit

- Consumer-focused - assess brand health, equity sources - improve & leverage it
- Affect strategy & brands' performance

Brand audits - 2 steps:

1. Brand inventory
2. Brand exploratory

Measuring Brand Equity

- *Brand Audits*

BRAND INVENTORY

- Current profile - how products are marketed & branded
- What current perception *may be* based on

BRAND EXPLORATORY

- Understand thoughts on brand, category – Identify brand equity sources
- Qualitative research techniques

Measuring Brand Equity

- *Brand Tracking*

- **Tracking studies** collect data from consumers on a routine basis over time
- Current data - brands & marketing performance
- Important to monitor brand health & equity



Brand Value Chain

- The brand value chain is a structured approach to assessing the sources and outcomes of brand equity and the manner in which marketing activities create brand value.

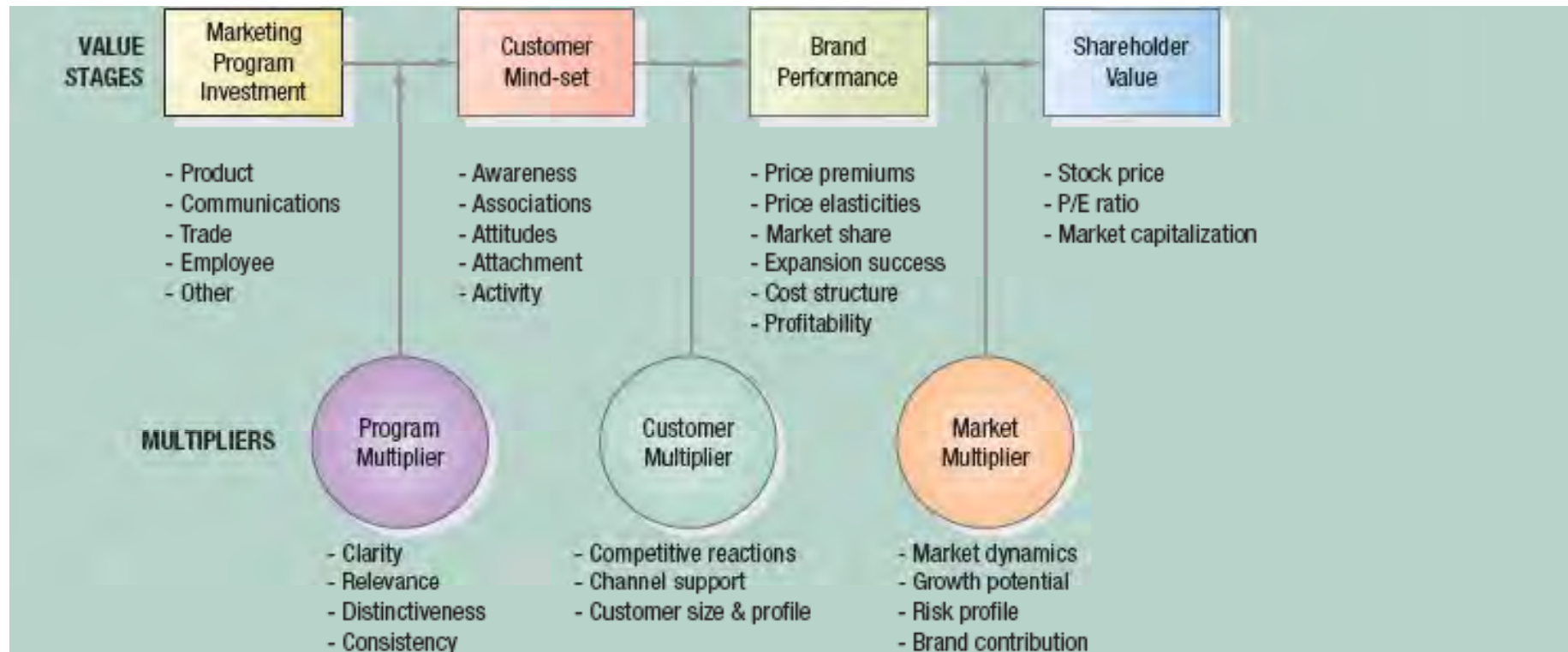


Figure 9.5 Brand Value Chain

Sources: Kevin Lane Keller and Don Lehmann, "How Do Brands Create Value." *Marketing Management*, May/June 2003, pp. 27–31. See also Rajendra K. Srivastava, Tasadduq A. Shervani, and Liam Fahey, "Market-Based Assets and Shareholder Value." *Journal of Marketing*, (1998), 62(1) pp. 2–18; and M.J. Epstein and R.A. Westbrook, "Linking Actions to Profits in Strategic Decision Making." *MIT Sloan Management Review*, Spring 2001, pp. 39–49. In terms of related empirical insights, see Manoj K. Agrawal and Vithala Rao "An Empirical Comparison of Consumer-Based Measures of Brand Equity." *Marketing Letters*, (1996), 7(3) pp. 237–247, and Walfried Lassar, Banwari Mittal, and Arun Sharma, "Measuring Customer-Based Brand Equity." *Journal of Consumer Marketing*, (1995), 12(4) pp. 11–19.

Table 9.2 The World's 10 Most Valuable Brands

Rank	Brand	2007 Brand Value (Billions)
1	Coca-Cola	\$65.32
2	Microsoft	\$58.71
3	IBM	\$57.01
4	GE	\$51.57
5	Nokia	\$33.70
6	Toyota	\$32.07
7	Intel	\$30.95
8	McDonald's	\$29.40
9	Disney	\$29.21
10	Mercedes-Benz	\$24.84

Source: "The 100 Top Brands," *BusinessWeek*, August 6, 2007, pp. 59-64.

Brand Valuation

- Brand equity needs to be distinguished from brand valuation that is the job of estimating the total financial value of the brand.

- **Marketing Insight: What is a brand worth?**

Describe the brand valuation process which consists of: market segmentation, financial analysis, role of branding, brand strength, and brand value calculation.

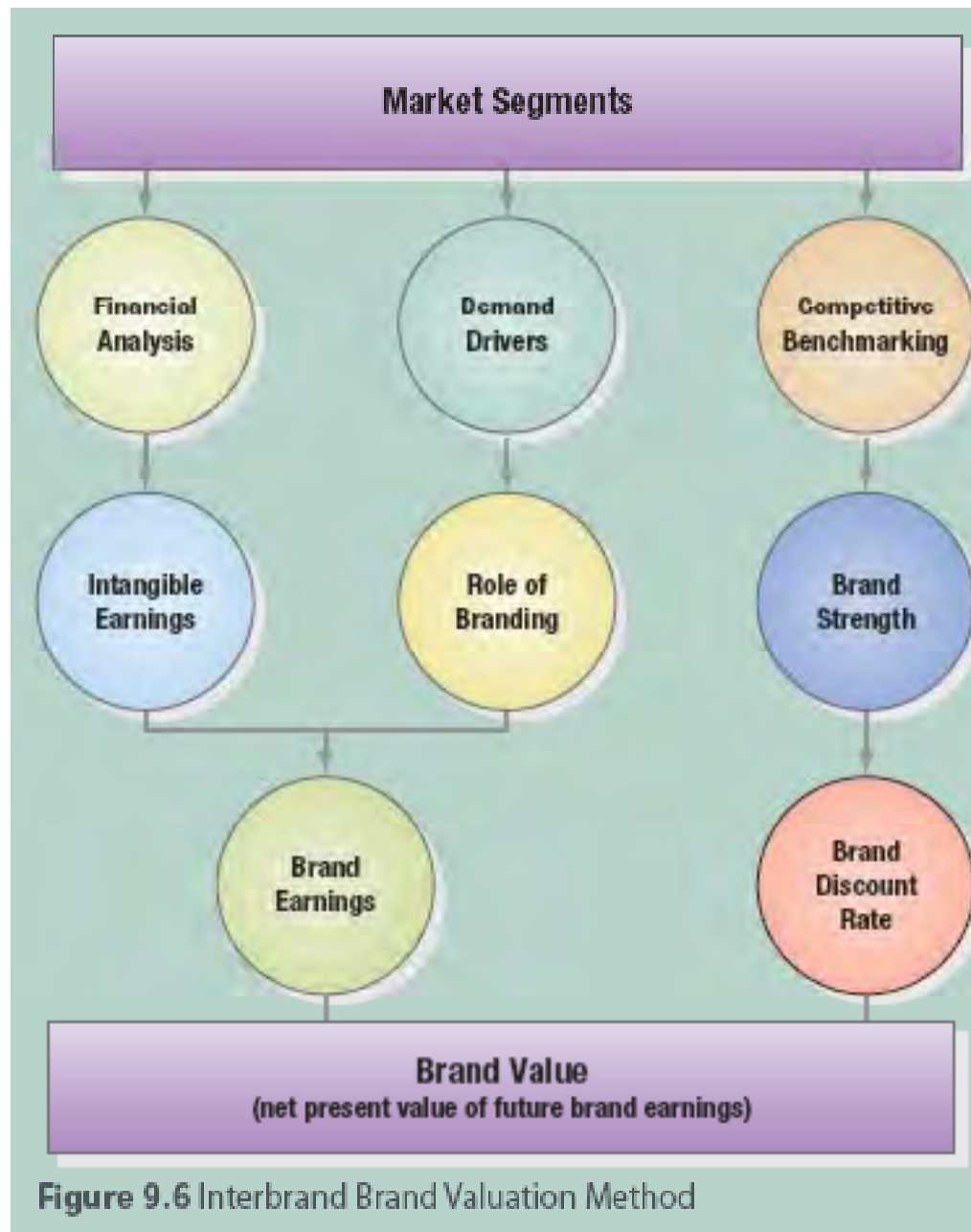


Figure 9.6 Interbrand Brand Valuation Method

Managing Brand Equity

- *Brand Reinforcement*

- Brand equity reinforced by marketing:
 1. What products does the brand represent?
 2. How a brand makes products superior?
 3. Which strong, favorable brand associations exist in consumers' minds?
- ***Brand Reinforcement*** – requires innovation & relevance in order to satisfy target markets

Managing Brand Equity

- *Brand Revitalization*

- Changes in consumer tastes and preferences, the emergence of new competitors or new technology, or any new development in the marketing environment could potentially affect the fortunes of a brand.
- Reversing a fading brand's fortunes requires either that brands “return to their roots” and lost sources of brand equity are restored or when new sources of brand equity are established.
- Often, the first place to look in turning around the fortunes of a brand is to understand what the **sources** of **brand equity** it began with.

Brand revitalization

- To refresh old sources of brand equity or create new sources, two main approaches are possible:
 1. Expand the depth and/or breadth of brand awareness by improving consumer recall and recognition of the brand during purchase or consumption settings.
 2. Improve the strength, favorability, and uniqueness of brand associations making up the brand image.

Brand Revitalization



When Chinese herbalist, Aw Chu Kin founded Tiger Balm in the late 1870's, he knew that his unique formulation would provide unprecedented fast acting relief for various ailments such as headaches, nasal congestion, flatulence and muscles aches. Little did he imagine that Tiger Balm, more than a century later, is marketed in over 100 countries to millions of people in Asia, Europe and the Americas.

Today, Tiger Balm is more than just the ointment that Aw Chu Kin created. Tiger Balm appeals to people of all ages and is marketed in different variants including medicated plaster, oil, cream, lotion and spray. For all its many forms, one thing, however, remains relatively unchanged - Tiger Balm products truly work wherever it hurts.



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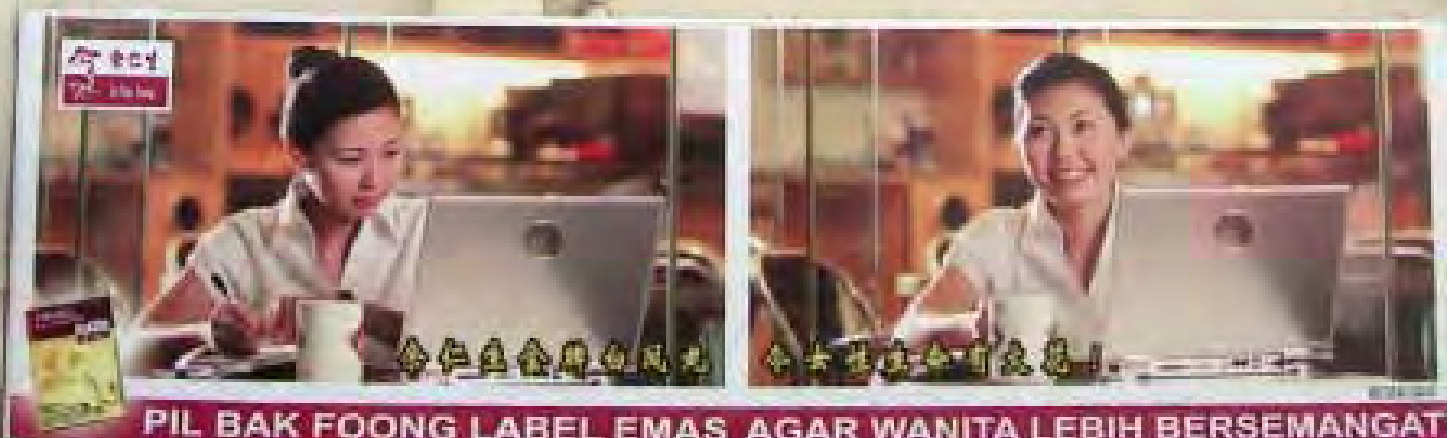
Brand Revitalization



The Bak Foong pill still remains a major stalwart as part of Eu Yan Sang's product line, especially after having undergone a packaging revamp to appeal to a more modern audience.



*Billboard ads of
Eu Yan Sang
promote health benefits of its
bottled bird's nest &
Bak Foong pills, seen throughout
Malaysia*



Managing Brand Equity

- *Brand Crisis*

- The higher the brand equity, the more a firm can weather any possible crisis
- Careful preparation & a well-managed crisis management program is essential
- Key to manage crisis – consumers must see the response by firm as being both *swift* & *sincere*

Devising a Brand Strategy

A firm's branding strategy reflects the number and nature of both common and distinctive brand elements it applies to the products it sells.

Deciding how to brand **new products** is especially critical.

Brand strategy for new products

- When a firm introduces a new product, it has **three main choices**:
 1. It can develop new brand elements for the new product.
 2. It can apply some of its existing brand elements.
 3. It can use a combination of new and existing brand elements.

Brand strategies:

- When a firm uses an established brand to introduce a new product, it is called a **brand extension**.
- When a new brand is combined with an existing brand, the brand extension can also be called a **sub-brand**.
- An existing brand that gives birth to a brand extension is referred to as the **parent brand**.
- If the parent brand is already associated with multiple products through brand extensions, then it may also be called a **family brand**.

Devising a Brand Strategy

2 categories of Brand extensions

1. **Line extension** - parent brand - brands new product - new market - current category
2. **Category extension** - parent brand - enters new product category

Devising a Brand Strategy

- **Brand line** – products sold under a brand
- **Brand mix** - brand lines that are available
- **Branded variants** - specific brand lines supplied to specific retailers or channels
- **Licensed product** - brand name licensed to other manufacturers who make product
eg: Hello Kitty

Devising a Brand Strategy

Hello Kitty

licensed to many
products - credit
cards, toasters,
purses,
confectionery &
UNO card games



Branding Decision: To Brand or not to Brand?

4 strategies

Choose brand names:

1. *Individual names*
2. *Blanket family names*
3. *Separate family names for all products*
4. *Corporate name + individual product names*

Table 9.3 Selecting a Brand Relationship Spectrum Position

Towards a Branded House	Towards a House of Brands
Does the parent brand contribute to the offering by adding:	Is there a compelling need for a separate brand because it will:
• Associations enhancing the value proposition?	• Create and own an association?
• Credibility through organizational associations?	• Represent a new, different offering?
• Visibility?	• Retain/capture customer/brand bond?
• Communication efficiencies?	• Deal with channel conflict?
Will the master brand be strengthened associating with the new offering?	Will the business support a new brand by name?

Source: Adapted from David A. Aaker and Erich Joachimsthaler, *Brand Leadership*, (New York: Free Press, 2000), p. 120, Figure 4-6.

Brand Extensions:

ADVANTAGES OF BRAND EXTENSIONS

1. New Product Success:

- New product expectations - parent brand
- Reduce risk: convince retailers - promote
- Reduced costs of launch

2. Positive Feedback Effects

- Clarify brand meaning & core values
- Renew interest - benefit parent brand - expand market coverage

Devising a Brand Strategy

- Brand Extensions

Positive Feedback Effects:
An example

Nikon alliance with **Essilor**,
extended expertise in **camera** to **eyewear lenses**



Hope that consumers infer **eyewear**
lenses as being as **reliable** as its
camera lenses



Academics have studied brand extensions closely. Here is a summary of some of their key research findings.

- Successful brand extensions occur when the parent brand is seen as having favorable associations and there is a perception of fit between the parent brand and the extension product.
- There are many bases of fit: product-related attributes and benefits, as well as nonproduct-related attributes and benefits related to common usage situations or user types.
- Depending on consumer knowledge of the categories, perceptions of fit may be based on technical or manufacturing commonalities or more surface considerations such as necessary or situational complementarity.
- High-quality brands stretch farther than average-quality brands, although both types of brands have boundaries.
- A brand that is seen as prototypical of a product category can be difficult to extend outside the category.
- Concrete attribute associations tend to be more difficult to extend than abstract benefit associations.
- Consumers may transfer associations that are positive in the original product class but become negative in the extension context.
- Consumers may infer negative associations about an extension, perhaps even based on other inferred positive associations.
- It can be difficult to extend into a product class that is seen as easy to make.
- A successful extension can not only contribute to the parent brand image but also enable a brand to be extended even farther.
- An unsuccessful extension hurts the parent brand only when there is a strong basis of fit between the two.
- An unsuccessful extension does not prevent a firm from “backtracking” and introducing a more-similar extension.
- Vertical extensions can be difficult and often require subbranding strategies.
- The most effective advertising strategy for an extension emphasizes information about the extension (rather than reminders about the parent brand).

Figure 9.7 Research Insights on Brand Extensions

Source: Kevin Lane Keller, *Strategic Brand Management*, 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 2008). Reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Brand Extensions:

DISADVANTAGES OF BRAND EXTENSIONS

- 1) Line-extension trap
- 2) **Brand dilution**
- 3) If inappropriate, integrity will be questioned
- 4) If fails - it will harm the parent brand
- 5) Switch from parent brand - *cannibalize* parent brand sales
- 6) Forgo the chance of creating an entirely new brand

Brand Extensions

SUCCESS CHARACTERISTICS

- Extension - effectively leverage equity from parent brand to new product
- Extension also contributes to the parent brand equity
- Must have a “fit” in consumers’ minds
- **Mistake** – failure to take *all* consumers’ brand knowledge structures into account

Brand Portfolios

- All brands have boundaries.
- Any one brand is not viewed equally favorable by all the different market segments that the firm would like to target.

Some reasons to introduce multiple brands in a category include:

1. To increase shelf presence and retailer dependence in a store
2. To attract consumers seeking variety who may otherwise have switched to another brand.
3. To increase internal competition within the firm
4. To yield economies of scale in advertising, sales, merchandising, and physical distribution

Managing brand portfolios:

1. The hallmark of an optimal brand portfolio is the ability of each brand in it to **maximize equity in combination with all the other brands under it.**
2. In general, the basic principle in designing a brand portfolio is to **maximize market coverage**, so that no potential customers are being ignored but yet be able to...
3. **Minimize brand overlap**, so brands are not competing to gain customer approval.

Managing brand portfolios:

4. Each brand should be **clearly differentiated** and appealing to a sizable enough marketing segment to justify its marketing and production costs.
5. Brand portfolios need to be **carefully monitored over time** to identify weak brands and kill unprofitable ones.
6. There are a number of **specific roles** brands can play as part of a brand portfolio

Roles that brands can play:

- **Flankers**
- **Cash Cows**
- **Low-End Entry-Level**
- **High-End Prestige**

Flanker Brands

- Flanker or “fighter” brands are positioned with respect to competitors’ brands so that more important (and more profitable) flagship brands can retain their desired positioning.
- Fighter brands must not be so attractive that they take sales away from their higher-priced comparison brands or referents.
- Fighter brands must not be designed so cheaply such that they reflect poorly on the other brands in the portfolio.

Cash Cows

- Some brands may be kept around because they still manage to hold on to a sufficient number of customers and maintain their profitability with virtually no marketing support.
- Example Gillette- despite technological advances resulting in the newer Mach III brand of razors, Gillette still sells the older Trac II, Atra, and Sensor brands.
 - Rationale- withdrawing these brands may not necessarily result in customers switching to another Gillette brand, hence it may be more profitable for Gillette to keep them in its brand portfolio for razor blades.

Low-End Entry-Level

- The role of a relatively low-price brand in the brand portfolio often may be a means of attracting customers to the brand franchise.

Retailers like to feature these “traffic builders” because they are able to “trade-up” customers to a higher-priced brand. For example, BMW introduced certain models into its 3-series automobiles in part to bring new customers into the brand franchise with the hope of “moving them up” to higher-priced models when they later decide to trade in their cars.

High-End Prestige

- The role of a relatively high-priced brand in the brand family often is to add prestige and credibility to the entire portfolio.
- Example: Lexus' prestige contributes to Toyota's positive image

Customer Equity

- The aim of customer relationship management (CRM) is to produce high customer equity.
- One definition of customer equity is **“the sum of lifetime values of all customers.”**
- Customer lifetime value is affected by revenue and cost considerations related to customer acquisition, retention, and cross-selling

Enhancing CLV:

- **Acquisition** is affected by the number of prospects, the acquisition probability of a prospect, and acquisition spending per prospect.
- **Retention** is influenced by the retention rate and retention spending level.
- **Add-on spending** is a function of the efficiency of add-on selling, the number of add-on selling offers given to existing customers, and the response rate to new offers.

Linking Brand Equity to Customer Equity

- Both concepts emphasize the importance of customer loyalty and the notion that value is created by having as many customers pay as high as price as possible
- Brand equity and customer equity both matter – no brands without customers and no customers without brands

MARKETING MEMO

21ST CENTURY BRANDING

One of the most successful marketers of the last 15 years, Bedbury played a key role in the rise of both Nike and Starbucks. In his insightful book, *A New Brand World*, he offers the following branding principles:

1. **Relying on brand awareness has become marketing fool's gold** — Smart brands are more concerned with brand relevance and brand resonance.
2. **You have to know it before you can grow it** — Most brands do not know who they are, where they have been, and where they are going.
3. **Always remember the Spandex rule of brand expansion** — Just because you can doesn't mean you should.
4. **Great brands establish enduring customer relationships** — They have more to do with emotions and trust than with footwear cushioning or the way a coffee bean is roasted.
5. **Everything matters** — Even your restroom.
6. **All brands need good parents** — Unfortunately, most brands come from troubled homes.
7. **Big is no excuse for being bad** — Truly great brands use their superhuman powers for good and place people and principles before profits.
8. **Relevance, simplicity, and humanity** — Rather than technology, these will distinguish brands in the future.

Source: Scott Bedbury, *A New Brand World*, (New York: Viking Press, 2002).

Final Discussion:

Marketing Debate - Are Line Extensions Good or Bad?

Some critics vigorously denounce the practice of brand extensions, as they feel that too often companies lose focus and consumers become confused.

Other experts maintain that brand extensions are a critical growth strategy & source of revenue for the firm.

Take a position: Brand extensions can endanger brands versus brand extensions are an important brand growth strategy.

Final Discussion:

Marketing Discussion

How can you relate the different models of brand equity presented in the chapter?

How are they similar?

How are they different?

Can you construct a brand equity model that incorporates the best aspects of each model?