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Creating

BRAND

COURSE

Creating Brand

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OBJECTIVES

This Module aims to:

- What is a brand, and how does branding work?
- What is brand equity?
- How is brand equity built?
- How is brand equity measured?
- How is brand equity managed?
- What is brand architecture?
- What is customer equity?

INTRODUCTION

One of the most valuable intangible assets of a firm is its brands, and it is incumbent on marketing to properly manage their value. Building a strong brand is both an art and a science. It requires careful planning, a deep long-term commitment, and creatively designed and executed marketing. A strong brand commands intense consumer loyalty—and at its heart is a great product or service. Building a strong brand is a never-ending process, as the marketers of Gatorade have found out.

>> GATORADE

Gatorade's roots go back nearly five decades. The product was first developed by researchers at the University of Florida to help the school's athletes cope with the debilitating effects of the hot and humid climate. Its subsequent success as the pioneering leader of the sports drink category led PepsiCo to acquire its parent company, Quaker Oats, in 2001 for $13.4 billion in stock. The brand took off even more in the following years as a result of PepsiCo's massive distribution system and a slew of new product and packaging introductions. But when market share dropped from 80 percent to 75 percent and the brand seemed tired. Pepsico decided a change was needed, so Gatorade marketers returned the brand to its roots, walking away from the mass market to focus more on athletes. Their goal was to transcend the $7 billion a year sports drink market and become a major player in the $20 billion a year sports nutrition market. Three new lines, labeled 01 Prime, 02 Perform, and 03 Recover, were introduced for pre-, during-, and post-workout, respectively. Three different markets were targeted as well. The G Series line aimed at "performance" athletes who engaged in scholastic, collegiate, or high-intensity recreational sports; the G Series Fit line targeted less competitive 18- to 34-year-olds who exercised three to four times a week; and the G Series Pro line targeted professional athletes. A new advertising tagline, "Win From Within," reflected the new Gatorade brand strategy. Gatorade wanted to be all about what is inside an athlete's body, as much as Nike was seen as being all about what is outside the body. Other changes included a shift in the brand's communication budget from 90 percent advertising to include a 30 percent digital component.

Ever more firms and other organizations have come to the realization that one of their most valuable assets is the brand names associated with their products or services. In our increasingly complex world, all of us, as individuals and as business managers, face more choices with less time to make them.

Thus a strong brand's ability to simplify decision making, reduce risk, and set expectations is invaluable. Creating strong brands that deliver on that promise, and maintaining and enhancing the strength of those brands over time, is a management imperative.

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. It has four main steps:

- Identifying and establishing brand positioning
- Planning and implementing brand marketing
- Measuring and interpreting brand performance
- Growing and sustaining brand value

Besides, the module will help you reach a deeper understanding of how to achieve those branding goals. Its basic objectives are:

1. To explore the important issues in planning, implementing, and evaluating brand strategies.

2. To provide appropriate concepts, theories, models, and other tools to make better branding decisions.

We place particular emphasis on understanding psychological principles at the individual or organizational level in order to make better decisions about brands. Our objective is to be relevant for any type of organization regardless of its size, nature of business, or profit orientation.

With these goals in mind, at this section we define what a brand is. We consider the functions of a brand from the perspective of both consumers and firms and discuss why brands are important to both. We look at what can and cannot be branded and identify some strong brands.

Module10 reviewed positioning; the latter three topics are discussed in this module. Module 12 reviews important concepts dealing with competitive dynamics.

HOW DOES BRANDING WORK?

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, enhance, and protect brands, whether established brands such as Mercedes, Sony, and Nike or new ones like Pure Leaf Teas, Taste Nirvana Coconut Waters, and Alexia All Natural Foods. Some of the hottest brands in recent years have emerged online. Consider the runaway success of Tumblr and Instagram.

>> Tumblr

Founded by technical wizard and high-school dropout David Karp, Tumblr is a multimedia platform that allows users to post images, videos, and music in the form of a personal blog and, as the company's motto says, "to follow the world's creators." A combination of publishing platform and social network, Tumblr allows users to express themselves publicly and then follow the feedback on their posts and other people's on a convenient dashboard. Boasting more than 200 million blogs as of October 2014, the site is seen as a must-have for creative types, with most users between 18 and 24. Formally launched in February 2007, Tumblr was purchased by Yahoo! for approximately $1.1 billion in cash in June 2013 with the hope of making it commercially more successful. Advertisers can create their own blogs for free but have to pay to participate in two popular Tumblr modules: Spotlight (an accounts-to-follow suggestion) and the Radar (editor's picks).

>> Instagram

Launched in October 2010 by Stanford grads Kevin Systrom and Mike Krieger, Instagram is known for its photo-sharing app that uses filters to make photos from smart-phone cameras look more professional and allows them to be easily uploaded and shared across multiple platforms simultaneously. These highly valued benefits led the brand to quickly attract more than 100 million users, including some top brands such as Nike, MTV, Starbucks, Burberry, and Gucci. Instagram's name was chosen because it combines the concept of "instant" with the notion of connecting with people via a "telegram." Its success led Facebook to acquire it in April 2012 for approximately $1 billion in stock and cash. A controversial change in its terms of service in December 2012 led users to think Instagram could sell their photos for use in advertising. In the face of an uproar about a violation of privacy, the founders quickly reverted to the original terms.

BRAND DEFINED

Branding has been around for centuries as a means to distinguish the goods of one producer from those of another. In fact, the word brand is derived from the Old Norse word brandr, which means "to burn," as brands were and still are the means by which owners of livestock mark their animals to identify them.

Branding was a means to distinguish the goods of one producer from those of another. Medieval guilds in Europe required that craftspeople put trademarks on their products to protect themselves and their customers against inferior quality.

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."

Thus, a brand is a "name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition."

A brand is thus a product or service whose dimensions differentiate it in some way from other products or services designed to satisfy the same need.

Technically speaking, then, whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand.

These differences may be functional, rational, or tangible—related to product performance of the brand. They may also be more symbolic, emotional, or intangible— related to what the brand represents or means in a more abstract sense.

In the fine arts, branding began with artists signing their works. Brands today play a number of important roles that improve consumers' lives and enhance the financial value of firms.

In fact, however, many practicing managers refer to a brand as more than that—as something that has actually created a certain amount of awareness, reputation, prominence, and so on in the marketplace. Thus we can make a distinction between the AMA definition of a "brand" with a small b and the industry's concept of a "Brand" with a big B. The difference is important for us because disagreements about branding principles or guidelines often revolve around what we mean by the term.

BRAND ELEMENTS

Thus, the key to creating a brand, according to the AMA definition, is to be able to choose a name, logo, symbol, package design, or other characteristic that identifies a product and distinguishes it from others. These different components of a brand that identify and differentiate it are brand elements. For example, consider the variety of brand name strategies.

Some companies, like General Electric and Samsung, use their names for essentially all their products. Other manufacturers assign new products individual brand names that are unrelated to the company name, like Procter & Gamble's Tide, Pampers, and Pantene product brands. Retailers create their own brands based on their store name or some other means; for example, Macy's has its own Alfani, INC, Charter Club, and Club Room brands.

Brand names themselves come in many different forms. There are brand names based on people's names, like Estée Lauder cosmetics, Porsche automobiles, and Orville Redenbacher popcorn; names based on places, like Sante Fe cologne, Chevrolet Tahoe SUV, and British Airways; and names based on animals or birds, like Mustang automobiles, Dove soap, and Greyhound buses. In the category of "other," we find Apple computers, Shell gasoline, and Carnation evaporated milk.

Some brand names use words with inherent product meaning, like Lean Cuisine, Ocean Spray 100% Juice Blends, and Ticketron, or suggesting important attributes or benefits, like DieHard auto batteries, Mop & Glo floor cleaner, and Beautyrest mattresses.

Other names are made up and include prefixes and suffixes that sound scientific, natural, or prestigious, like Lexus automobiles, Pentium microprocessors, and Visteon auto supplies.

Not just names but other brand elements like logos and symbols also can be based on people, places, things, and abstract images. In creating a brand, marketers have many choices about the number and nature of the brand elements they use to identify their products.

BRANDS VERSUS PRODUCTS

How do we contrast a brand and a product? A product is anything we can offer to a market for attention, acquisition, use, or consumption that might satisfy a need or want.

Thus, a product may be:

- A physical good like a cereal, tennis racquet, or automobile;
- A service such as an airline, bank, or insurance company;
- A retail outlet like a department store, specialty store, or supermarket;
- A person such as a political figure, entertainer, or professional athlete;
- An organization like a nonprofit, trade organization, or arts group; a place including a city, state, or country;
- Or even an idea like a political or social cause.

This very broad definition of product is the one we adopt in the book. Well discuss the role of brands in some of these different categories in more detail later.

We can define five levels of meaning for a product:

1. The core benefit level is the fundamental need or want that consumers satisfy by consuming the product or service.

2. The generic product level is a basic version of the product containing only those attributes or characteristics absolutely necessary for its functioning but with no distinguishing features.

This is basically a stripped-down, no-frills version of the product that adequately performs the product function.

3. The expected product level is a set of attributes or characteristics that buyers normally expect and agree to when they purchase a product.

4. The augmented product level includes additional product attributes, benefits, or related services that distinguish the product from competitors.

5. The potential product level includes all the augmentations and transformations that a product might ultimately undergo in the future.

The next figure illustrates these different levels in the context of an air conditioner. In many markets most competition takes place at the product augmentation level, because most firms can successfully build satisfactory products at the expected product level.

Harvard’s Ted Levitt argued that “the new competition is not between what companies produce in their factories but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value.”

THE ROLE OF BRANDS

Brands identify the maker of a product and allow consumers to assign responsibility for its performance to that maker or distributor. Brands perform a number of functions for both consumers and firms.

BRANDS' ROLE FOR CONSUMERS: A brand is a promise between the firm and the consumer. It is a means to set consumers' expectations and reduce their risk. In return for customer loyalty, the firm promises to reliably deliver a predictably positive experience and set of desirable benefits with its products and services. A brand may even be "predictably unpredictable" if that is what consumers expect, but the key is that it fulfills or exceeds customer expectations in satisfying their needs and wants.

Consumers may evaluate the identical product differently depending on how it is branded. They learn about brands through past experiences with the product and its marketing program, finding out which brands satisfy their needs and which do not. As consumers' lives become more rushed and complicated, a brand's ability to simplify decision making and reduce risk becomes invaluable.

Brands can also take on personal meaning to consumers and become an important part of their identity. They can express who consumers are or who they would like to be. For some consumers, brands can even take on human-like characteristics. Brand relationships, like any relationship, are not cast in stone, and marketers must be sensitive to all the words and actions that might strengthen or weaken consumer ties.

BRANDS' ROLE FOR FIRMS: Brands also perform valuable functions for firms. First, they simplify product handling by helping organize inventory and accounting records. A brand also offers the firm legal protection for unique features or aspects of the product. The brand name can be protected through registered trademarks, manufacturing processes can be protected through patents, and packaging can be protected through copyrights and proprietary designs. These intellectual property rights ensure that the firm can safely invest in the brand and reap the benefits of a valuable asset. A credible brand signals a certain level of quality so satisfied buyers can easily choose the product again.

Brand loyalty provides predictability and security of demand for the firm, and it creates barriers to entry that make it difficult for other firms to enter the market. Loyalty also can translate into customer willingness to pay a higher price—often even 20 percent to 25 percent more than competing brands.

Although competitors may duplicate manufacturing processes and product designs, they cannot easily match lasting impressions left in the minds of individuals and organizations by years of favorable product experiences and marketing activity. In this sense, branding can be a powerful means to secure a competitive advantage. Sometimes marketers don't see the real importance of brand loyalty until they change a crucial element of the brand, as the classic tale of New Coke illustrates.

>> Coca-Cola

Battered by a nationwide series of taste-test challenges from sweeter-tasting Pepsi-Cola, Coca-Cola decided in 1985 to replace its old formula with a sweeter variation, dubbed New Coke. The company spent $4 million on market research, and blind taste tests showed Coke drinkers preferred the new, sweeter formula. But the launch of New Coke provoked a national uproar. Market researchers had measured the taste but failed to adequately measure the emotional attachment consumers had to Coca-Cola. There were angry letters, formal protests, and even lawsuit threats to force the retention of “The Real Thing.” Ten weeks later, the company reintroduced its century-old formula as “Classic Coke.” Efforts to resuscitate New Coke eventually failed, and the brand disappeared around 1992. Ironically, the failed introduction of New Coke actually ended up giving the old formula measurably stronger status in the marketplace, with more favorable attitudes and greater sales as a result.

For better or worse, branding effects are pervasive. One research study that provoked much debate about the effects of marketing on children showed that preschoolers felt identical food items—even carrots, milk, and apple juice—tasted better when wrapped in McDonald’s familiar packaging than when in unmarked wrappers.

To firms, brands represent enormously valuable pieces of legal property that can influence consumer behavior, be bought and sold, and provide their owner the security of sustained future revenues. Companies have paid dearly for brands in mergers or acquisitions, often justifying the price premium on the basis of the extra profits expected and the difficulty and expense of creating similar brands from scratch. Wall Street believes strong brands result in better earnings and profit performance for firms, which, in turn, create greater value for shareholders.

SCOPE OF BRANDING

How do you “brand” a product? Although firms provide the impetus to brand creation through marketing programs and other activities, ultimately a brand resides in the minds and hearts of consumers. It is a perceptual entity rooted in reality but reflecting the perceptions and idiosyncrasies of consumers.

Branding is the process of endowing products and services with the power of a brand. It’s all about creating differences between products. Marketers need to teach consumers “who” the product is—by giving it a name and other brand elements to identify it—as well as what the product does and why consumers should care.

Branding creates mental structures that help consumers organize their knowledge about products and services in a way that clarifies their decision making and, in the process, provides value to the firm.

For branding strategies to be successful and brand value to be created, consumers must be convinced there are meaningful differences among brands in the product or service category. Brand differences often relate to attributes or benefits of the product itself. Gillette, Merck, and 3M have led their product categories for decades, due in part to continual innovation. Other brands create competitive advantages through non-product-related means.

Gucci, Chanel, and Louis Vuitton have become category leaders by understanding consumer motivations and desires and creating relevant and appealing images around their stylish products.

Successful brands are seen as genuine, real, and authentic in what they sell as well as who they are. A successful brand makes itself an indispensable part of its customers' lives. Once a faded preppy afterthought, J.Crew tripled its revenue to $2.2 billion from 2002 to 2012 by becoming a highly creative force in fashion. By constantly introducing new styles—but retaining a cohesive look—the brand enjoys intense loyalty, numerous fan blogs, and high-profile celebrity supporters like Michelle Obama and Anna Wintour.

Home to some of the top soccer players in the world, like Cristiano Ronaldo, Real Madrid is an iconic sports brand with multiple lines of revenue.

>> Real Madrid

For the first time since *Forbes* magazine began its ranking in 2004, Real Madrid surpassed Manchester United in 2013 to become the world's most valuable team in soccer—or football as it is known as outside the United States—with an estimated value of $3.3 billion. Also known by fans as "Los Merengues," the iconic but floundering club began to thrive when the billionaire construction tycoon Florentine Perez took over in 2000. Perez's strategy was to attract some of the very top players in the game, brand names in their own right, such as David Beckham, Zinedine Zidane, and, later on, Cristiano Ronaldo and Kaka. Success on the pitch allowed Perez to develop three distinct and lucrative lines of business: broadcast rights (worth $250 million annually), sponsorship and endorsement revenue (worth $240 million annually), and match-day revenue (worth $160 million annually). Real Madrid is truly a global brand and derives 65 percent of its revenue abroad. Sponsorship includes high-profile deals with Adidas, Emirates Airlines, and Spanish banking group BBVA.

DEFINING BRAND EQUITY

Brand equity is the added value endowed to products and services with consumers. It may be reflected in the way consumers think, feel, and act with respect to the brand, as well as in the prices, market share, and profitability it commands.

Marketers and researchers use various perspectives to study brand equity.24 Customer-based approaches view it from the perspective of the consumer—either an individual or an organization—and recognize that the power of a brand lies in what customers have seen, read, heard, learned, thought, and felt about the brand over time.

Customer-based brand equity is thus the differential effect brand knowledge has on consumer response to the marketing of that brand. A brand has *positive* customer-based brand equity when consumers react more favorably to a product and the way it is marketed when the brand is *identified* than when it is not identified. A brand has negative customer-based brand equity if consumers react less favorably to marketing activity for the brand under the same circumstances. There are three key ingredients of customer-based brand equity.

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

Marketing Advantages of Strong Brands

1. Brand equity arises from differences in consumer response. If no differences occur, the brand-name product is essentially a commodity, and competition will probably be based on price.

2. Differences in response are a result of consumers' brand knowledge, all the thoughts, feelings, images, experiences, and beliefs associated with the brand. Brands must create strong, favorable, and unique brand associations with customers, as have Toyota *(reliability),* Hallmark *(caring),* and Amazon.com *(convenience and wide selection).*

3. Brand equity is reflected in perceptions, preferences, and behavior related to all aspects of the marketing of a brand. Stronger brands earn greater revenue. The table above summarizes some key benefits of brand equity.

The challenge for marketers is therefore ensuring customers have the right type of experiences with products, services, and marketing programs to create the desired thoughts, feelings and brand knowledge. In an abstract sense, we can think of brand equity as providing marketers with a vital strategic bridge from their past to their future.

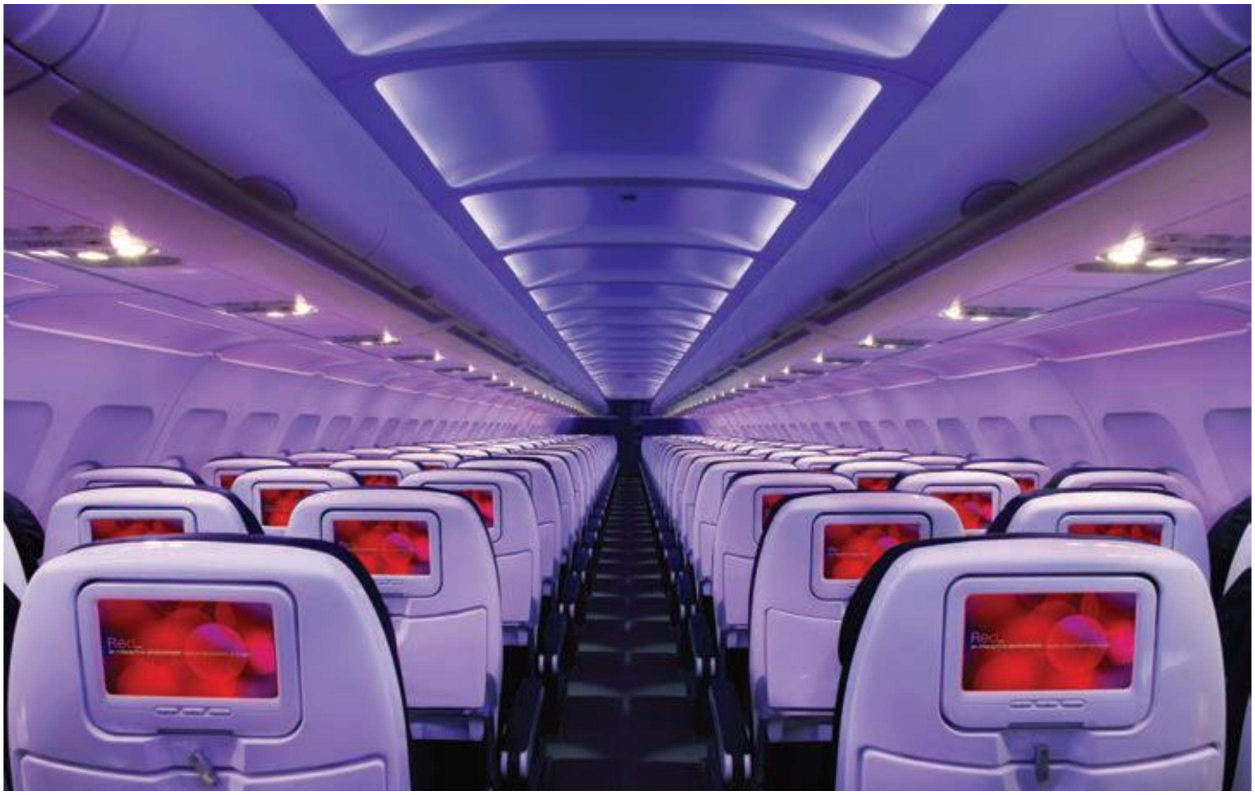
Marketers should also think of the marketing dollars spent on products and services each year as investments in consumer brand knowledge. The *quality* of that investment is the critical factor, not necessarily the *quantity* (beyond some threshold amount). It's actually possible to overspend on brand building if money is not spent wisely.

Customers' brand knowledge dictates appropriate future directions for the brand. Consumers will decide, based on what they think and feel about the brand, where (and how) they believe the brand should go and grant permission (or not) to any marketing action or program. New-product ventures such as BENGAY aspirin, Cracker Jack cereal, Frito-Lay lemonade, Fruit of the Loom laundry detergent, and Smucker's premium ketchup all failed because consumers found them inappropriate extensions of the brand.

A brand promise is the marketer's vision of what the brand must be and do for consumers. Virgin's brand promise is to enter categories where customers' needs are not well met, do different things, and do things differently, all in a way that better meets those needs. With Virgin America, the company appears to have come up with another brand winner.

>> Virgin America

After flying for only a few years, Virgin America became an award-winning airline that passengers adore *and* that can make money. It is not unusual for the company to receive e-mails from customers saying they actually wished their flights lasted longer! Virgin America set out to reinvent the entire travel experience, starting with an easy-to-use and friendly Web site and check-in. In flight, passengers revel in Wi-Fi, spacious leather seats, mood lighting, and in-seat food and beverage ordering through touch-screen panels. Some passengers remark that Virgin America is like “flying in an iPod or nightclub.” The brand is seeking to be positioned as “an established player featuring discount pricing and a hip, stylish customer experience for travelers.” Without a national TV ad campaign, Virgin America has relied on PR, word of mouth, social media, and exemplary customer service to create that customer experience and build the brand. To get customers more involved with the brand, Virgin America launched a digital marketing campaign offering the opportunity to upload a photo to Instagram from the flight. By tweeting the company’s Twitter account, travelers can also upload their photo onto Virgin America’s Times Square billboard or share it via their own social media accounts.



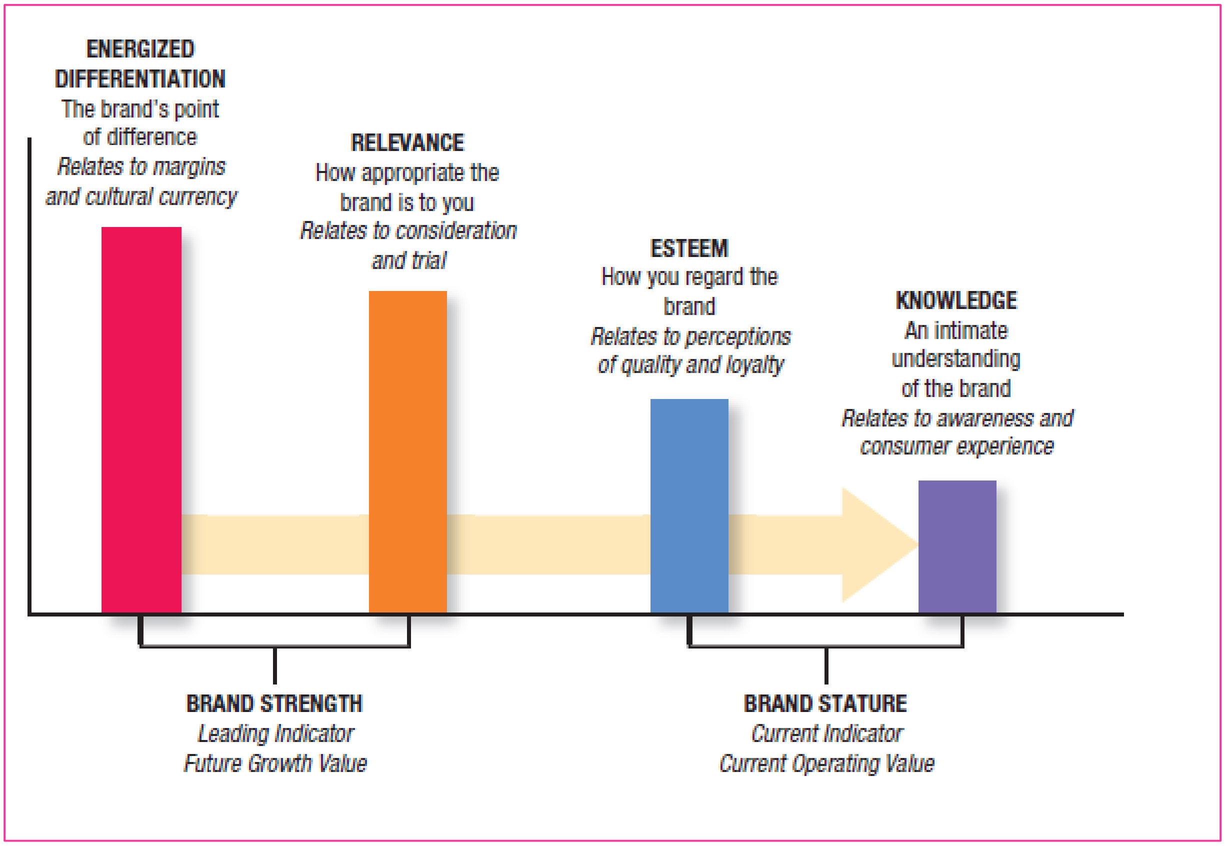
Virgin America airline exemplifies Virgin's corporate mission to better satisfy customers by doing different things and doing things differently.

Violating a brand promise can have severe consequences. Founded in 1984, TED talks (“Technology, Entertainment, and Design”) became widely admired for their thought-provoking, leading-edge content. After deciding to let anyone apply to manage and stage local events called TEDx with relatively minor oversight, the organizers of TED saw thousands of events of varying quality spring up all over the world, leading some critics to question whether the organization was losing control of its brand.

BRAND EQUITY MODELS

Although marketers agree about basic branding principles, a number of models of brand equity offer some differing perspectives. Here we highlight three more established ones.

BRANDASSET® VALUATOR: Advertising agency Young and Rubicam (Y&R) developed a model of brand equity called the BrandAsset® Valuator (BAV). Based on research with more than 800,000 consumers in 51 countries, BAV compares the brand equity of thousands of brands across hundreds of different categories. There are four key components—or pillars—of brand equity, according to BAV (see the next diagram):



BrandAsset® Valuator Model

• *Energized differentiation* measures the degree to which a brand is seen as different from others as well as its pricing power.

• *Relevance* measures the appropriateness and breadth of a brand's appeal.

• *Esteem* measures perceptions of quality and loyalty, or how well the brand is regarded and respected.

• *Knowledge* measures how aware and familiar consumers are with the brand and the depth of their experience.

Energized differentiation and relevance combine to determine *brand strength*—a leading indicator that predicts future growth value. Esteem and knowledge together create *brand stature,* a "report card" of past performance and a lagging indicator of current operating value.

The relationships among these dimensions—a brand's "pillar pattern"—reveal much about a brand's current and future status. Brand strength and brand stature combine to form the *power grid,* depicting stages in the cycle of brand development in successive quadrants. Strong new brands show higher levels of energized differentiation and energy than relevance, whereas both esteem and knowledge are lower still. Leadership brands show high levels on all pillars, with strength greater than stature. As strength slips, they become mass market brands. Finally, declining brands show high knowledge—evidence of past performance—a lower level of esteem, and even lower relevance and energized differentiation.

According to BAV analysis, consumers are concentrating their devotion and purchasing power on an Increasingly smaller portfolio of special brands—brands with energized differentiation that keep evolving. These brands connect better with consumers—commanding greater usage loyalty and pricing power and creating greater shareholder value. Some recent insights from the BAV data are summarized in "Marketing Insight: Brand Bubble Trouble."

BRAND BUBBLE TROUBLE

In *The Brand Bubble*, brand consultants Ed Lebar and John Gerzema use Y&R's historical BAV database to conduct a comprehensive examination of the state of brands. Beginning with data from mid-2004, they discovered several odd trends. For thousands of consumer goods and services brands, key brand value measures such as consumer "top-of-mind" awareness, trust, regard, and admiration experienced significant drops.

At the same time, however, share prices for a number of years were being driven higher by the intangible value the markets were attributing to consumer brands. Digging deeper, Lebar and Gerzema found the increase was actually due to a very few extremely strong brands such as Google, Apple, and Nike. The value created by the vast majority of brands was stagnating or falling.

The authors viewed this mismatch between the value consumers see in brands and the value the markets were ascribing to them as a recipe for disaster in two ways. At the macroeconomic level, it implied that stock prices of most consumer companies were overstated. At the microeconomic, company level, it pointed to a serious and continuing problem in brand management.

Why have consumer attitudes toward brands declined? The research identified three fundamental causes. First, there has been a proliferation of brands. New product introductions have accelerated, but many fail to register with consumers. Two, consumers expect creative "big ideas" from brands and feel they are just not getting them. Finally, due to corporate scandals, product crises, and executive misbehavior, trust in brands has declined.

Yet vital brands are still being successfully built. Although all four pillars of the BAV model play a role, the strongest brands resonated with consumers in a special way. Amazon.com, Axe, Facebook, Innocent, IKEA, Land Rover, LG, LEGO, Tata, Nano, Twitter, Whole Foods, and Zappos exhibited notable energized differentiation by communicating dynamism and creativity in ways most other brands did not.

Formally, the BAV analysis identified three factors that help define energy and the marketplace momentum it creates:

1. *Vision*—A clear direction and point of view on the world and how it can and should be changed.

2. *Invention*—An intention for the product or service to change the way people think, feel, and behave.

3. *Dynamism*—Excitement and affinity in the way the brand is presented.

John Gerzema's follow-up research with Michael D'Antonio, published in *Spend Shift*, examined developments later in the decade and the way consumers were changing—or not—as a result of the traumatic economic recession. The authors describe "Spend Shift" as "a consumer-led movement to express their values through the power of their spending. We're moving from mindless to mindful consumption. People are returning to old-fashioned virtues, such as self-reliance, thrift, faith, creativity, hard work and community—and powering them with social behaviors and technology."

The authors make several telling observations: Trust is declining across industries, and brand attribute characteristics such as "kind," "empathetic," "socially responsible," and "leader" are rising in importance with consumers. The authors offer 10 "postconsumer learnings"

1. We are moving from a credit to a debit society.	2. There are no longer consumers, only customers.
3. Industries are revealed as collections of individuals.	4. Generational divides are disappearing.
5. Human regulation is remaking the marketplace.	6. Generosity is now a business model.
7. Society is shifting from consumption to production.	8. We must think small to solve big.
9. We are seeking better vs. more.	10. America is an emerging market for value-led innovation.

THE CHALLENGE OF BRANDING

In August 2003, more than 100,000 leather-clad bikers rumbled into Milwaukee, Wisconsin, to celebrate Harley-Davidson's one-hundredth birthday. For three days, the city was transformed into a massive biker-birthday party; there were concerts and festivals and celebrations, including a parade featuring more than 10,000 motorcycles. Harley-Davidson aficionados traveled from 47 different countries to attend the event.

The birthday celebration was a powerful demonstration of the strength of the Harley-Davidson brand. Harley-Davidson isn't unique because it makes good motorcycles; there are many companies in the world that make good motorcycles. Harley-Davidson is unique because it has a powerful brand that connects with its customers. The brand transcends the product.

More broadly, the Harley-Davidson birthday celebration was an example of the power of brands to create customer loyalty and insulate companies from competition. By building strong brands, companies can build strong businesses. Harley-Davidson, for example, has delivered exceptional financial results—2003 was the eighteenth consecutive year of revenue and earnings growth for the company.

A brand is a set of associations linked to a name, mark, or symbol associated with a product or service. The difference between a name and a brand is that a name doesn't have associations; it is simply a name. A name becomes a brand when people link it to other things. A brand is much like a reputation. The Coca-Cola brand, for example, has associations including cola, refreshment, red, the Real Thing. The Dom Perignon brand brings to mind celebrations, luxury, champagne, France, and expensive. Las Vegas quickly conjures up gambling, fun, shows, and sin.

Brands are not always a positive; associations can be positive or negative. One-time energy giant Enron, for example, has associations including financial mismanagement, fraud, and bankruptcy due to its 2001 implosion into financial scandal.

Similarly, ValuJet, a discount airline, developed associations including dangerous, reckless, and poor maintenance after one of its planes crashed in the Florida Everglades.

Virtually any type of product or service can be branded; brands are not just for luxury goods or consumer packaged goods. Indeed, it is difficult to come up with a product or service where brands don't play a role. There are hundreds of brands of water, including Evian, Perrier, Dasani, and Aquafina. Medical device and pharmaceutical companies have built strong brands, developing associations in the minds of patients and health-care professionals—Viagra, Lipitor,Vioxx, and Claritin are all brands with clear associations, some positive and some negative. Business-to-business companies have developed exceptionally powerful brands such as McKinsey, Goldman Sachs, and Baker & McKenzie. Entertainers are brands; the Rolling Stones, Britney Spears, and Andrea Bocelli all bring clear sets of associations. Nonprofit organizations are brands, religious groups are brands, and every person is a brand.

BRANDS AND PERCEPTION

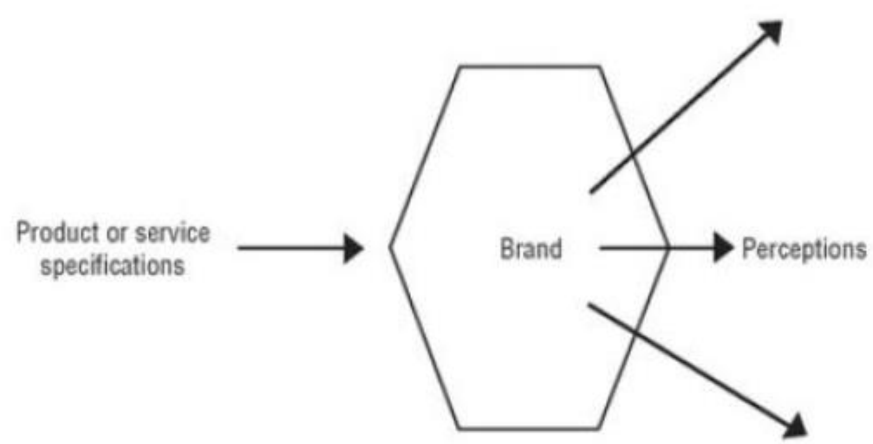
Brands have a remarkable ability to impact the way people view products. Consumers rarely just see a product or service; they see the product together with the brand. As a result, how they perceive the product is shaped by the brand.

Perceptions, of course, matter most—how people perceive something matters far more than the absolute truth. The question generally isn't which product or service is best; the question is which product or service people think is best. Is Dom Perignon the best champagne in the world? Does Tiffany sell the finest diamonds in the world? Does McKinsey do the best strategic thinking? Perhaps so, perhaps not; however, many people think so, and perceptions matter most.

The presence of a well-known brand will dramatically affect how people view a product or service. If people see a premium brand name on a product, they will likely view the item as high quality, exclusive, and expensive. If people see a discount name on a product, they will probably perceive the item to be low quality and cheap.

Brands function like prisms (in the next figure) how people regard a branded product is shaped both by the actual product, such as specific features and attributes, and by the brand. The brand can elevate or diminish the product.

To demonstrate the power of a brand to shape expectations, a brand researcher conducted a simple study with MBA students. He first asked a group of students what they would expect to pay for a pair of good-quality, 18-karat-gold earrings with two 0.3-carat diamonds. He asked a second group of students how much they would pay for the same earrings, only this time he added the words "From Tiffany." He asked a third group the same question, but this time changed "From Tiffany" to "From Wal-Mart."



Brand Prism

The results were striking. The average price for the unbranded earrings was $550. With Tiffany branding, the average price increased to $873, a jump of almost 60 percent. This increase was solely due to the addition of the Tiffany brand. With the Wal-Mart branding, the price expectation fell to just $81, a decline of 85 percent from the unbranded earrings and a decline of 91 percent from the Tiffany-branded earrings. The study highlights the power of the brand to shape perception. “Good quality,” for example, means something entirely different when it comes from Tiffany rather than from Wal-Mart.

In addition, the experience of wearing earrings from Tiffany is different from the experience of wearing earrings from Wal-Mart. The distinction between the brands is not just conspicuous consumption; you can’t tell a Tiffany earring from a Wal-Mart earring from a distance.

BRANDING CHALLENGES

Branding looks easy. Nike is a powerful brand. Starbucks and Pepsi and Goldman Sachs and Steinway are all distinctive and well known. Building a brand appears to be straightforward; a manager just needs to come up with a good name, an attractive logo, and a catchy slogan.

In reality, creating and building brands are two of the greatest challenges a manager will face. For every Starbucks or Nike, there are dozens and dozens of failed brands. Even well-known and respected brands stumble. The branding graveyard is full; it includes notables such as Oldsmobile, Pan Am, pets.com, ValuJet, Chiffon, Yugo, Chemical Bank, MarchFirst, PaineWebber, and many, many more.

In 2003, he did a study to understand the challenges of branding. He interviewed over 30 brand leaders from a range of industries, including consumer packaged goods, technology, health care, and financial services. Each executive he spoke with had at least five years of experience building brands. In total, the group had over 200 years of experience.

The executives all believed in the power of brands, and agreed that branding was exceptionally difficult. They highlighted very similar challenges. While the precise dynamics differed by industry, the core issues were the same. Three key challenges emerged from the study: cash, consistency, and clutter .These are the “three C’s” of branding.

Challenge 1: Cash: The challenge of cash, or dealing with short-term financial concerns, is the biggest single challenge brand leaders face. It is driven by a very simple conundrum: Executives need to deliver short-term financial results, but brands are long-term assets.

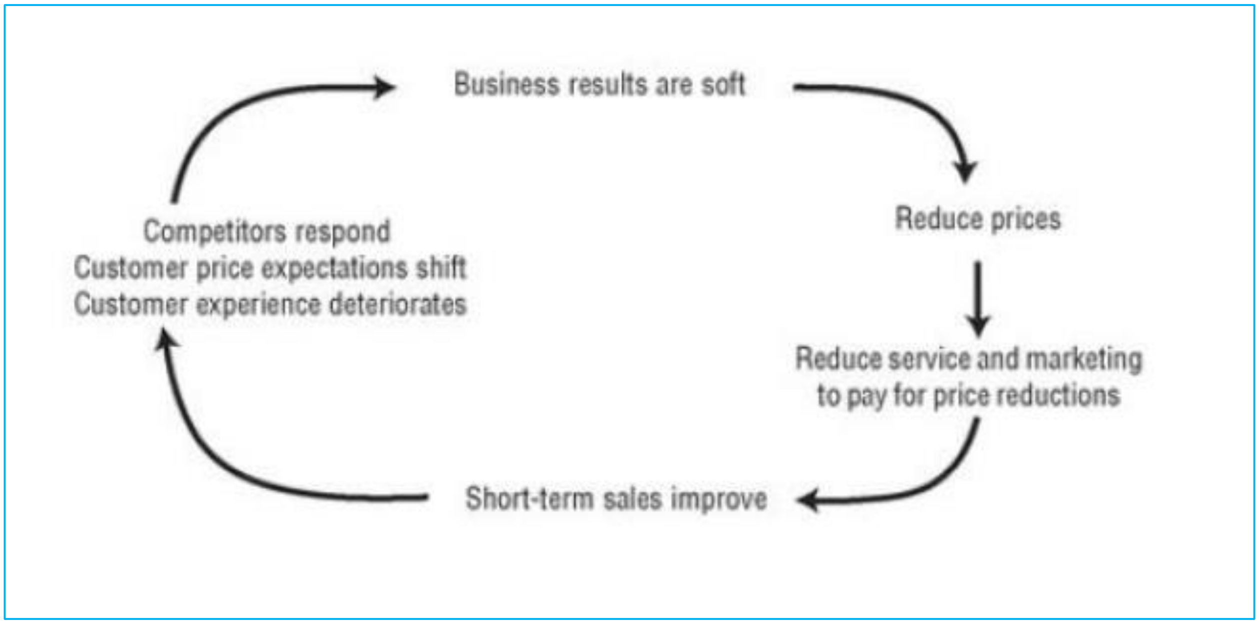
Executives who hit quarterly profit targets are rewarded, and those who exceed them are often rewarded handsomely. Although it is important to make headway on long-term initiatives such as building a strong brand, hitting the short-term financial targets matters most. As one of my former colleagues at Kraft Foods noted frequently, “Good numbers don’t guarantee your success, but bad numbers will get you every time.”

Brands are long-term assets. If managed properly, a brand can live for decades or centuries. For example, Harvard, Moet & Chandon, and Pepsi were created in 1636, 1743, and 1898, respectively. All of these brands continue to be vibrant and valuable today.

Virtually all of a brand’s value resides in the future; the current-year financial returns are a very small part of the total. If a brand delivers a steady stream of cash flow in perpetuity, less than 5 percent of the value of the brand resides in the first year, assuming a discount rate of 5 percent.

However, if a manager is forced to choose between investing in a brand and missing short-term financial targets, most managers will choose to hit the short-term numbers. It’s usually the career-optimizing decision. And in a supreme bit of irony of business, a manager who boosts short-term profits while damaging the long-term health of a brand is often rewarded, while a manager who invests in a brand at the expense of short-term results is often penalized. The cost-benefit analysis on a brand-building initiative highlights the tension. The benefits are difficult to quantify, uncertain, and in the future. The costs are quantifiable, certain, and immediate.

It is astonishingly easy for brands to get caught in a “branding doom loop.” The doom loop begins with a manager struggling to deliver a short-term profit target. To boost sales and profits, the manager deploys programs that have a significant short-term impact, such as a price promotion. To fund these programs, the manager reduces spending on programs with smaller short-term returns, such as brand-building programs. These moves are usually successful in improving short-term results, and with better results, the manager survives to fight another day.



However, the plan that was so successful in the short run may well have created negative long-term issues. First, the plan might prompt a competitive response. Second, customer pricing expectations may shift, as customers are now accustomed to the promoted prices. A buy-one-get-one-free offer is motivating and exciting the first time, and perhaps the second time. But eventually customers come to expect it, so companies must cut prices further to create excitement and drive sales. And third, the brand may weaken because brand-building programs were cut.

Combined, these factors put the brand in a weak position, with disappointing sales. And this, of course, forces the manager to implement more short-term programs, continuing the doom loop and sending the brand into a dangerous downward spiral.

Dealing with short-term financial constraints, then, is one of the most critical challenges of branding. Managers must balance driving short-term numbers with building a long-term brand. Without understanding the challenge of cash, executives undertaking branding programs are certain to encounter trouble. They will invest in their brand without setting proper expectations, and if short-term results are weak, these managers may not survive in their position long enough to see the benefits of their investment.

Challenge 2: Consistency: The second great challenge of branding is consistency, or getting an entire organization to embrace the brand and live up to the brand promise over time.

Crafting the perfect brand positioning and developing the ideal brand portfolio are both noble tasks. However, if the organization doesn't understand, believe in, and own the brand—if the message, the brand, and the product are not consistent—the vision will remain unfulfilled.

Brands are created through a wide range of touch points; every time customers interact with a brand they form associations. This means that almost everyone in a company has an impact on the brand, from the receptionist to the advertising manager to the customer service representative.
One marketing executive put it this way:

A brand is:

- The feel of your business card, the way the company's phone is answered,
- The assistant coordinator who's had one too many after work yet has handed out her business card while at the bar,
- The disgruntled salesman who complains to his family and friends that the company he works for is really ripping people off for big profits on the products he sells,
- The tone of a letter,
- The employee who doesn't help the customer,
- The vice president who tells too rude a joke in an inappropriate setting,
- The package that's almost impossible to open, the receptionist at the corporate office who continues to chat with a fellow worker when a customer arrives,
- An overlong wait at the cash register, the instructions that are too hard to follow…and more.
- The brand is every touch point and every thought the customer has about the brand.

The Starbucks brand, for example, was not built through advertising. Indeed, the company did virtually no advertising for its first 30 years in the market. Starbucks was built through a series of outstanding experiences at store level. People developed a loyalty for the Starbucks brand, and this loyalty was created by dozens of positive interactions with Starbucks employees.

Conversely, the Lands' End brand was damaged after it failed to live up to its brand promise. Lands' End, a direct retailer with a reputation for outstanding customer service, was acquired by Sears in 2002 for $1.9 billion. Sears quickly began selling Lands' End products in Sears stores. However, the customer service provided by Sears was poor. This disappointed Lands' End customers and tarnished the once powerful Lands' End brand.

In short, Starbucks and many other great brands succeed by offering their customers a consistent experience with their brands at every customer touch point by engaging their entire organizations. Consistency matters, and it matters at every turn.

Challenge 3: Clutter: The third great challenge facing brand managers is clutter. Simply put, consumers are bombarded every day by hundreds and sometimes thousands of advertisements and promotions. From the moment we awake until the second we drift off to sleep, we are the recipients of messages and marketing appeals. It makes the local flea market seem positively serene.

Consider the number of media outlets now available to consumers. With satellite or cable access, people can watch over 200 different television stations. XM Satellite radio alone offers over 120 channels. There are millions of web sites to browse at every hour of the day. An exceptionally popular primetime network television show may reach 15 million people, which is only 5 percent of the U.S. population.

Breaking through this cluttered environment is exceptionally difficult. It's hard to get anyone to pay attention to your brand, and harder still to form meaningful associations. To stand out, brands need to be focused and unique; great brands mean something distinct for customers. This is why brand positioning is so important. Almost every great brand has a clear set of associations. Wal-Mart stands for low prices. Tiffany is synonymous with luxury and exclusivity. BMW defines performance driving. Vanguard offers low-price mutual funds, especially low-price index funds. Viagra is all about erectile dysfunction. Red Bull stands for energy and excitement.

Weak brands, however, are bland; they don't stand for anything in particular, and so they mean essentially nothing. Weak brands struggle because they have no focus and they don't stand out. Sears is a weak, diffuse brand, for example; it is not particularly cheap and not particularly high quality. It's not just about tools and it's not just about apparel. Ford's Lincoln brand of vehicles has no obvious associations; it is simply another brand. Charles Schwab, once the leader in low-cost online trading, has lost its distinctiveness; it is neither high service nor low cost.

Having a clear positioning is a good start, but it is not sufficient; brands need to be creative in the market to attract attention. Great advertising is important, but advertising alone is no longer enough, due to the high levels of media fragmentation.

Marketers must identify and execute creative ideas that are unique and attract attention. Red Bull enlisted influential college students to promote its drink. BMW's Mini attached one of its cars to the roof of a large SUV and drove around major cities. Strategic focus and out-of-the-box creativity has become essential: without both a brand will be lost in the clutter.

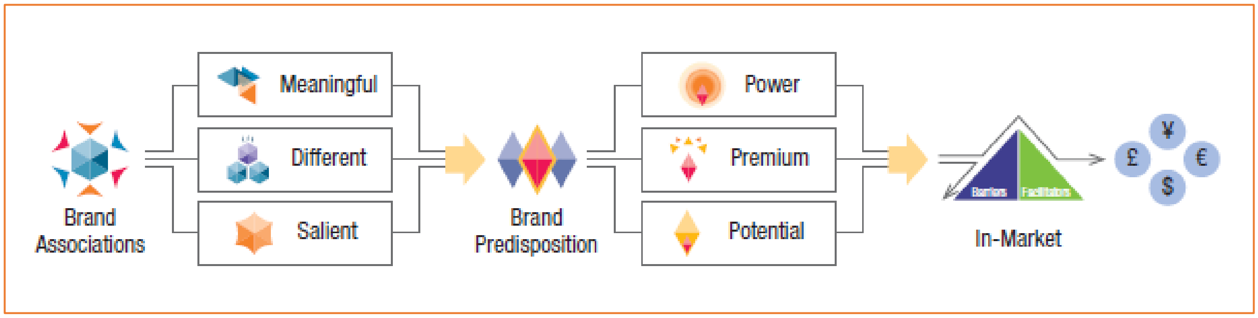
Innocent is a brand which consumers rate as being highly dynamic and creative.

BRANDZ: Marketing research consultants Millward Brown and WPP have developed the Brandz model of brand strength, at the heart of which is the BrandDynamics™ model, a system of brand equity measurements, based on Millward Brown's Meaningfully Different Framework, that reveals a brand's current equity and opportunities for growth.* BrandDynamics employs a set of simple scores that summarize a brand's equity and are relatable directly to real world financial and business outcomes.

BRANDDYNAMICS maintain that three different types of brand associations are crucial for building customer predisposition to buy a brand—meaningful, different, and salient brand associations. The success of a brand along those three dimensions, in turn, is reflected in three important outcome measures:

- *Power:* a prediction of the brand's volume share
- *Premium:* a brand's ability to command a price premium relative to the category average

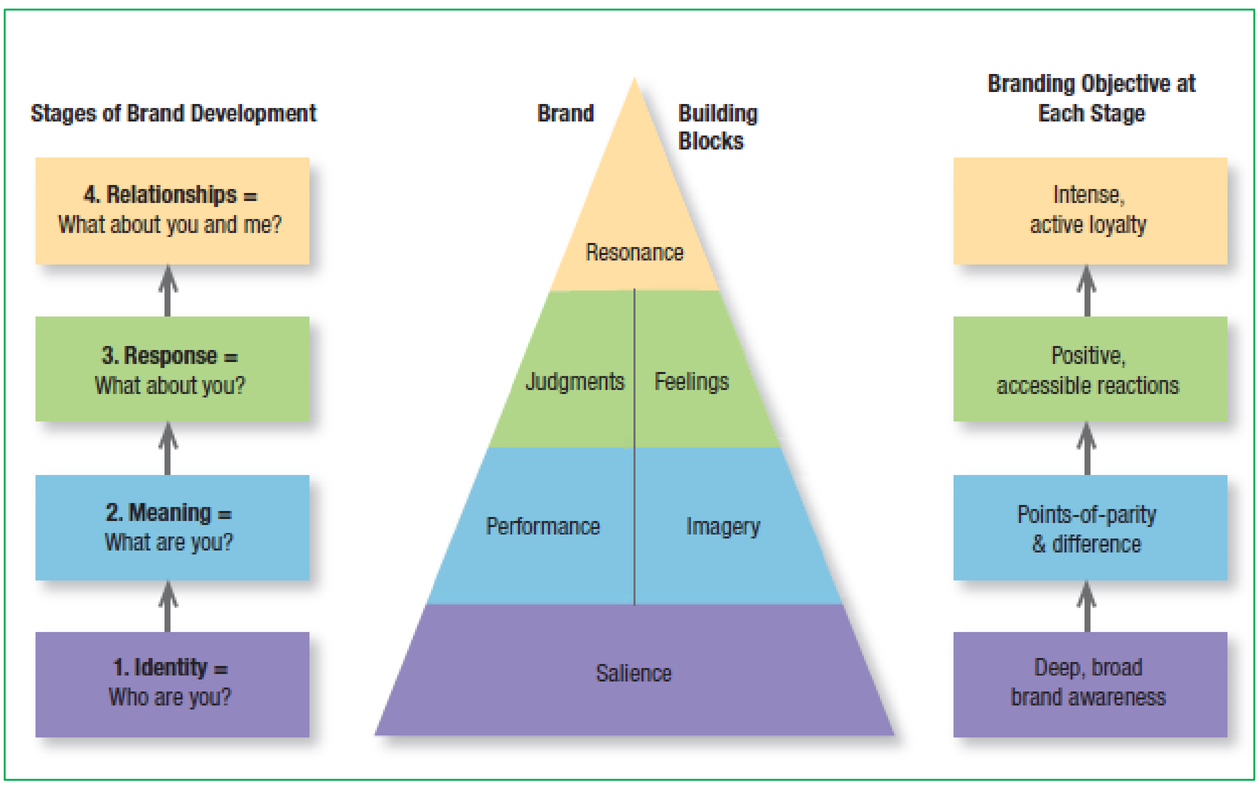
• *Potential:* the probability that a brand will grow value share



BrandDynamics™ Model

According to the model, how well a brand is activated in the marketplace and the competition that exists there will determine how strongly brand predisposition ultimately translates into sales.

BRAND RESONANCE MODEL: The brand resonance model also views product class or need; (2) firmly establishing the brand meaning in customers' minds by strategically linking a host of tangible and intangible brand associations; (3) eliciting the proper customer responses in terms of brand-related judgment and feelings; and (4) converting customers' brand responses to intense, active loyalty.



According to this model, enacting the four steps means establishing a pyramid of six “brand building blocks” as illustrated in in the diagram above. The model emphasizes the duality of brands—the rational route to brand building is on the left side of the pyramid, and the emotional route is on the right side. One brand that has found much success going up both sides of the pyramid is MasterCard.

MasterCard

In the mid-1990s, Visa and American Express were battling fiercely for market leadership. To get back into the picture, MasterCard, with its ad agency McCann Erickson, launched the now iconic “Priceless” ad campaign in 1997 to strengthen its brand image. Each ad focused on a consumer activity (such as a father and son going to a baseball game) and identified three tangible products or services purchased as part of that activity and their prices (“One autographed baseball. $50”) before ending with the true but intangible payoff (“Real conversation with 11-year-old son. Priceless.”). The ads always ended with the campaign tagline, “There are some things money can’t buy; for everything else, there’s MasterCard.” The campaign stressed the duality of the MasterCard brand, communicating both its rational advantages—acceptance at establishments worldwide—and the emotional payoffs those advantages permitted. The campaign has been a global success for more than 17 years, running similarly structured ads in 102 markets and 50 languages. Lately, it has emphasized *enabling* “priceless” moments with the “Priceless Cities” initiative, launched in 2011 to create special events for MasterCard cardholders in major cities around the world.

Creating significant brand equity requires reaching the top of the brand pyramid, which occurs only if the right building blocks are put into place.

• *Brand salience* is how often and how easily customers think of the brand under various purchase or consumption situations—the depth and breadth of brand awareness.

• *Brand performance* is how well the product or service meets customers’ functional needs.

• *Brand imagery* describes the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers’ psychological or social needs.

• *Brand judgments* focus on customers’ own personal opinions and evaluations.

• *Brand feelings* are customers’ emotional responses and reactions with respect to the brand.

• *Brand resonance* describes the relationship customers have with the brand and the extent to which they feel they’re “in sync” with it.

Resonance is the intensity of customers’ psychological bond with the brand and the level of activity it engenders.

33 Brands with high resonance include Harley-Davidson, Apple, and eBay. Fox News has found that the higher levels of resonance and engagement its programs engender often lead to greater recall of the ads it runs.

BUILDING BRAND EQUITY

Marketers build brand equity by creating the right brand knowledge structures with the right consumers. The success of this process depends on *all* brand-related contacts—whether marketer-initiated or not. From a marketing management perspective, however, there are three main sets of brand equity drivers*:*

1. *The initial choices for the brand elements or identities making up the brand (brand names, URLs, logos, symbols, characters, spokespeople, slogans, jingles, packages, and signage)*—Microsoft chose the name Bing for its new search engine because it felt it unambiguously conveyed search and the "aha" moment of finding what you are looking for. It is also short, appealing, memorable, active, and effective multiculturally.

2. *The product and service and all accompanying marketing activities and supporting marketing programs*—General Mills and its long-time CMO Mark Addicks are employing a number of new marketing activities to sell cereals, cake mixes, and yogurt. The company is exploring how to best use smart phones with consumers via QR codes, apps, and augmented reality, developing new packaging strategies in the process.

3. *Other associations indirectly transferred to the brand by linking it to some other entity (a person, place, or thing)*—The brand name of New Zealand vodka 42BELOW refers to both a latitude that runs through New Zealand and the percentage of the drink's alcohol content. The packaging and other visual cues are designed to leverage the perceived purity of the country to communicate the positioning for the brand.

Choosing Brand Elements Brand elements are devices, which can be trademarked, that identify and differentiate the brand. Most strong brands employ multiple brand elements. Nike has the distinctive "swoosh" logo, the empowering "Just Do It" slogan, and the "Nike" name from the Greek winged goddess of victory.

Marketers should choose brand elements to build as much brand equity as possible. The test is what consumers would think or feel about the product *if* the brand element were all they knew. Based on its name alone, for instance, a consumer might expect SnackWell's products to be healthful snack foods and Panasonic Toughbook laptop computers to be durable and reliable.

BRAND ELEMENT CHOICE CRITERIA: There are six criteria for choosing brand elements. The first three—memorable, meaningful, and likable—are brand building. The latter three—transferable, adaptable, and protectable—are defensive and help leverage and preserve brand equity against challenges.

1. *Memorable*—How easily do consumers recall and recognize the brand element, and when—at both purchase and consumption? Short names such as Tide, Crest, and Puffs are memorable brand elements.

2. *Meaningful*—Is the brand element credible? Does it suggest the corresponding category and a product ingredient or the type of person who might use the brand? Consider the inherent meaning in names such as DieHard auto batteries, Mop & Glo floor wax, and Lean Cuisine low-calorie frozen entrées.

3. *Likable*—How aesthetically appealing is the brand element? A recent trend is for playful names that also offer a readily available URL, especially for online brands like Flickr, Instagram, Pinterest, Tumblr, Dropbox, and others.

4. *Transferable*—Can the brand element introduce new products in the same or different categories? Does it add to brand equity across geographic boundaries and market segments? Although initially an online bookseller, Amazon.com was smart enough not to call itself "Books 'R' Us." The Amazon is famous as the world's biggest river, and the name suggests the staggeringly diverse range of products the company now sells.

5. *Adaptable*—How adaptable and updatable is the brand element? Logos can easily be updated. The past 100 years have seen the Shell logo updated 10 times.

6. *Protectable*—How legally protectable is the brand element? How competitively protectable? When names are in danger of becoming synonymous with product categories—as happened to Kleenex, Kitty Litter, Jell-O, Scotch Tape, Xerox, and Fiberglass—their makers should retain their trademark rights and not allow the brand to become generic.

DEVELOPING BRAND ELEMENTS: Brand elements can play a number of brand-building roles.39 If consumers don't examine much information in making product decisions, brand elements should be easy to recall and inherently descriptive and persuasive. But choosing a name with inherent meaning may make it harder to later add a different meaning or update the positioning.

The likability of brand elements can increase awareness and associations. "Marketing Memo: The Marketing Magic of Characters" describes some of the marketing advantages of using brand characters.

THE MARKETING MAGIC OF CHARACTERS

Brand characters have a long and important history in marketing. The Keebler elves reinforce home-style baking quality and a sense of magic and fun for their line of cookies. In the insurance industry, the AFLAC duck competes for consumer attention with GEICO's gecko, and Progressive's chatty Flo competes with Met Life's adorable Peanuts characters.

Michelin's friendly tire-shaped Bibendum—the "Michelin Man"—helps to convey safety for the family and is credited with helping the brand achieve 80 percent awareness around the world. Each year Michelin distributes a "Passport" for Bibendum that sets boundaries on the character's use by marketers in advertising. Bibendum is never aggressive, for example, and never delivers a sales pitch.

Brand characters represent a special type of brand symbol—one with human characteristics that in turn enhance likeability and tag the brand as interesting and fun. Consumers can more easily form relationships with a brand when it has a human or other character's presence. Brand characters typically are introduced through advertising and can play a central role in ad campaigns and package designs. M&M's "spokescandies" are an integral part of all the brand's advertising, promotion, and digital communications. Some brand characters are animated, like the Pillsbury Doughboy, Peter Pan (from the peanut butter), and numerous cereal characters like Tony the Tiger and Snap, Crackle, & Pop. Others are live-action figures like Juan Valdez (Colombian coffee) and Ronald McDonald.

Because they are often colorful and rich in imagery, brand characters can help brands break through marketplace clutter and communicate a key product benefit in a soft-sell manner. Maytag's Lonely Repairman reinforced the company's key "reliability" product association for years. Characters also avoid many of the problems that plague human spokespeople—they don't demand pay raises, cheat on their spouses, or grow old. Betty Crocker may be over 90, but after seven makeovers, she doesn't look a day over 39!

With the opportunity to shape the brand's personality and facilitate consumer interactions, brand characters play an increasingly important role in a digital world. The success of Mr. Peanut in viral videos led to the introduction of a new peanut butter line. For the namesake character of Captain Morgan rum, Diageo has a team of eight people who work with its New York ad firm Anomaly to create daily online content. Even old-timers are making their way onto the Web. First introduced in 1957, Mr. Clean has amassed almost 900,000 Facebook fans. The online popularity and effectiveness of brand characters was demonstrated by a research study revealing that the Pillsbury Doughboy garners 10 times the social media buzz for the Pillsbury brand as NBA star LeBron James does for his Nike sponsor!

Often, the less concrete brand benefits are, the more important that brand elements capture intangible characteristics. Many insurance firms use symbols of strength for their brands (the Rock of Gibraltar for Prudential and the stag for Hartford) or security (the "good hands" of Allstate, the Traveler's umbrella, and the hard hat of Fireman's Fund).

Like brand names, slogans are an extremely efficient means to build brand equity. They can function as useful "hooks" to help consumers grasp what the brand is and what makes it special, as in "Like a Good Neighbor, State Farm Is There," "Nothing Runs Like a Deere," and "Every Kiss Begins with Kay" for the jeweler.

Firms should be careful in replacing a good slogan. Citi walked away from its famous "Citi Never Sleeps" slogan, replacing it with "Let's Get It Done," only to return when the new slogan failed to catch on. After 50 years, Avis Car Rental dropped "We Try Harder" for "It's Your Space." It's not clear whether this new slogan will have the staying power of the one it replaced.

DESIGNING HOLISTIC MARKETING ACTIVITIES

Brands are not built by advertising alone. Customers come to know a brand through a range of contacts and touch points: personal observation and use, word of mouth, interactions with company personnel, online or telephone experiences, and payment transactions. A brand contact is any information-bearing experience, whether positive or negative, a customer or prospect has with the brand, its product category, or its market. The company must put as much effort into managing these experiences as into producing its ads. Any brand contact can affect consumers' brand knowledge and the way they think, feel, or act toward the brand.

As we describe throughout this course, marketing strategy and tactics have changed dramatically. Marketers are creating brand contacts and building brand equity through new avenues such as online clubs and consumer communities, trade shows, event marketing, sponsorship, factory visits, public relations and press releases, and social cause marketing. Consider how BMW has built the MINI Cooper brand in the United States.

MINI Cooper has been supported since its American launch by a creative and full-integrated marketing program.

Mini Cooper

When BMW launched the modernized MINI Cooper in the United States in 2002, it employed a broad mix of media: billboards, posters, Internet, print, PR, product placement, and grassroots activities. Many were linked to a cleverly designed Web site with product and dealer information. The car was placed atop Ford Excursion SUVs at 21 auto shows across the United States; it was used as seats in a sports stadium; and it appeared in *Playboy* magazine as a centerfold. The imaginative integrated campaign built a six-month waiting list for the MINI Cooper. Despite its relatively limited communications budget, the brand has continued to develop innovative, award-winning campaigns ever since. MINI has especially used outdoor advertising creatively: Two curved palm trees planted next to a speeding MINI on a billboard created an illusion of speed and power; a digital billboard personally greeted passing MINI drivers by using a signal from a radio chip embedded in their key fobs; and a real MINI on the side of a building was able to move up and down like a yoyo. A new worldwide campaign, "Not Normal," spotlights MINI's strong, independent character through classic and digital media. Now sold in 100 countries around the world, MINI has expanded into a six-model lineup, including a convertible, a coupe, the Clubman four-door, and the Countryman wagon. These product introductions reinforce that MINI is agile, versatile, and fun to drive, and the marketing campaign as a whole builds strong emotional connections with drivers.

Supported by an ad campaign featuring star NFL quarterback Tom Brady,
UGG has been targeting men as one of its new avenues for growth.

UGG

UGG sheepskin boots were originally made for men; surfers in Australia wore them on the beach to warm their feet after surfing. Acquired by Deckers in 1995, UGGs took off among women in 2000 after Oprah Winfrey showcased them on her famous “Favorite Things” show. By 2011, sales had cracked $1 billion. The following year, women’s tastes in boots shifted to leather, and sales of UGGs slipped. To bolster the brand, Deckers is using the credibility and influence of bloggers who make up the “UGG Creative Council” to expand the brand’s social media footprint and build awareness of the full range of its product line. To appeal to men, rugged New England Patriots quarterback Tom Brady was hired as an endorser in a campaign featuring the comfort, craftsmanship, and quality of the brand. To broaden the brand’s appeal beyond its quintessential winter boot, spring and summer lines including sandals and beach cover-ups were launched to position UGG as an active, outdoor lifestyle brand.

The Volvo Ocean race is a way to help the Volvo brand be seen as modern, active and energetic

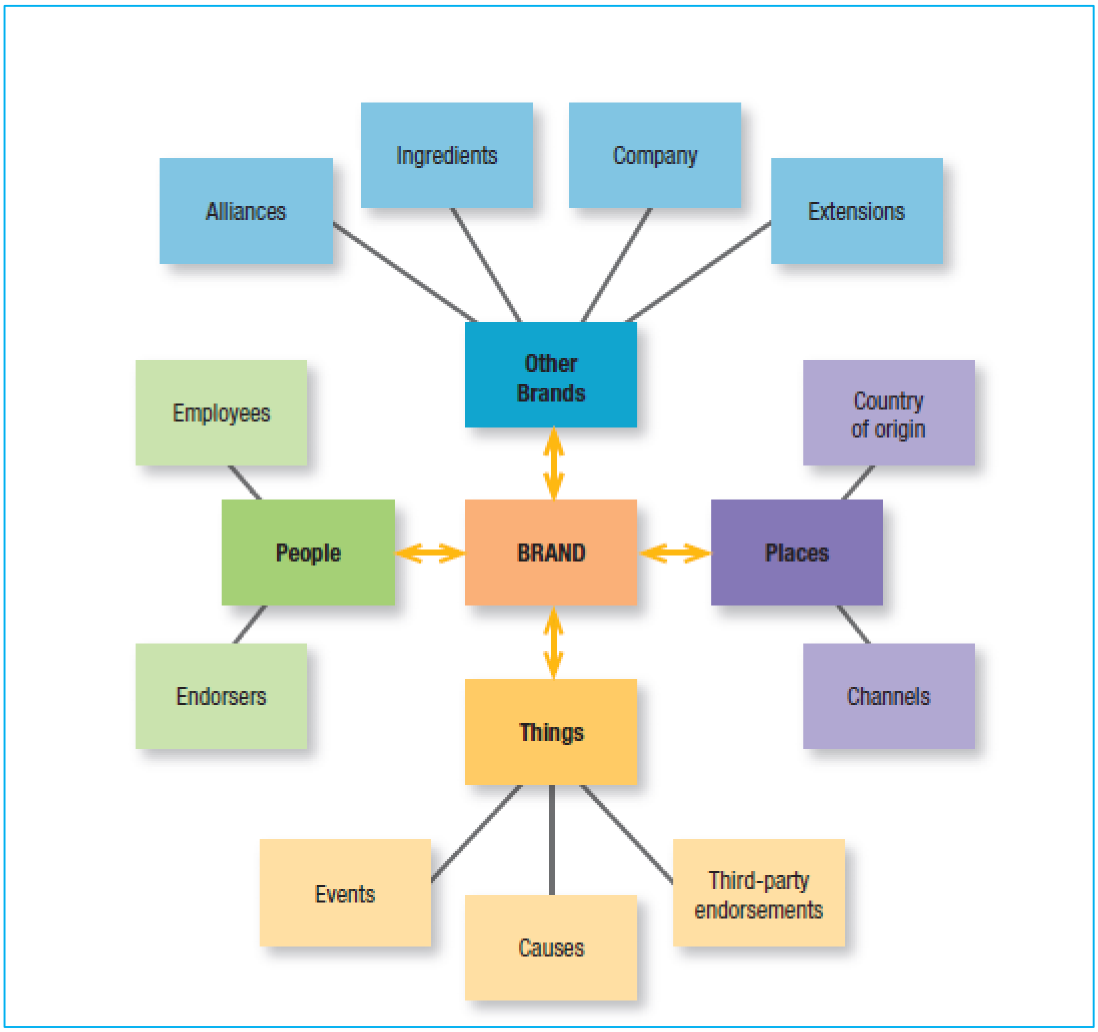
Integrated marketing is about mixing and matching marketing activities to maximize their individual and collective effects. Marketers need a variety of different marketing activities that consistently reinforce the brand promise. Consider what Deckers is doing to make sure UGG does not become yesterday’s news.

We can evaluate integrated marketing activities in terms of the effectiveness and efficiency with which they affect brand awareness and create, maintain, or strengthen brand associations and image. Although Volvo may invest in R&D and engage in advertising, promotions, and other communications to reinforce its "safety" brand association, it also sponsors events to make sure it is seen as active, contemporary, and up to date. Notable Volvo sponsorships include golf tournaments and the European professional golf tour, the Volvo Ocean race, the famed Gothenburg horse show, and cultural events.

Marketing programs should be put together so the whole is greater than the sum of the parts. In other words, marketing activities should work singularly and in combination.

LEVERAGING SECONDARY ASSOCIATIONS

The third and final way to build brand 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 (see the next diagram).



Secondary Sources of
Brand Knowledge

These “secondary” brand associations can link the brand to sources such as the company itself (through branding strategies), to countries or other geographical regions (through identification of product origin), and to channels of distribution (through channel strategy), as well as to other brands (through ingredient or co- branding), characters (through licensing), spokespeople (through endorsements), sporting or cultural events (through sponsorship), or some other third-party sources (through awards or reviews).

Suppose Burton—the maker of snowboards, snowboard boots, bindings, clothing, and outerwear—decided to introduce a new surfboard called the “Dominator.” Burton has gained more than a third of the snowboard market by closely aligning itself with top professional riders and creating a strong amateur snowboarder community around the country. To support the new surfboard, Burton could leverage secondary brand knowledge in a number of ways:

• It could “sub-brand” the product, calling it “Dominator by Burton.” Consumers’ evaluations of the new product would be influenced by how they felt about Burton and whether they felt that such knowledge predicted the quality of a Burton surfboard.

• Burton could rely on its rural New England origins, but such a geographical location would seem to have little relevance to surfing.

• Burton could sell through popular surf shops in the hope that their credibility would rub off on the Dominator brand.

• Burton could co-brand by identifying a strong ingredient brand for its foam or fiberglass materials (as Wilson did by incorporating Goodyear tire rubber on the soles of its Pro Staff Classic tennis shoes).

• Burton could find one or more top professional surfers to endorse the surfboard, or it could sponsor a surfing competition or even the entire Association of Surfing Professionals (ASP) World Tour.

• Burton could secure and publicize favorable ratings from third-party sources such as *Surfer* or *Surfing* magazine.

Thus, independent of the associations created by the surfboard itself, its brand name, or any other aspects of the marketing program, Burton could build equity by linking the brand to these other entities.

Leveraging secondary associations can be an efficient and effective way to strengthen a brand. But linking a brand to someone or something else can be risky because anything bad that happens to that other entity can also be linked to the brand. When popular endorsers Tiger Woods and Lance Armstrong got into trouble, many of the firms using them to promote their brands chose to cut ties.

If Burton were to introduce a surfboard, there are many ways it could leverage secondary brand knowledge and associations.

INTERNAL BRANDING

Marketers must now “walk the walk” to deliver the brand promise. They must adopt an *internal* perspective to be sure employees and marketing partners appreciate and understand basic branding notions and how they can help—or hurt—brand equity.

Internal branding consists of activities and processes that help inform and inspire employees about brands. Holistic marketers must go even further and train and encourage distributors and dealers to serve their customers well. Poorly trained dealers or other intermediaries can ruin the best efforts to build a strong brand image.

Brand bonding occurs when customers experience the company as delivering on its brand promise. All the customers’ contacts with company employees and communications must be positive. *The brand promise will not be delivered unless everyone in the company lives the brand.* Disney is so successful at internal branding that it holds seminars on the “Disney Style” for employees from other companies. Chevrolet chose to send almost 3,000 of its dealers to the Disney Institute in Walt Disney World to help them learn how to apply Disney principles to improve the car-buying experience for their customers.

When employees care about and believe in the brand, they’re motivated to work harder and feel greater loyalty to the firm. Some important principles for internal branding are:

1. *Choose the right moment.* Turning points are ideal opportunities to capture employees' attention and imagination. After it ran an internal branding campaign to accompany its external repositioning, the "Beyond Petroleum" ad campaign, BP found most employees were positive about the new brand and thought the company was going in the right direction.

2. *Link internal and external marketing.* Internal and external messages must match. Ford's new branding push to "Go Further" targets car buyers as well as Ford employees. The company believes that making Ford's internal branding efforts consistent with its external branding can "create profound synergies that will benefit the company in significant ways." Internally, Ford CMO Jim Farley is emphasizing three areas to help Ford employees "go further": "people serving people," "ingenuity," and "attainable."

3. *Bring the brand alive for employees.* Internal communications should be informative and energizing. Starbucks created a major facility and exhibit to physically immerse managers and employees in the brand experience.

To help its staff better understand how the brand positioning and promise affected their daily work, a major services company invested more than 100,000 hours in deep manager and employee training, with role-playing scenarios, exercises, and interactive tools.

4. *Keep it simple.* Don't overwhelm employees with too many details. Focus on the key brand pillars, ideally in the form of a brand mantra. Walmart uses three very simple brand pillars: "Quality Products; Unbeatable Prices; Easy Shopping."

MEASURING BRAND EQUITY

How do we measure brand equity? An *indirect* approach assesses potential sources of brand equity by identifying and tracking consumer brand knowledge structures. A *direct* approach assesses the actual impact of brand knowledge on consumer response to different aspects of the marketing. "Marketing Insight: The Brand Value Chain" shows how to link the two approaches.

THE BRAND VALUE CHAIN

The **brand value chain** is a structured approach to assessing the sources and outcomes of brand equity and the way marketing activities create brand value. It is based on several premises. First, brand value creation begins when the firm targets actual or potential customers by investing in a marketing program to develop the brand, including marketing communications, trade or intermediary support, and product research, development, and design. This marketing activity will change customers' mind-sets—what customers think and feel and everything that becomes linked to the brand. Next, these customers' mind-sets will affect buying behavior and the way consumers respond to all subsequent marketing activity—pricing, channels, communications, and the product itself—and the resulting market share and profitability of the brand. Finally, the investment community will consider this market performance of the brand to assess shareholder value in general and the value of a brand in particular.

The model also assumes that three multipliers increase or decrease the value that can flow from one stage to another.

• The ***program multiplier*** determines the marketing program's ability to affect the customer mind-set and is a function of the quality of the program investment.

• The ***customer multiplier*** determines the extent to which value created in the minds and hearts of customers affects market performance. This result depends on competitive superiority (how effective the quantity and quality of the marketing investment of other competing brands are), channel and other intermediary support (how much brand reinforcement and selling effort various marketing partners are putting forth), and customer size and profile (how many and what types of customers, profitable or not, are attracted to the brand).

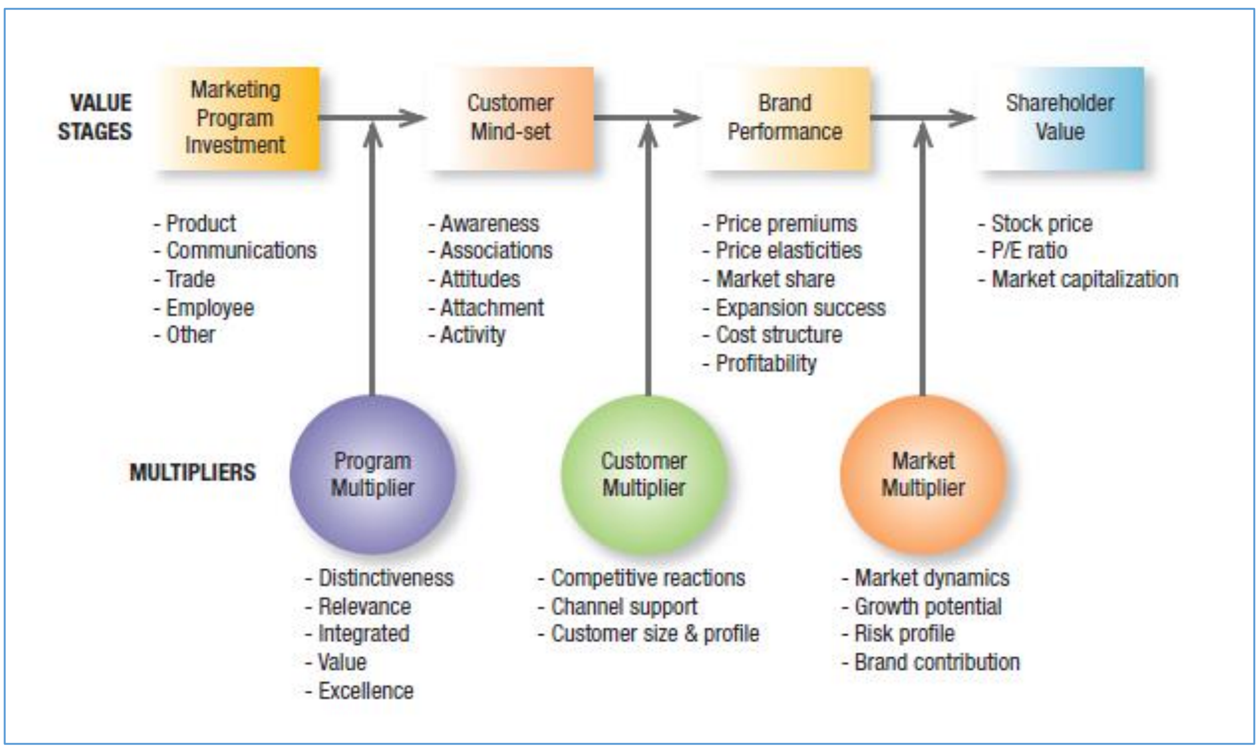
• The ***market multiplier*** determines the extent to which the value shown by the market performance of a brand is manifested in shareholder value. It depends, in part, on the actions of financial analysts and investors.

Researchers at **Millward Brown** adopt a very similar perspective. They maintain that a brand's financial success depends on its ability to be meaningful, different, and salient. These three brand qualities (MD&S) predispose someone to positive purchase behavior (choose the brand over others, pay more for it, stick with or try it in the future), which in turn generates financial benefits to the company (increased volume share, higher price premium, increased likelihood to grow value share in the future). Millward Brown asserts that this brand predisposition is measured by three brand equity metrics: power, premium and potential.

• People are predisposed to choose the brand over others. This will drive brand volume, so *power* predicts volume share based entirely on perceptions, absent of activation factors.

• People are predisposed to pay more for the brand. This will allow the brand to charge more, so *premium* predicts the price index your brand can command.

• *Potential* indicates the likelihood of value share growth for the brand in the next 12 months, based on people's predisposition to stick to the brand or try it in the future.



Brand Value Chain

The two general approaches are complementary, and marketers can employ both. In other words, for brand equity to perform a useful strategic function and guide marketing decisions, marketers need to fully understand (1) the sources of brand equity and how they affect outcomes of interest and (2) how these sources and outcomes change, if at all, over time. Brand audits are important for the former; brand tracking for the latter.

• A brand audit is a focused series of procedures to assess the health of the brand, uncover its sources of brand equity, and suggest ways to improve and leverage its equity. Marketers should conduct a brand audit when setting up marketing plans and when considering shifts in strategic direction. Conducting brand audits on a regular basis, such as annually, allows marketers to keep their fingers on the pulse of their brands so they can manage them more proactively and responsively. A good brand audit provides keen insights into consumers, brands, and the relationship between the two.

• Brand-tracking studies use the brand audit as input to collect quantitative data from consumers over time, providing consistent, baseline information about how brands and marketing programs are performing. Tracking studies help us understand where, how much, and in what ways brand value is being created to facilitate day-to-day decision making.

One firm that recently conducted an influential major brand audit is Kellogg's.

Kellogg's

The ready-to-eat cereal category has been under siege in recent years as busy consumers choose to eat on the run while nutrition-minded consumers worry about genetically modified ingredients. With a history spanning more than a century, Kellogg decided it needed to refresh the brand and address the issues head-on. An extensive brand audit, dubbed "Project Signature," was launched to provide strategic direction and creative inspiration. After a year of work with brand consulting partner Interbrand, the result was a new tagline, "Let's Make Today Great"; an updated, more contemporary logo and design look; clear identification of the brand's core purpose as highlighting the "power of breakfast"; explicit incorporation of the Kellogg's master brand into all its marketing campaigns; and consolidation of 42 company Web sites around the world into one. The brand audit influenced a number of Kellogg's specific marketing programs and activities, from the cause-related "Share Your Breakfast" campaign (to help the one in five U.S. children who might not have access to breakfast) to the "Love Your Cereal" social media program debunking myths about cereal. An Olympic sponsor, Kellogg also devotes 20 percent of its communication budget to online engagement.

Marketers should distinguish brand equity from brand valuation, which is the job of estimating the total financial value of the brand. The next table displays the world's most valuable brands in 2012 according to the Interbrand rankings, as described below in "Marketing Insight: What Is a Brand Worth?"61 In these well-known companies, brand value is typically more than half the total company market capitalization. John Stuart, cofounder of Quaker Oats, said: "If this business were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you." U.S. companies do not list brand equity on their balance sheets, in part because of differences in opinion about what constitutes a good estimate. However, companies do give it a value in countries such as the United Kingdom, Hong Kong, and Australia.

Rank	Brand	2014 Brand Value (Billions)
1	Apple	$118.9
2	Google	$107.4
3	Coca-Cola	$81.6
4	IBM	$72.2
5	Microsoft	$61.2
6	GE	$45.5
7	Samsung	$45.5
8	Toyota	$42.4
9	McDonald's	$42.3
10	Mercedes-Benz	$34.3

The World's 10 Most Valuable Brands in 2014

WHAT IS A BRAND WORTH?

Top brand-management firm Interbrand has developed a model to formally estimate the dollar value of a brand. It defines brand value as the net present value of the future earnings that can be attributed to the brand alone. The firm believes marketing and financial analyses are equally important in determining the value of a brand. Its process follows five steps (see the next diagram for a schematic overview):

1. **Market Segmentation**—The first step is to divide the market(s) in which the brand is sold into mutually exclusive segments that help determine variations among the brand's different customer groups.

2. **Financial Analysis**—Interbrand assesses purchase price, volume, and frequency to help calculate accurate forecasts of future brand sales and revenues. Once it has established Brand Revenues, it deducts all associated operating costs to derive earnings before interest and tax (EBIT). It also deducts the appropriate taxes and a charge for the capital employed to operate the underlying business, leaving Economic Earnings, that is, the earnings attributed to the branded business.

3. **Role of Branding**—Interbrand next attributes a proportion of Economic Earnings to the brand in each market segment by first identifying the various drivers of demand and then determining the degree to which the brand directly influences each. The Role of Branding assessment is based on market research, client

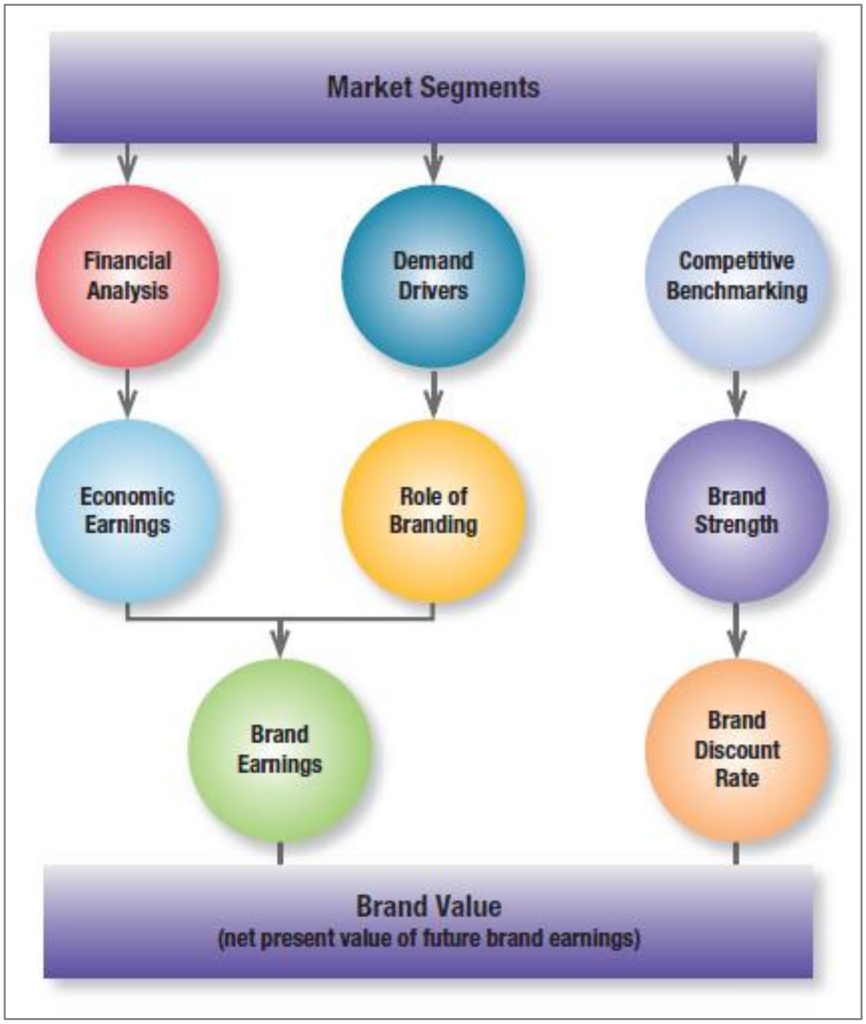
workshops, and interviews and represents the percentage of Economic Earnings the brand generates. Multiplying the Role of Branding by Economic Earnings yields Brand Earnings.

4. **Brand Strength**—Interbrand then assesses the brand's strength profile to determine the likelihood that the brand will realize forecasted Brand Earnings. This step relies on competitive benchmarking and a structured evaluation of the brand's clarity, commitment, protection, responsiveness, authenticity, relevance, differentiation, consistency, presence, and understanding. For each segment, Interbrand applies industry and brand equity metrics to determine a risk premium for the brand. The company's analysts derive the overall Brand Discount Rate by adding a brand-risk premium to the risk-free rate, represented by the yield on government bonds.

The Brand Discount Rate, applied to the forecasted Brand Earnings forecast, yields the net present value of the Brand Earnings. The stronger the brand, the lower the discount rate, and vice versa.

5. Brand Value Calculation—Brand Value is the net present value (NPV) of the forecasted Brand Earnings, discounted by the Brand Discount Rate. The NPV calculation is composed of both the forecast period and the period beyond, reflecting the ability of brands to continue generating future earnings.

Increasingly, Interbrand uses brand value assessments as a dynamic, strategic tool to identify and maximize return on brand investment across a whole host of areas.



Interbrand Brand
Valuation Method

MANAGING BRAND EQUITY

Because consumer responses to marketing activity depend on what they know and remember about a brand, as the brand value chain suggests, short-term marketing actions, by changing brand knowledge, necessarily increase or decrease the long-term success of future marketing actions.

BRAND REINFORCEMENT

As a company's major enduring asset, a brand needs to be carefully managed so its value does not depreciate. Brand leaders of 70 years ago that remain leaders today—companies such as Wrigley's, Coca-Cola, Heinz, and Campbell Soup—only do so by constantly striving to improve their products, services, and marketing.

Marketers can reinforce brand equity by consistently conveying the brand's meaning in terms of (1) what products it represents, what core benefits it supplies, and what needs it satisfies; and (2) how the brand makes products superior and which strong, favorable, and unique brand associations should exist in consumers' minds. NIVEA, one of Europe's strongest brands, expanded from a skin cream brand to a skin care and personal care brand through carefully designed and implemented brand extensions that reinforced the brand promise of "mild," "gentle," "caring," and "protective."

Reinforcing brand equity requires that the brand always be moving forward—in the right direction and with new and compelling offerings and ways to market them. In virtually every product category, once-prominent and admired brands—such as Circuit City, Fila, Polaroid, and Slim-Fast—have fallen on hard times or gone out of business. Consider the plight of one-time highflier Nokia.

Nokia

For 14 years, Nokia dominated cell phone sales as the world's industry leader before being surpassed by Samsung in 2012, marking the end of an era. Once the pride of Finland, the company has found itself outsold by Samsung even on its home soil. How could such a high-flying brand come crashing to earth? In a nutshell, it failed to innovate and stay relevant. Nokia did not respond to the wildly successful iPhone and the shifting consumer demand that accompanied it. The company thought the iPhone was too expensive to manufacture and was not up to its own product standards. The iPhone reportedly failed Nokia's "drop test," in which a phone is dropped on concrete from a height of five feet at different angles. Nokia had actually spent $40 billion on R&D over the preceding decade and was a smart phone pioneer, but it chose not to invest in devices that anticipated what the iPhone eventually became. Without the right new products, Nokia began to be associated by consumers with a different era of technology, a fatal blow in the fast-moving, technologically intensive smart phone market.

By failing to sufficiently innovate and stay relevant, Nokia quickly lost market leadership

An important part of reinforcing brands is providing consistent marketing support. Consistency doesn't mean uniformity with no changes: While there is little need to deviate from a successful position, many tactical changes may be necessary to maintain the strategic thrust and direction of the brand. When change *is* necessary, marketers should vigorously preserve and defend sources of brand equity.

Marketers must recognize the trade-offs between activities that fortify the brand and reinforce its meaning, such as a well-received product improvement or a creatively designed ad campaign, and those that leverage or borrow from existing brand equity to reap some financial benefit, such as a short-term promotional discount. At some point, failure to reinforce the brand will diminish brand awareness and weaken brand image. Consider what happened to Sears.

Sears

A classic U.S. company, Sears was one of the strongest department store brands for more than 100 years, associated with high-quality merchandise and responsive customer service. Facing financial difficulties in the early 2000s, the company started aggressively selling assets and cutting costs to maintain its revenue targets. As a result of spending only $2 to $3 per square foot on annual maintenance and repair of its stores, far less than the $6 to $8 per square foot spent by competitors Target and Walmart, Sears began hearing customer complaints about inattentive sales associates, disorganized sales racks, and stores in disrepair. As one analyst noted, "[T]hey weren't keeping [their] promise. Consumers are pretty sophisticated, and they walked into these stores and it was the same old place … without the freshness, the excitement or the interactivity of the experience." According to the ACS index of customer satisfaction, in 2012 Sears was ranked 10th among 11 department and discount stores, and same-store sales had been in a prolonged six-year decline.

BRAND REVITALIZATION

Any new development in the marketing environment can affect a brand's fortunes. Nevertheless, a number of brands have managed to make impressive comebacks in recent years. After some hard times in the automotive market, Cadillac, Fiat, and Volkswagen have all turned their brand fortunes around to varying degrees. General Motors's rescue of its fading Cadillac brand was fueled by a complete overhaul of its product lineup with new designs that redefined its look and styling, such as the SRX crossover, the XTS and CTS sedans, the Escalade SUV, and the new ATS sports sedan. A healthy dose of breakthrough marketing, including the first use of Led Zeppelin's music in advertising, also helped.

Often, the first thing to do in revitalizing a brand is understand what the sources of brand equity were to begin with. Are positive associations losing their strength or uniqueness? Have negative associations become linked to the brand? Then decide whether to retain the same positioning or create a new one and, if so, which new one.

Sometimes the actual marketing program is the source of the problem because it fails to deliver on the brand promise. Then a "back to basics" strategy may make sense. We've mentioned that Harley-Davidson regained its market leadership by doing a better job of living up to customer expectations for product performance. Pabst Brewing Company did it by returning to its roots and leveraging iconic packaging and imagery and a perception of authenticity.

In other cases, however, the old positioning is just no longer viable and a reinvention strategy is necessary. Mountain Dew completely overhauled its brand image to become a soft-drink powerhouse. As its history reveals, it is often easier to revive a brand that is alive but has been more or less forgotten. Old Spice is another example of a brand that transcended its roots as the classic aftershave and cologne gift set that baby boomers gave their dads on Father's Day to become positively identified with contemporary male grooming products for a younger Millennial audience. To revitalize Old Spice, P&G used product innovation and tongue-in-cheek communications that stressed the brand's "experience."

There is obviously a continuum of revitalization strategies, with pure "back to basics" at one end, pure "reinvention" at the other, and many combinations in between. The challenge is often to change enough to attract some new customers, but not enough to alienate old customers. Regardless of the strategy, brand revitalization of almost any kind starts with the product. Consider how Burberry made its comeback. Eu Yan Sang, a company specializing in traditional Chinese medicine, did it by returning to its roots and leveraging key brand assets.

EU YAN SANG

Eu Yan Sang, a brand with more than 300 stores worldwide, has come a long way since opening its first shop in 1873. The brand has succeeded in growing from a traditional Chinese medical hall to a publicly listed company with stores in Hong Kong, Malaysia, China, Macau, and Singapore. Traditional Chinese medicine (TCM) is commonly linked to images of elderly men measuring out dried herbs and brewing bowls full of black, bitter soup. Though TCM is popular with the older generation, younger consumers saw it as inconvenient. Eu Yan Sang remained stagnant with flat growth for a period of nearly 60 years. All this changed when Richard Eu took over his family business in 1989. Knowing he had to make the brand relevant to younger consumers, he leveraged Eu Yan Sang's strong equity as a trusted brand and modernized it by going back to basics. Through Research and development, he was able to provide innovative offerings such as ready-to-use concentrates and easyto- swallow pills that changed the way Chinese medicine was consumed. The retail stores were also redesigned to give them a brighter and friendlier look. With the support of other marketing activities, such as advertising, road shows, and cooking demonstrations, Eu Yan Sang's business has grown by leaps and bounds. Initiatives, such as the Eu Yan Sang TCM clinics that combined the best of east-west health care practices, help the brand stay relevant. In 2014 alone, the brand won over 16 awards. It was given the Gold for Reader's Digest Trusted Brands Award, numerous healthcare awards across China and Malaysia, and was recognized for its commitment to product development and customer satisfaction in what has become a highly competitive market.

DEVISING A BRANDING STRATEGY

A firm's branding strategy—often called its brand architecture—reflects the number and nature of both common and distinctive brand elements. Deciding how to brand new products is especially critical. A firm 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.

When a firm uses an established brand to introduce a new product, the product is called a brand extension.

When marketers combine a new brand with an existing brand, the brand extension can also be called a subbrand, such as Hershey Kisses candy, Adobe Acrobat software, Toyota Camry automobiles, and American Express Blue cards. The existing brand that gives birth to a brand extension or sub-brand is the parent brand. If the parent brand is already associated with multiple products through brand extensions, it can also be called a master brand or family brand.

Brand extensions fall into two general categories. In a line extension, the parent brand covers a new product within a product category it currently serves, such as with new flavors, forms, colors, ingredients, and package sizes. Dannon has introduced several types of Dannon yogurt line extensions through the years—Fruit on the Bottom, All Natural Flavors, Dan-o-nino, and Light & Fit.

In a category extension, marketers use the parent brand to enter a different product category, such as Swiss Army watches. Honda has used its company name to cover such different products as automobiles, motorcycles, snowblowers, lawn mowers, marine engines, and snowmobiles. This allows the firm to advertise that it can fit "six Hondas in a two-car garage."

A brand line consists of all products—original as well as line and category extensions—sold under a particular brand. A brand mix (or brand assortment) is the set of all brand lines that a particular seller makes. Many companies are introducing branded variants, which are specific brand lines supplied to specific retailers or distribution channels. They result from the pressure retailers put on manufacturers to provide distinctive offerings. A camera company may supply its low-end cameras to mass merchandisers while limiting its higher-priced items to specialty camera shops. Valentino may design and supply different lines of suits and jackets to different department stores.

A licensed product is one whose brand name has been licensed to other manufacturers that actually make the product. Corporations have seized on licensing to push their company names and images across a wide range of products—from bedding to shoes—making licensing a multibillion-dollar business. It is perhaps not surprising that in a high-involvement category such as automobiles, licensing is big business.

Automotive Licensing

Several automotive brands have created lucrative licensing businesses. Jeep's licensing program, with 600 products and 150 licensees, includes everything from strollers built for a father's longer arms to apparel with Teflon in the denim—as long as the product fits the brand's positioning of "Life without Limits." Thanks to 600-plus dedicated shop-in-shops and 80 freestanding stores around the world, Jeep's licensing revenue now exceeds $550 million in retail sales. New areas of emphasis include outdoor and travel gear, juvenile products, and sporting goods. As of 2014, Ford was generating $2 billion in licensing revenue from 18,000 different items sold through 400 licensees. Products range from apparel branded with the Ford Blue Oval logo and the popular Mustang nameplate logo to radio-controlled cars sold in major retailers like Walmart and Toys R Us. An area of growth is products designed to equip male fans and their "man caves."

Jeep generates over $550 million in revenues by licensing its brand to other companies for other products.

BRANDING DECISIONS

ALTERNATIVE BRANDING STRATEGIES Today, branding is such a strong force that hardly anything goes unbranded. Assuming a firm decides to brand its products or services, it must choose which brand names to use. Three general strategies are popular:

• *Individual or separate family brand names.* Consumer packaged-goods companies have a long tradition of branding different products by different names. General Mills largely uses individual brand names, such as Bisquick, Gold Medal flour, Nature Valley granola bars, Old El Paso Mexican foods, Progresso soup, Wheaties cereal, and Yoplait yogurt. If a company produces quite different products, one blanket name is often not desirable.

Swift & Company developed separate family names for its hams (Premium) and fertilizers (Vigoro). Companies often use different brand names for different quality lines within the same product class. A major advantage of separate family brand names is that if a product fails or appears to be of low quality, the company has not tied its reputation to it.

• *Corporate umbrella or company brand name.* Many firms, such as Heinz and GE, use their corporate brand as an umbrella brand across their entire range of products. Development costs are lower with umbrella names because there's no need to research a name or spend heavily on advertising to create recognition.

Campbell Soup introduces new soups under its brand name with extreme simplicity and achieves instant recognition. Sales of the new product are likely to be strong if the manufacturer's name is good. Corporate-image associations of innovativeness, expertise, and trustworthiness have been shown to directly influence consumer evaluations. Finally, a corporate branding strategy can lead to greater intangible value for the firm.

• *Sub-brand name.* Sub-brands combine two or more of the corporate brand, family brand, or individual product brand names. Kellogg employs a sub-brand or hybrid branding strategy by combining the corporate brand with individual product brands as with Kellogg's Rice Krispies, Kellogg's Raisin Bran, and Kellogg's Corn Flakes. Many durable-goods makers such as Honda, Sony, and Hewlett-Packard use sub-brands for their products. The corporate or company name legitimizes, and the individual name individualizes, the new product.

HOUSE OF BRANDS VERSUS A BRANDED HOUSE The use of individual or separate family brand names has been referred to as a "house of brands" strategy, whereas the use of an umbrella corporate or company brand name is a "branded house" strategy. These two strategies represent two ends of a continuum. A sub-brand strategy falls somewhere between, depending on which component of the sub-brand receives more emphasis. A good example of a house of brands strategy is United Technologies.

United Technolo gies

United Technology Corporation (UTC) provides a broad range of high-technology products and services for the aerospace and commercial building industries, generating nearly $63 billion in revenues. Its aerospace businesses include Sikorsky helicopters, Pratt & Whitney aircraft engines, and UTC Aerospace Systems (which includes Goodrich Corporation and Hamilton Sundstrand aerospace systems). UTC Building & Industrial Systems, the world's largest provider of building technologies, includes Otis elevators and escalators; Carrier heating, airconditioning, and refrigeration systems; and fire and security solutions from brands such as Kidde and Chubb. Most of its in-market brands are the names of the individuals who invented the product or created the company decades ago; they have more power and are more recognizable in the business buying marketplace than the name of the parent brand, and employees are loyal to the individual companies. The UTC name is advertised only to small but influential audiences—the financial community and opinion leaders in New York and Washington, DC. "My philos ophy has always been to use the power of the trademarks of the subsidiaries to improve the recognition and brand acceptance, awareness, and respect for the parent company itself," said UTC's one-time CEO George David.

With a branded house strategy, it is often useful to have a well-defined flagship product. A flagship product is one that best represents or embodies the brand as a whole to consumers. It often is the first product by which the brand gained fame, a widely accepted best-seller, or a highly admired or award-winning product.

Flagship products play a key role in the brand portfolio in that marketing them can have short-term benefits (increased sales) as well as long-term benefits (improved brand equity for a range of products). Certain models play important flagship roles for many car manufacturers. Besides generating the most sales, family sedans Toyota Camry and Honda Accord represent brand values that all cars from those manufacturers share. In justifying the large investments incurred in launching its new 2014 Mercedes S-class automobiles, Daimler's chief executive Dieter Zetsche explained, "This car is for Mercedes-Benz what the harbor is for Hamburg, the Mona Lisa for Leonardo da Vinci and 'Satisfaction' for the Rolling Stones: the most important symbol of the reputation of the whole."

Two key components of virtually any branding strategy are brand portfolios and brand extensions. (module 13 discusses co-branding and ingredient branding, as well as line-stretching through vertical extensions.)

BRAND PORT FOLIOS

A brand can be stretched only so far, and all the segments the firm would like to target may not view the same brand equally favorably. Marketers often need multiple brands in order to pursue these multiple segments. Some other reasons for introducing multiple brands in a category include:

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

The brand portfolio is the set of all brands and brand lines a particular firm offers for sale in a particular category or market segment. Building a good brand portfolio requires careful thinking and creative execution. In the hotel industry, brand portfolios are critical. Consider Starwood.

Starwood Hot els & Resorts

One of the leading hotel and leisure companies in the world, Starwood Hotels & Resorts Worldwide has more than 1,200 properties in 100 countries and 181,400 employees at its owned and managed properties. In its rebranding attempt to go "beyond beds," Starwood has differentiated its hotels along emotional, experiential lines. Its hotel and call center operators convey different experiences at the firm's different chains, as does the firm's advertising. Starwood has nine distinct lifestyle brands in its portfolio. Here is how some of them are positioned:

United Technology has adopted a “house of brands” strategy with
A diverse brand portfolio, including Pratt & Whitney aircraft engines.

• *Sheraton.* The largest brand, Sheraton is about warm, comforting, and casual. Its core value centers on “connections”— Sheraton enables you to connect to your location and to those back home.

• *Four Points by Sheraton.* For the self-sufficient traveler, Four Points is a select-service hotel that strives to be honest and uncomplicated. The brand is all about providing the comforts of home with little indulgences like local craft beers and free high-speed Internet access and bottled water.

• *W.* With a brand personality defined as flirty, for the insider, and an escape, W offers guests unique locally inspired experiences with a “What’s New/What’s Next” attitude. W’s “Whatever/Whenever” service complements the sylish designs in its lobby gathering places and signature bars and restaurants.

• *Westin.* Westin’s emphasis on “personal, instinctive, and renewal” has led to a new sensory welcome featuring a white tea scent, signature music and lighting, and refreshing towels. Each room features Westin’s own “Heavenly” bed and bath products.

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 in it. Marketers generally need to trade off market coverage with costs and profitability. If they can increase profits by dropping brands, a portfolio is too big; if they can increase profits by adding brands, it’s not big enough.

The basic principle in designing a brand portfolio is to maximize market coverage so no potential customers are being ignored, but minimize brand overlap so brands are not competing for customer approval. Each brand should be clearly differentiated and appealing to a sizable enough marketing segment to justify its marketing and production costs. Consider these two B-to-B and B-to-C examples.

• Dow Corning has adopted a dual-brand approach to sell its silicon, which is used as an ingredient by many companies. Silicon under the Dow Corning name uses a “high touch” approach where customers receive much attention and support; silicon sold under the Xiameter name uses a “no frills” approach emphasizing low prices.

• Unilever, partnering with PepsiCo, sells four distinct brands of ready-to-drink iced tea. Brisk Iced Tea is an “on ramp” brand that is an entry point and a “flavor-forward” value brand; Lipton Iced Tea is a mainstream brand with an appealing blend of flavor and tea; Lipton Pure Leaf Iced Tea is premium and “tea-forward” for tea purists; and Tazo is a super-premium, niche brand.

Marketers carefully monitor brand portfolios over time to identify weak brands and kill unprofitable ones. Brand lines with poorly differentiated brands are likely to be characterized by much cannibalization and require pruning. There are scores of cereals, beverages, and snacks and thousands of mutual funds. Students can choose among hundreds of business schools. For the seller, this spells hyper-competition. For the buyer, as module 13 points out, it may mean too much choice. Brands can also play a number of specific roles as part of a portfolio.

FLANKERS 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. Busch Bavarian is priced and marketed to protect Anheuser-Busch’s premium Budweiser.89 Marketers walk a fine line in designing fighter brands, which must be neither so attractive that they take sales away from their higher-priced comparison brands nor designed so cheaply that they reflect poorly on them.

CASH COWS Some brands may be kept around despite dwindling sales because they manage to maintain their profitability with virtually no marketing support. Companies can effectively milk these “cash cow” brands by capitalizing on their reservoir of brand equity. Gillette still sells the older Atra, Sensor, and Mach III razors because withdrawing them may not necessarily move customers to another Gillette razor brand.

LOW-END ENTRY LEVEL The role of a relatively low-priced brand in the portfolio often may be to attract 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. Toyota’s Scion, with its quirky design and low prices, has a very specific target: people in their early 30s or under. Its specific marketing mission is to capture buyers who have not purchased anything from Toyota to move them into the franchise. The youngest average customers in the industry for eight years running, Scion drivers are in fact three-quarters first-time Toyota buyers.

HIGH-END PRESTIGE The role of a relatively high-priced brand often is to add prestige and credibility to the entire portfolio. One analyst argued that the real value to Chevrolet of its high-performance Corvette sports car was "its ability to lure curious customers into showrooms and at the same time help improve the image of other Chevrolet cars. It does not mean a hell of a lot for GM profitability, but there is no question that it is a traffic builder." Corvette's technological image and prestige cast a halo over the entire Chevrolet line.

Brand Extensions

Many firms have decided to leverage their most valuable asset by introducing a host of new products under their strongest brand names. Most new products are in fact brand extensions—typically 80 percent to 90 percent in any one year. Moreover, many of the most successful new products, as rated by various sources, are brand extensions. Among the most successful in supermarkets in 2012 were Dunkin' Donuts coffee, Progresso Light soups, and Hormel Compleats microwave meals. Nevertheless, many new products are introduced each year as new brands. The year 2012 also saw the launch of Zyrtec allergy relief medicine and Ped Egg foot files.

ADVANTAGES OF BRAND EXTENSIONS Two main advantages of brand extensions are that they can facilitate new-product acceptance and provide positive feedback to the parent brand and company.

IMPROVED ODDS OF NEW-PRODUCT SUCCESS Consumers form expectations about a new product based on what they know about the parent brand and the extent to which they feel this information is relevant. When Sony introduced a new personal computer tailored for multimedia applications, the Vaio, consumers may have felt comfortable with its anticipated performance because of their experience with and knowledge of other Sony products.

By setting up positive expectations, extensions reduce risk. It also may be easier to convince retailers to stock and promote a brand extension because of anticipated increased customer demand. An introductory campaign for an extension doesn't need to create awareness of both the brand *and* the new product; it can concentrate on the new product itself.

Extensions can thus reduce launch costs, important given that establishing a major new brand name for a consumer packaged good in the U.S. marketplace can cost more than $100 million! Extensions also can avoid the difficulty— and expense—of coming up with a new name and allow for packaging and labeling efficiencies. Similar or identical packages and labels can lower production costs for extensions and, if coordinated properly, provide more prominence in the retail store via a "billboard" effect. Stouffer's offers a variety of frozen entrees with identical orange packaging that increases their visibility when they're stocked together in the freezer. With a portfolio of brand variants within a product category, consumers who want a change can switch to a different product type without having to leave the brand family.

Positive Feedback Effects Besides facilitating acceptance of new products, brand extensions can provide feedback benefits. They can help to clarify the meaning of a brand and its core values or improve consumer loyalty to the company behind the extension. Through their brand extensions, Crayola means "colorful arts and crafts for kids," Aunt Jemima means "breakfast foods," and Weight Watchers means "weight loss and maintenance."

Brand extensions can renew interest and liking for the brand and benefit the parent brand by expanding market coverage. AB InBev introduced its Budweiser Black Crown line extension—a beer with more alcohol and a stronger hops taste than regular Budweiser—with several purposes. The company hoped to both attract a younger audience being wooed by the explosion of craft brews and reinvigorate the core brand with its established base.

A successful category extension may not only reinforce the parent brand and open up a new market but also facilitate even more new category extensions.97 The success of Apple's iPod and iTunes products was that they: (1) opened up a new market, (2) helped sales of core Mac products, and (3) paved the way for the launch of the iPhone and iPad products.

DISADVANTAGES OF BRAND EXTENSIONS On the downside, line extensions may cause the brand name to be less strongly identified with any one product. Al Ries and Jack Trout call this the "line-extension trap." By linking its brand to mainstream food products such as mashed potatoes, powdered milk, soups, and beverages, Cadbury ran the risk of losing its more specific meaning as a chocolate and candy brand.

Brand dilution occurs when consumers no longer associate a brand with a specific or highly similar set of products and start thinking less of the brand. Porsche found sales success with its Cayenne sport-utility vehicle and Panamera four-door sedan, which accounted for three-quarters of its vehicle sales in 2012, but some critics felt the company was watering down its sports car image in the process. Perhaps in response, Porsche has dialed up its on and off-road test tracks, driving courses, and roadshow events in recent years to help customers get the adrenaline rush of driving a legendary Porsche 911 or Boxster roadster.

If a firm launches extensions consumers deem inappropriate, they may question the integrity of the brand or become confused or even frustrated: Which version of the product is the "right one" for them? Do they know the brand as well as they thought they did? Retailers reject many new products and brands because they don't have the shelf or display space for them. And the firm itself may become overwhelmed.

The worst possible scenario is for an extension not only to fail, but to harm the parent brand in the process. Fortunately, such events are rare. "Marketing failures," in which too few consumers are attracted to a brand, are typically much less damaging than "product failures," in which the brand fundamentally fails to live up to its promise.

Even then, product failures dilute brand equity only when the extension is seen as very similar to the parent brand.

The Audi 5000 car suffered from a tidal wave of negative publicity and word of mouth in the mid-1980s when it was alleged to have a “sudden acceleration” problem. The adverse publicity spilled over to the 4000 model. But the Quattro was relatively insulated because it was distanced from the 5000 by its more distinct branding and advertising strategy.

Even if sales of a brand extension are high and meet targets, the revenue may be coming from consumers switching to the extension from existing parent-brand offerings—in effect cannibalizing the parent brand. Intrabrand shifts in sales may not necessarily be undesirable if they’re a form of *preemptive cannibalization.* In other words, consumers who switched to a line extension might otherwise have switched to a competing brand instead. Tide laundry detergent maintains the same market share it had 50 years ago because of the sales contributions of its various line extensions—scented and unscented powder, tablet, liquid, and other forms.

One easily overlooked disadvantage of brand extensions is that the firm forgoes the chance to create a new brand with its own unique image and equity. Consider the long-term financial advantages to Disney of having introduced more grown-up Touchstone films, to Levi’s of creating casual Dockers pants, and to Black & Decker of introducing high-end DeWALT power tools.

SUCCESS CHARACTERISTICS Marketers must judge each potential brand extension by how effectively it leverages existing brand equity from the parent brand as well as how effectively, in turn, it contributes to the parent brand’s equity. Crest Whitestrips leveraged the strong reputation of Crest and dental care to provide reassurance in the teeth-whitening arena while also reinforcing its dental authority image.

Marketers should ask a number of questions in judging the potential success of an extension.

- Does the parent brand have strong equity?
- Is there a strong basis of fit?
- Will the extension have the optimal points-of-parity and points-of-difference?
- How can marketing programs enhance extension equity?
- What implications will the extension have for parent brand equity and profitability?
- How should feedback effects best be managed?

To help answer these questions, the next table offers a sample scorecard with specific weights and dimensions that Users can adjust for each application.

Allocate points according to how well the new product concept rates on the specific dimensions in the following areas:
Consumer Perspectives: Desirability
10 pts. ______ Product category appeal (size, growth potential)
10 pts. ______ Equity transfer (perceived brand fit)
5 pts. ______ Perceived consumer target fit
Company Perspectives: Deliverability
10 pts. ______ Asset leverage (product technology, organizational skills, marketing effectiveness via channels and communications)
10 pts. ______ Profit potential
5 pts. ______ Launch feasibility
Competitive Perspectives: Differentiability
10 pts. ______ Comparative appeal (many advantages; few disadvantages)
10 pts. ______ Competitive response (likelihood; immunity or invulnerability from)
5 pts. ______ Legal/regulatory/institutional barriers
Brand Perspectives: Equity Feedback
10 pts. ______ Strengthens parent brand equity
10 pts. ______ Facilitates additional brand extension opportunities
5 pts. ______ Improves asset base
TOTAL ______ pts.

Brand Extendibility Scorecard

The next page lists a number of academic research findings on brand extensions. One major mistake in evaluating extension opportunities is failing to take *all* consumers' brand knowledge structures into account and focusing instead on one or a few brand associations as a potential basis of fit. Bic is a classic example of that mistake.

Bic

The French company Société Bic, by emphasizing inexpensive, disposable products, was able to create markets for nonrefillable ballpoint pens in the late 1950s, disposable cigarette lighters in the early 1970s, and disposable razors in the early 1980s. It unsuccessfully tried the same strategy in marketing BIC perfumes in the United States and Europe in 1989. The perfumes—two for women ("Nuit" and "Jour") and two for men ("BIC for Men" and "BIC Sport for Men")—were packaged in quarter-ounce glass spray bottles that looked like fat cigarette lighters and sold for $5 each. The products were displayed on racks at checkout counters throughout Bic's extensive distribution channels. At the time, a Bic spokeswoman described the new products as extensions of the Bic heritage—"high quality at affordable prices, convenient to purchase, and convenient to use." The brand extension was launched with a $20 million advertising and promotion campaign containing images of stylish people enjoying themselves with the perfume and using the tagline “Paris in Your Pocket.” Nevertheless, Bic was unable to overcome its lack of cachet and negative image associations, and the extension was a failure.

Research Insights on Brand Extensions

• 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 commonalties 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 cannot 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 sub-branding strategies.

• The most effective advertising strategy for an extension emphasizes information about the extension (rather than reminders about the parent brand).

CUSTOMER EQUITY

Achieving brand equity should be a top priority for any organization. “Marketing Memo: Twenty-First-Century Branding” offers some wise advice on continued brand success.

Finally, we can relate brand equity to one other important marketing concept: customer equity. The aim of customer relationship management (CRM) is to produce high customer equity.106 Although we can calculate it in different ways, one definition is “the sum of lifetime values of all customers.” As module 5 reviewed, customer lifetime value is affected by revenue and by the costs of customer acquisition, retention, and cross-selling.

• ***Acquisition*** depends on 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.

The brand equity and customer equity perspectives certainly share many common themes. Both emphasize the importance of customer loyalty and the notion that we create value by having as many customers as possible pay as high a price as possible.

Twenty-First-Century Branding

An early pioneer in the study of branding and still active as a brand strategist, David Aaker has much experience with what makes brands successful. Here are his top ten “to do tasks” for marketers—what you need to know to excel at brand building.

1. Treat brands as assets. Brand strategy needs to be developed in tandem with business strategy.

2. Show the strategic payoff of brand building. Show how the success of a business strategy depended on brand assets.

3. Recognize the richness of brands—go beyond the three-word phrase. Although two to four associations are often the most import, understand the full range of associations that are cued by the brand.

4. Get beyond functional benefits. Emotional and self-expressive benefits and brand personality can provide a basis for sustainable differentiation and a deep customer relationship.

5. Consider organizational associations—people, programs, values, strategies, and heritage that are unique to the company and meaningful to customers.

6. Look to role models. What other companies have been successful with similar branding efforts? Are there any people or programs internal to the firm that exemplify desired characteristics for the brand?

7. Understand the brand relationship spectrum and the right degree of separation for new offerings.

8. Look for branded differentiators. Even functional benefits, if copied, can remain distinctive if given a strong brand identify initially.

9. Use branded energizers—a branded person or program you can associate with your brand.

10. Win the brand relevance battle—make your competitors seem irrelevant.

In practice, however, the two perspectives emphasize different things. The customer equity perspective focuses on bottom-line financial value. Its clear benefit is its quantifiable measures of financial performance. But it offers limited guidance for go-to-market strategies. It largely ignores some of the important advantages of creating a strong brand, such as the ability to attract higher-quality employees, elicit stronger support from channel and supply chain partners, and create growth opportunities through line and category extensions and licensing. The customer equity approach can overlook the “option value” of brands and their potential to affect future revenues and costs. It does not always fully account for competitive moves and countermoves or for social network effects, word of mouth, and customer-to-customer recommendations.

Brand equity, on the other hand, tends to emphasize strategic issues in managing brands and creating and leveraging brand awareness and image with customers. It provides much practical guidance for specific marketing activities. With a focus on brands, however, managers don’t always develop detailed customer analyses in terms of the brand equity they achieve or the resulting long-term profitability they create.110 Brand equity approaches could benefit from sharper segmentation schemes afforded by customer-level analyses and more consideration of how to develop personalized, customized marketing programs—whether for individuals or for organizations such as retailers. There are generally fewer financial considerations put into play with brand equity than with customer equity.

Nevertheless, both brand equity and customer equity matter. There are no brands without customers and no customers without brands. Brands serve as the "bait" that retailers and other channel intermediaries use to attract customers from whom they extract value. Customers are the tangible profit engine for brands to monetize their brand value.

SUMMARY

Brands are sets of associations linked to a name or mark associated with a product or service. The associations can be positive or negative, and anything can be branded, even water, cities, and people. In addition, brands have the ability to shape how people perceive products—they can elevate a product or diminish a product. As a result, brands are critically important; a brand with negative associations will hurt a company, and a brand with positive associations will help.

While branding looks easy, creating and building brands is exceptionally challenging. Effective brand managers must understand the challenges of cash, consistency, and clutter and focus on overcoming the issues specific to their brand.

Above all, managers must believe in the power of brands. Ultimately, brands are built by people who passionately believe in their brands. Indeed, many of the world's best brands can be linked to a single person: Howard Schultz created Starbucks, Steve Jobs built Apple, Pleasant Roland formed American Girl, Richard Branson developed Virgin, and Phil Knight was the driving force behind Nike. Brand builders understand and believe in the power of brands.

CASE STUDIES

>> McDonald's

McDonald's is the world's leading hamburger fast-food chain with more than 34,000 restaurants in 119 countries. More than 80 percent of McDonald's restaurants are owned and operated by franchisees, which decreases the risk associated with expansion and ensures long-term tenants for the company. McDonald's serves 70 million people each day and promises an easy and enjoyable food experience for its customers.

McDonald's Corporation dates back to 1955 when Ray Kroc, a multi-mixer salesman, franchised a hamburger restaurant from the McDonald brothers. Kroc named it McDonald's and offered simple foods such as the famous 15-cent hamburger. He helped design the building, which featured red and white sides and a single golden arch that attracted local attention. Just 10 years later, McDonald's had expanded to more than 700 U.S. restaurants, and the brand was on its way to becoming a household name.

During the 1960s and 1970s, Kroc led McDonald's growth domestically and internationally but always reinforced the importance of quality, service, cleanliness, and value. The menu expanded to include iconic items such the Big Mac, the Quarter Pounder, the Happy Meal, Filet-O-Fish, and breakfast items like the Egg McMuffin. The company ramped up its advertising as well. To target its core audience—children and families—it introduced Ronald McDonald during a 60-second commercial in 1965. Soon, characters like Grimace, the Hamburgler, and Mayor McCheese made their debut in McDonald's advertising and helped lure children into its restaurants for familiar food and a fun experience.

In 1974, McDonald's opened the Ronald McDonald House, a charitable cause to help children with leukemia. Since then, it has expanded into a global effort called Ronald McDonald House Charities that consists of three major programs: Ronald McDonald House, Ronald McDonald Family Room, and Ronald McDonald Care Mobile.

McDonald's aggressively expanded overseas during the 1980s by adding locations throughout Europe, Asia, the Philippines, and Malaysia. However, this rapid growth led to many struggles during the 1990s and early 2000s. The company lost focus and direction as it added as many as 2,000 new restaurants a year. New employees weren't trained fast enough or well enough, which led to poor customer service and dirtier restaurants. In addition, new healthier-option competitors popped up such as Subway and Panera Bread.

Consumers' tastes and eating trends also started to change in the early 2000s, and McDonald's new food offerings failed on many fronts. Product launches like pizza, the Arch Deluxe, fajitas, and deli sandwiches did not connect with consumers, nor did tweaks to the current menu like multiple changes to the Big Mac special sauce. Jim Skinner, McDonald's former chief executive, explained, "We got distracted from the most important thing: hot, high-quality food at a great value at the speed and convenience of McDonald's."

In 2003, McDonald's implemented a strategic effort called the Plan to Win. Still in effect, the plan helped McDonald's restaurants refocus on offering a better, higher-quality consumer experience rather than a quick and cheap fast-food option. Its "playbook" provided strategic insight on how to improve on the company's 5 Ps—people, products, promotions, price, and place—yet allow local restaurants to adapt to different environments and cultures. For example, McDonald's introduced a Bacon Roll breakfast sandwich in the United Kingdom, a premium M burger in France, and an egg, tomato, and pepper McPuff in China. Prices also varied slightly across the United States to better reflect different regional tastes.

Some changes that initially helped turn the company around included offering more chicken options as beef consumption started to decline, selling milk in a bottle instead of a carton, and removing "Super Size" options after the documentary "Super Size Me" targeted McDonald's and its link to obesity. The company responded to customers' desire for healthy foods with premium salads and apple slices instead of French fries in its Happy Meals. It also dismissed claims of "mystery meat" by introducing all-white-meat McNuggets.

Many of these healthier options targeted moms and charged a premium price. Meanwhile, McDonald's targeted teenagers and its lower-income consumers with the introduction of the $1 menu. The company improved its drive-thru service, added more snack options, and refurbished restaurants with leather seats, warm paint colors, Wi-Fi, and flat-screen TVs. In many locations it created three different "zones" that fit the needs of each target audience: a linger zone with comfortable sofas where teenagers could hang out and socialize, a family zone with tables and chairs that could easily be reconfigured, and an efficient zone for consumers who needed to grab a quick bite and go.

Initial results were staggering; from 2003 to 2006, revenues increased 33 percent and share price soared 170 percent. In 2008, McDonald's was one of only two companies in the Dow Jones industrial average whose share price rose during the worldwide recession. Sales continued to increase, and in 2012, McDonald's experienced record revenues of $27 billion.

Today, McDonald's increases its consumer base through global growth and product expansion. For example, the successful introduction of McCafé directly targeted consumers in the booming coffee industry and stole share from companies like Starbucks, Dunkin' Donuts, and Caribou Coffee. It is a good example of how McDonald's works to appeal to new consumers and aims to stay relevant through the years. Its current campaign, "I'm Lovin' It," seems to connect with McDonald's large consumer base and keep them coming back again and again.

>> Procter & Gamble

Procter & Gamble (P&G) began in 1837 when brothers-in- law William Procter and James Gamble formed a small candle and soap company. Over the next 150 years, P&G innovated and launched scores of revolutionary products with superior quality and value, including Ivory soap in 1882, Tide laundry detergent in 1946, Crest toothpaste with fluoride in 1955, and Pampers disposable diapers in 1961. The company also opened the door to new product categories by acquiring a number of companies, including Richardson-Vicks (makers of personal care products like Pantene, Olay, and Vicks), Norwich Eaton Pharmaceuticals (makers of Pepto-Bismol), Gillette, Noxell (makers of Noxzema), Shulton's Old Spice, Max Factor, and the Iams pet food company.

Today, Procter & Gamble is one of the most skillful marketers of consumer-packaged goods in the world and holds one of the most powerful portfolios of trusted brands. The company employs 121,000 people in about 80 countries worldwide, has 25 billion-dollar global brands, spends more than $2 billion annually on R&D, and has total worldwide sales in excess of $84 billion a year. Its sustained market leadership rests on a number of different capabilities and philosophies. These include:

Customer knowledge: P&G studies its customers—both the end consumers and its trade partners—through continuous marketing research and intelligence gathering. It spends more than $100 million annually on more than 10,000 formal consumer research projects and generates more than 3 million consumer contacts via its e-mail and phone center. The company also encourages its marketers and researchers to be out in the field, interacting with consumers and retailers in their home environment.

Long-term outlook: P&G takes the time to analyze each opportunity carefully before acting. Once committed, the company develops the best product possible and executes it with the determination to make it a success. For example, it struggled with Pringles potato chips for almost a decade before achieving market success. Recently, P&G has increased its presence in developing markets by focusing on affordability, brand awareness, and distribution through e-commerce and high-frequency stores.

Product innovation: P&G is an active product innovator. The company employs 1,000 science PhDs, more than Harvard, Berkeley, and MIT combined, and applies for roughly 3,800 patents each year. Part of its innovation process is to develop brands that offer new consumer benefits. Recent innovations that created entirely new categories include Febreze, an odor-eliminating fabric spray; Dryel, a product that helps "dry-clean" clothes at home in the dryer; and Swiffer, a cleaning system that effectively removes dust, dirt, and hair from floors. Larry Huston, former innovation officer at P&G, stated, "P&G is largely a branded science company."

Quality strategy: P&G designs products of above-average quality and continuously improves and reformulates them. When the company says "new and improved," it means it. Recent examples include Tide Pods, a compact laundry detergent tablet; Pampers Rash Guard, a diaper that treats and prevents diaper rash; and improved two-in-one shampoo and conditioner products Pantene, Vidal Sassoon, and Pert Plus.

Brand extension strategy: P&G produces its brands in several sizes and forms. This strategy gains more shelf space and prevents competitors from moving in to satisfy unmet market needs. P&G also uses its strong brand names to launch new products with instant recognition and much less advertising outlay. The Mr. Clean brand has been extended from household cleaner to bathroom cleaner and even to a carwash system. Old Spice extended its brand from men's fragrances to deodorant. Often, P&G will leverage the technologies already in place to create a brand extension. For example, when Crest successfully extended its brand into a new tooth-whitening system called Crest Whitestrips, the company used bleaching methods from P&G's laundry division, film technology from the food wrap division, and glue techniques from the paper division.

Multibrand strategy: P&G markets several brands in the same product category, such as Luvs and Pampers diapers and Oral-B and Crest toothbrushes. Each brand meets a different consumer want and competes against specific competitors' brands. At the same time, the company is careful not to sell too many brands and recently reduced its vast array of products, sizes, flavors, and varieties to assemble a stronger brand portfolio.

Strong sales force*:* P&G's sales force has been named one of the top 25 sales forces by *Sales & Marketing Management* magazine. A key to its success is the close tie its sales force forms with retailers, notably Walmart. The 150-person team that serves the retail giant works closely with Walmart to improve both the products that go to the stores and the process by which they get there.

Manufacturing efficiency and cost cutting*:* P&G's reputation as a great marketing company is matched by its excellence as a manufacturing company. The company has successfully developed and continually improves its production operations, which keep costs among the lowest in the industry. As a result, it is able to offer reduced prices for its premium products.

Brand-management system*:* P&G originated the brand-management system, in which one executive is responsible for each brand. The system has been copied by many competitors but not often with P&G's success. Recently, P&G modified its general management structure so that a category manager runs each brand category and has volume and profit responsibility. Although this new organization does not replace the brand-management system, it helps to sharpen strategic focus on key consumer needs and competition in the category.

P&G's accomplishments over the past 177 years have come from successfully managing the numerous factors that contribute to market leadership. Today, the company's wide range of products are used by 4.8 billion people around the world in 180 different countries.

ASSIGNMENT

Answer two questions and submit to: rtsonlineeduaction@gmail.com

1. What are McDonald's core brand values? Have these changed over the years?
2. How has McDonald's grown its brand equity over the years? Has McDonald's changed in different economic times or in different parts of the world? Explain.
3. What risks do you think McDonald's will face in the future?
4. P&G's impressive portfolio includes some of the strongest brand names in the world. What are some of the challenges associated with being the market leader in so many different categories?
5. With social media becoming increasingly important and fewer people watching traditional commercials on television, what does P&G need to do to maintain its strong brand images?
6. What risks will P&G face in the future?
7. How can you relate the different models of brand equity in this chapter to one another? How are they similar? How are they different? Can you construct a brand-equity model that incorporates the best aspects of each model?

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