Learning Objectives

- Recognize the multidimensionality of brand equity and the importance of multiple methods to measure it
- Contrast different comparative methods to assess brand equity
- Explain the basics of how conjoint analysis works
- Review different holistic methods for valuing brand equity
- Describe the relationship between branding and finance
Comparative Methods

Brand-Based Comparative Approaches

Marketing-Based Comparative Approaches

Conjoint Analysis
Brand-Based Comparative Approaches

- Competitive brands used as benchmarks by consumers
  - Example: Category leader or some other brand that consumers feel is representative of the category, like their most preferred brand
- Applications (blind tests, comparative tests - chocolate)
Paired Comparison

- A respondent is presented with two objects and asked to select one according to some criterion.
- The data obtained are ordinal in nature.
- Paired comparison scaling is the most widely used comparative scaling technique.
- With n brands, \[\frac{n(n - 1)}{2}\] paired comparisons are required.
- Under the assumption of transitivity, it is possible to convert paired comparison data to a rank order.
Paired Comparison

Instructions: We are going to present you with ten pairs of shampoo brands. For each pair, please indicate which one of the two brands of shampoo you would prefer for personal use.

Recording Form:

<table>
<thead>
<tr>
<th></th>
<th>Jhirmack</th>
<th>Finesse</th>
<th>Vidal Sassoon</th>
<th>Head &amp; Shoulders</th>
<th>Pert</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jhirmack</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Finesse</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Vidal Sassoon</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Head &amp; Shoulders</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Pert</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

A 1 in a particular box means that the brand in that column was preferred over the brand in the corresponding row. A 0 means that the row brand was preferred over the column brand. The number of times a brand was preferred is obtained by summing the 1s in each column.
The most common method of taste testing is paired comparison. The consumer is asked to sample two different products and select the one with the most appealing taste. The test is done in private and a minimum of 1,000 responses is considered an adequate sample. A blind taste test for a soft drink, where imagery, self-perception and brand reputation are very important factors in the consumer’s purchasing decision, may not be a good indicator of performance in the marketplace. The introduction of New Coke illustrates this point. New Coke was heavily favored in blind paired comparison taste tests, but its introduction was less than successful, because image plays a major role in the purchase of Coke.
Rank Order

- Respondents are presented with several objects simultaneously and asked to order or rank them according to some criterion.
- It is possible that the respondent may dislike the brand ranked 1 in an absolute sense.
- Furthermore, rank order scaling also results in ordinal data.
- Only \((n - 1)\) scaling decisions need be made in rank order scaling.
Instructions: Rank the various brands of toothpaste in order of preference. Begin by picking out the one brand that you like most and assign it a number 1. Then find the second most preferred brand and assign it a number 2. Continue this procedure until you have ranked all the brands of toothpaste in order of preference. The least preferred brand should be assigned a rank of 10.

No two brands should receive the same rank number.

The criterion of preference is entirely up to you. There is no right or wrong answer. Just try to be consistent.
<table>
<thead>
<tr>
<th>Brand</th>
<th>Rank Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crest</td>
<td>_________</td>
</tr>
<tr>
<td>Colgate</td>
<td>_________</td>
</tr>
<tr>
<td>Aim</td>
<td>_________</td>
</tr>
<tr>
<td>Gleem</td>
<td>_________</td>
</tr>
<tr>
<td>Macleans</td>
<td>_________</td>
</tr>
<tr>
<td>Ultra Brite</td>
<td>_________</td>
</tr>
<tr>
<td>Close Up</td>
<td>_________</td>
</tr>
<tr>
<td>Pepsodent</td>
<td>_________</td>
</tr>
<tr>
<td>Plus White</td>
<td>_________</td>
</tr>
<tr>
<td>Stripe</td>
<td>_________</td>
</tr>
</tbody>
</table>
Constant Sum

- Respondents allocate a constant sum of units, such as 100 points to attributes of a product to reflect their importance.
- If an attribute is unimportant, the respondent assigns it zero points.
- If an attribute is twice as important as some other attribute, it receives twice as many points.
- The sum of all the points is 100. Hence, the name of the scale.
Rank Order

Instructions

On the next slide, there are eight attributes of bathing soaps. Please allocate 100 points among the attributes so that your allocation reflects the relative importance you attach to each attribute. The more points an attribute receives, the more important the attribute is. If an attribute is not at all important, assign it zero points. If an attribute is twice as important as some other attribute, it should receive twice as many points.
## Rank Order

### Form

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Segment I</th>
<th>Segment II</th>
<th>Segment III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mildness</td>
<td>8</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>2. Lather</td>
<td>2</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>3. Shrinkage</td>
<td>3</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>4. Price</td>
<td>53</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>5. Fragrance</td>
<td>9</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>6. Packaging</td>
<td>7</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>7. Moisturizing</td>
<td>5</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>8. Cleaning Power</td>
<td>13</td>
<td>60</td>
<td>15</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Marketing-Based Comparative Approaches

- Hold the brand fixed and examine consumer response based on changes in the marketing program.
- Price difference between the brand normally purchased and an alternative brand (Intel vs. AMD).
- Applications (premium products → price sensitivity and willingness to pay thresholds for brands; explore potential brand extensions by collecting consumer evaluations of a range of concept statements describing brand extensions candidates).
Conjoint Analysis

- Survey-based multivariate technique that enables marketers to profile the consumer decision process with respect to products and brands
  - **Part worth:** The value consumers attach to each attribute level, as statistically derived by the conjoint formula
- Applications (e.g., attributes in a product, brand x price → buying a preferred brand and paying less → how much their brand loyalty is worth and which brands they would relinquish for a lower price)
Holistic Methods

Attempt to place an overall value on the brand in either abstract utility terms or concrete financial terms. Thus, holistic methods attempt to “net out” various considerations to determine the unique contribution of the brand.

Residual Approach

• Examines the value of the brand by subtracting consumers’ preferences for the brand from their overall brand preferences

Valuation Approach

• Places a financial value on the brand for accounting purposes, acquisitions, mergers or other reasons.
Residual Approaches

Scanner Panel

Choice Experiments

Multi-Attribute Attitude Models
Researchers have focused on analysis of brand value based on data sets from supermarket scanners of consumer purchases.

Some of the models used by researchers:

• Estimate that aspect of brand preference that is unique to a brand and not currently duplicated by competitors.

• Employ actual retail sales data to calculate a “revenue premium” as an estimate of brand equity.

• Use store-level scanner data to track brand equity and key drivers of brand equity over time.
Choice experiments

- **Equalization price**: Equates the utility of a brand to the utilities that could be attributed to a brand in the category where no brand differentiation occurred.
Multi-attribute attitude models

- Reveals the relative sizes of different bases of brand equity by dividing brand equity into three components:
  - **Brand awareness.**
  - **Attribute perception biases**: Difference between subjectively perceived attribute values and objectively measured attribute values.
    - Examples: Consumer reports or versus.com
  - **Nonattribute preference**: Difference between subjectively perceived attribute values and overall preference.
Valuation Approaches

• Reasons for a price tag on a brand’s value: Mergers, and acquisitions, Brand licensing, Fund raising and Brand portfolio decisions

  Accounting Background

  Historical Perspectives

  General Approaches

  Simon and Sullivan’s Brand Equity Value

  Interbrand’s Brand Valuation Methodology

  • Tangible assets
  • Intangible assets

  Derived from financial market estimates of brand-related profits.
  • Brand financial performance
  • Role of brand
  • Brand strength
General approaches

• Cost approach - Brand equity is the amount of money that would be required to reproduce or replace the brand.

• Market approach - The amount an active market would allow so that the asset would exchange between a willing buyer and willing seller.

• Income approach - Brand equity is the discounted future cash flow from the future earnings stream for the brand.
  • Capitalizing royalty earnings from a brand name.
  • Capitalizing the premium profits that are earned by a branded products.
  • Capitalizing the actual profitability of a brand after allowing for the costs of maintaining it and the effects of taxation.
To Sum Up..

- Brand valuation and the “brands on the balance sheet” debate are controversial subjects

- Limitations of valuation approaches
  - Require much judgmental data and thus contain much subjectivity
  - Intangible assets are not always synonymous with brand equity
  - Methods sometimes defy common sense
  - Strength of the brand measures may be confounded with the strength of the company