Brand Equity is Everything (that Matters)

"Brand Equity" is all too often misinterpreted for being a distant cousin of "brand identity" and often neglected despite being one of the most important management tools. We set the record straight and explain its fantastic potential for the Industrial sector.

IDEA IN BRIEF

- Brand Equity has little to do with brand identity - in fact, it has little to do with the way *you* define or represent your company in the traditional sense
- Instead, Brand Equity is a measure of how *your customers and customer prospects* (and other critical key stakeholders) define your company relative to alternatives and relative to customers' key purchasing criteria
- Brand Equity is a quantitative diagnostic tool with a wide variety of applications for the Industrial sector, from strategic planning to acquisitions to new product introduction, and needs to be a primary input in resolving investment and budget decisions
- Brand Equity can be even more powerful to executive leadership, operations and strategy professionals as it is to upstream and downstream marketing professionals—and given the likely under utilization by those functions, likely offers even greater upside

The first questions you might be asking are whether Brand Equity is all that important, and what is its relevance to the work that you are responsible for? Brand Equity is a familiar concept to marketing professionals, and, in recent years, its utility has broadened and today is put to use by sales, operations, strategy, portfolio planning, corporate development and executive management. However, effective Brand Equity management is sometimes confused with brand identity management and brand motivation management. The key difference between these concepts is in how they interpret brand: in brand identity work, companies are assessed using brand representations (in the forms of a mark, a design, a phrase, a narrative, etc.) as a unifying expression of how the organization prefers or hopes the outside world will recognize the business or product. In Brand Equity work, you turn this concept around a full 180 degrees and examine the picture from the perspective of customers and other stakeholders. You measure this picture using a scorecard as a comprehensive assessment or an equity measure of how customers assess the value offered by a firm vis-à-vis its competitors and most importantly its needs and aspirations. Factors evaluated as part of standard Brand Equity assessments commonly include performance, function, quality, service and support, trust, and value. Brand Equity assessment begins outside the organization, and in best-in-class organizations resonates inwards—how will we change our actions, our plans, our behaviors, to improve perceptions of our brand relative to customer needs?

In stark contrast from five years ago with our work with leading Industrial sector companies, Brand Equity analysis is becoming the "go-to" tool for predicting future performance, informing strategic planning, performance improvement, portfolio planning, product planning, and go-to-market activities. One of our most successful clients in the space has made regularly measuring its Brand Equity among customers a standard way of life, mandating this work for all businesses annually.

Our approach to assessing Brand Equity consists of several steps. First, we assess components of Brand Equity based on a common set of factors that we use for all industries (allowing cross-comparisons and relative measures) and augmented by a set of factors that are industry or business specific and derived through experience in the industry, as well as initial customer interviewing. Next, using statistically significant sample sizes for critical market segments, we determine which factors matter most to the firm's customers (and customer prospects) when making purchasing decisions. Then, we collect customers' and the prospects' views (in a high-quant fashion) of the competitors' brands (including upstarts and alternatives) against each of the purchasing factors that matter. Among the factors that are universal is "familiarity",[1] which by itself could be valuable in helping determine a proper and complete set of competitors (it is always a powerful moment in our client meetings when our clients come to learn the full set of competitors that hold equity and intrigue from their core customers). Other factors that are universal include likelihood to recommend, having a reputation for being trustworthy, ability to deliver valuable innovation, product functionality and performance, and providing a product or service that meets needs. Factors specific to the Industrials space often include the degree of customization available, sales support, technical support and after-market service performance, project management ability, and others.

The degree to which Brand Equity factors are predictive of likelihood to purchase from a given organization differs by industry and changes over time, which is why every Brand Equity study (even if it's repeated annually) needs to assess the importance of each attribute. By weighting a client's performance on a factor by the importance of the factors and by segment of the customer base, we can arrive at an understanding of a client's strategic strengths and weaknesses, and help our clients avoid getting distracted by those strengths and weakness that are unimportant. **This piece of the analysis provides great relief to the organization as it resolves questions about where to not invest—preserving capital and budgets for the critical areas that will make a difference in market share and the top and bottom line.**

There are multiple applications of Brand Equity in the Industrials world, including:

- Supporting annual strategic and portfolio planning activities
- Serving as a forward indicator of market share performance—as well as serving as an instructive diagnostic on the underlying causes for the shift; these being extremely useful for managing product lines in mature as well as developing markets. The quantitative nature of the tool provides a powerful performance metric of how we stand up in the eyes of our customers and our customer targets
- Directing limited resources towards the highest ROI investments
- Supporting merger and acquisition processes; Brand equity is one of three critical components of commercial due diligence for the most successful strategic acquirers according to our Private Equity and M&A practice—many top financial investors in determining whether to pursue a buyout (or not)
- Preparing for new market entry: knowledge of the competitive brand landscape can be critical to effective positioning and channel planning for a new product
- Determining how much permission that you have with your channel and customer base to bring forward innovations
- Informing customer segmentation: building segments from Brand Equity clusters can be far more predictive than demographics-based segmentation

Of course, Brand Equity has its challenges. In particular, Brand Equity will be somewhat limited as a predictive utility unless it is measured with regularity and includes trending analysis. Without regular check-ins, analyses can only tell you where customer perceptions are and will not indicate where customer perceptions are headed. Additionally, when analyzed incorrectly, Brand Equity can identify false indicators of improvement opportunities for companies with substantial legacies. Think of Brand Equity as clay being molded by a combination of customer word of mouth, an organization's actual performance, and relative competitor comparisons, as well as advertising and other means of perception shifting. When new to the market, the clay is highly moldable—perceptions can be built, improved, and shifted rapidly. When a brand has been in the market for many years, it can become set (assuming it has not been regularly touched and molded in meaningful ways).[2] This is likely a mistake that Blackberry (formally RIM) fell victim to.

Considering another example, a multi-billion-dollar, highly acquisitive industrial conglomerate was recently considering an acquisition in the Oil and Gas sector. One of the competitors of the target company had a reputation built over 75 years, whereas the target had only been in the market for seven years. Both companies had similarly poor Brand Equity, but the target had the advantage of not having a legacy. As a key component of moving forward with the acquisition, Kaiser developed a 100-Day Plan to address critical brand issues for the target. In assessing the competitive response, we were confident that the legacy brand would be challenged to reposition itself effectively, and therefore would be unable to adroitly shift. The company would either suffer for trying, given the depth of the legacy, or be forced to find another means of response (which we predicted would be a pricing tactic and which our client could now prepare for). Generalizing from this acquisition scenario, anyone interested in driving performance through Brand Equity assessment needs to regularly ask: How easy will it be to improve in places where we are weak? And specifically, what actions will it take?

The strategic options made available by Brand Equity assessments differ based on the degree to which a brand maintains its pliability. In some cases, companies have recognized that Brand Equity has hardened, and must simply be reconsidered relative to a new brand if substantial changes must be made. This is what happens when companies neglect understanding their true and current Brand Equity. In our rapidly evolving economy, with greater and greater information flow and rapid innovation cycles, the speed with which customer selection criteria changes and Brand Equity shifts between competitors is astonishingly fast, and significant damage can be incurred. In a surprisingly large number of cases, however, brand recovery is possibly by directly confronting weakness.

A useful starting point for companies in determining their strategy to Brand Equity management may start with a thoughtful examination (and a properly aggregated quantitative measure) of a number of simple yet powerful questions:

- What do customers want?
- How do customers think?
- Who are we beating, and why?
- Who are we losing to, and why?
- Which segments are we winning with? Which are we losing with?

The bottom line: If leadership does not have accurate and nuanced read of the equity it holds with its customers, every other effort of management is at risk for dramatic under performance. In the end, the only thing that matters is what customers think today, and the actions they will take tomorrow.

[1] Technically, "aided and unaided brand awareness," or sometimes referred to as brand awareness (i.e., unaided awareness) and brand familiarity (i.e., aided brand awareness).

[2] Additionally, applying the heat of intense press scrutiny due to public issues, will have a similar ability to "set" a brand and make perception shifting more difficult.

Founded in 1981, Kaiser Associates is an international strategy consulting firm that serves as a key advisor to the world's leading companies. We provide our clients with the unique insight derived from unparalled primary research capabilities to drive critical decision making and solve their most pressing problems. We are dedicated to helping leading corporations improve their performance and achieve sustained profitable growth.

KAISER
ASSOCIATES

John Wilhelm
Senior Vice President
North America
+1 202 454 2029
jwilhelm@kaiserassociates.com

Mark Stein
Senior Vice President
North America
+1 202 454 2060
mstein@kaiserassociates.com

James Tetherton
Senior Vice President
EAME
+44 (0) 7980 818216
jthetherton@kaiserassociates.com

© 2016 KAISER ASSOCIATES, INC. / OFFICES: WASHINGTON, D.C. / LONDON / KUALA LUMPUR / TORONTO / SÃO PAULO