TOPIC: STRATEGY & FINANCE, MARKETING & SALES

IT'S TIME TO ASSESS YOUR BRAND EQUITY

10 min read

"Brewing great beer is no longer enough." If there's a phrase that was repeated more often in beer industry articles, presentations, and casual conversations in 2024, we don't know what it might have been. (To be honest, we may have repeated such a truism once or twice ourselves.) Implicitly or explicitly, that observation typically segues to a consistent recommendation: as industry headwinds continue to gather, brewers and other beverage producers must invest more resources in building their brands, especially by building *relevant differentiation* into the brand.

In the view of First Key, this is absolutely correct. It may or may not be hyperbole to say that if a brand isn't differentiated in some meaningful way in drinkers' minds, it really isn't a brand at all.

A brand can be differentiated in tangible and/or intangible ways. Great beer was arguably once a source of tangible differentiation (and may still be in some cases). But over time the strongest brands in any product category usually get that way by developing some sort of intangible differentiation – creating an emotional connection with drinkers through brand attitudes, values, personality, etc.

As brand building becomes a greater point of focus, it would clearly pay to develop an approach to determining the success of those efforts by periodically assessing the state of one's brand equity. When the point of difference is tangible, wrapped up in the beer itself, that might be a comparatively easy thing to do – not that the answers are cut-and-dried, but at least there are some hard numbers involved, in the form of product analyses and consumer taste tests. But intangibles are clearly more abstract, living virtually exclusively in the hearts and minds of beer drinkers, and that makes assessing brand equity more of a challenge.

Brand Equity versus Brand Value

Brand equity is not the same as brand value, although they are closely related.

Brand value can be measured (or at least estimated) in dollars and cents terms, capturing the total contribution of the brand to the bottom line. Brands with strong value, not surprisingly, tend to be profitable because they're well-established, often category leaders, or simply able to command a premium price.

Brand equity can be thought of as the revenue that the brand generates over and above the revenue that would be contributed by a hypothetical brand with all the same functional attributes. However, in practice brand equity is not always gauged in dollars-and-cents terms. This means that attempting to quantify brand equity presents its own distinct challenges. Not only is it multi-faceted – an outcome of the brand's awareness, brand associations, perceived quality, and brand loyalty – but even the experts have different perspectives on how these elements come together to forge brand equity. As a result, there's no single measure that does a really good job of quantifying brand equity. With that said, we'll shortly discuss some measurable factors that do a very good job of providing insight into the state of a brand's equity.

The ultimate purpose of building brand equity is to build brand value. Strong brand equity can lead to higher sales, premium pricing, and greater market share, all of which contribute to the brand's financial value.

But if that's the case, and brand value is easier to conceptualize and less challenging in terms of measurement efforts, why bother dealing with the gray areas of assessing brand equity? Why not just estimate the brand's value and be done with it?

The short answer is that assessing brand equity in the context of brand value can help us gain insights into the opportunities and threats facing the brand.

To further explain this, it helps to think of brand equity as the foundation and brand value as the superstructure. Brand value can't develop unless it has a foundation on which to do so, and that strong foundation puts you in a position to further build up brand value. But even if brand value is currently strong, there can be cracks in the foundation, foreshadowing erosion of brand equity, and, subsequently, brand value. And in that case plans to repair those cracks should be the priority. What both courses of action might look like in practice will be discussed shortly.

Two Critical Facets of Brand Equity

To illustrate some important points, let's take a look at two of those aforementioned facets of brand equity – brand loyalty and relevant differentiation.

Brand loyalty is typically defined as the likelihood a customer will make a repeat purchase of the brand over time. While brand loyalty is almost universally considered a component of brand equity, some experts go so far as to believe that brand loyalty is brand equity, period.

In our view, however, brand loyalty tells an incomplete story – a story whose details can often be filled in by better understanding of relevant differentiation.

To illustrate how these concepts fit together, it's first important to distinguish between *attitudinal loyalty* and *behavioral loyalty*. Attitudinal loyalty is a good indicator of relevant differentiation and brand equity that will more than likely stand the test of time. On the surface, behavioral loyalty may look a lot like attitudinal loyalty, but behavioral loyalty can sometimes be quite fragile.

If Brand A has a large base of people who buy it on virtually every purchase occasion, it may well be because they are legitimately enthusiastic about it (i.e., they have attitudinal loyalty). They may even go out of their way to buy it if their favorite store is out of stock. Meanwhile, Brand B's drinkers may be just as consistent in terms of their buying behavior, but not because of brand enthusiasm per se. Rather, for them buying the brand has simply become a comfortable habit, one they'd rather not think about too much (behavioral loyalty).

Both brands may well have similar current brand value. Their contributions to the bottom line, at least for now, are essentially the same.

Why, then, does this distinction matter? In an extreme example, let's say both Brand A and Brand B suffer some sort of public relations crisis. Maybe a quality control failure has allowed a bad batch to reach store shelves. Both brands lose sales in the short term. But Brand A's drinkers may well be forgiving in the long run, their attitudinal loyalty ultimately restored once they've been assured the problem has been fixed. But many of Brand B's drinkers may never return, their habit broken and replaced with a different brand that quickly becomes their new habitual purchase.

Because of potential situations like this, our view is that the best window into the status of a brand's equity is not loyalty, but relevant differentiation. Though Brand B's sales were strong, its drinkers had little motivation to come back to it after the crisis because whatever brand they had purchased in its stead now seemed just as good. Any perceptions on the part of drinkers that Brand B was different in some relevant way had faded. A seemingly sound superstructure had remained atop a cracked foundation. If Brand B had assessed its brand equity by gauging its relevant differentiation earlier, it could have addressed its potential loss of brand equity and helped insulate it from the most disastrous impacts of the crisis.

Laying the Groundwork for Future Brand Value

So, to explain the measurement task at its simplest, for a given brand we need to determine which is in a sturdier position: the foundation or the superstructure? Brand equity or brand value? The answer will lead to very different strategies and tactics.

But each is typically measured by very different tools. Relevant differentiation, like any and all diagnostic measures of brand equity, is about consumers' relationship with the brand, and the only real way to gauge it is via a consumer survey, i.e., what percent of the target audience agrees that the brand is both different and relevant? But brand value is more similar to an accounting concept, measured in dollars-and-cents terms. How can we compare the two?

Many approaches attempt to get the two concepts on the same scale by addressing both through a consumer survey. One approach we've found particularly effective is the BrandAsset Valuator® model, developed decades ago by advertising agency Young & Rubicam (now VML)[i]. The BAV approach uses a consumer survey to measure a brand's current status in terms of four "pillars": perceived difference, relevance, esteem, and knowledge.

As discussed, we view the first two of these are almost the defining characteristics of a brand and the best indicators of the health of brand equity.[ii] Meanwhile, esteem and knowledge can stand in, for our current purposes, for brand value. The former is arguably related to the idea that the brand is worth a premium price, while the latter is a function of how well-established the brand may be.

The first point here is that approaches such as the BAV have been applied to hundreds of brands over the years, and they have a remarkable track record of successfully anticipating the future growth or decline of brand value. When relevant differentiation indicates that the foundation is free of cracks, the brand value is far more likely to grow. When cracks have appeared in the foundation, it likely isn't adequate to support the current brand value, and the latter is more likely to decline. [iii]

But the second point here is that the first point is not a fait accompli. The two potential outcomes of such an analysis lead to two different recommended courses of action.

The Brand's Path Forward

If the foundation and the superstructure are similarly strong, the task at hand is to leverage relevant differentiation to further build sales and profitability. People generally have positive feelings for the brand, and they find the brand proposition relevant and motivating, at least in certain occasions. If visibility and availability are enhanced, people will act on this. While most brands would love to build distribution, the return on such efforts will likely be strongest in a situation like this, ensuring that the brand is within arm's reach as much as possible. Additionally, promotions or partnerships that reinforce the brand's associations with its most relevant occasions will likely be successful.

But if the superstructure is perched atop a foundation that may not remain sturdy for much longer, it's time to take a long hard look at the brand proposition itself. It's possible the entire positioning may need to be evolved. In this situation it can be very helpful to remember that the brand value couldn't have achieved its current status if the brand hadn't once been relevantly differentiated in drinker's minds. And so an audit of the brand's strengths and weaknesses, and how these may have changed over time, can be a productive first step. (Here, diagnostic questions included in the consumer survey can be quite insightful.) Has the brand's association with attitudes, values, or personality traits it once owned now faded? Or have those associations simply lost relevance as the culture and generations around the brand have shifted? What does the brand still own in consumer's minds and how can this be leveraged for the current generation?

The case for assessing one's brand equity in the context of brand value is strong. While there may well be leaps of judgment involved, quantitative methods do exist to get the job done. The good news is that a sound approach answers not only the questions Where are we? and Where do we want to be? but also How do we get there? And no matter where we currently are, that approach points the way to stronger brand value.

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[i] See https://www.bavgroup.com

[ii] Here we must point out that our beliefs about the relationships between these factors have not been endorsed by the BAV Group, and they may well disagree with our treatment of them.

[iii] See, for example, https://business.columbia.edu/brand-talk/how-brand-helps-predict-future-value-business