

Presentation at the ACR Doctoral Consortium

Issues over Brand Equity Construct &
its Measure

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SYNERGY

BRAND EQUITY

1. Critical importance to measure brand equity that meets accounting standards.

Brand as the fifth business resource (human resources, goods, money, information and brand)

- Recognition of intangible asset such as brand on the balance sheet or its public disclosure in a footnote (current financial statements provide little information about intangible assets)
- Brand as a management control basis (monitoring and improving brand equity status; evaluating a brand manager in accordance with the change in brand equity status)

2. Issues with brand equity definition

- Existing Definition: “The marketing effects or outcomes that accrue to the product with its brand name as compared to the outcomes that would accrue if the same product did not have the brand name” (Ailawadi, Lehmann, & Neslin, 2003).

What is and what is not brand equity?

- (1) Brand strength
- (2) Brand power
- (3) Brand esteem
- (4) Brand reputation
- (5) Brand attachment
- (6) Brand strength
- (7) Brand commitment
- (8) Brand value

**Possible marketing effects or outcomes
(accounting standards of objectivity and
reliability):**

- (1) differentiated brand perception
- (2) brand loyalty
- (3) higher profit margins
- (4) greater trade cooperation
- (5) increased marketing communication effectiveness
- (6) favorable licensing opportunities and support of brand extensions

The unnamed brand for the comparison standard:

- (1) The added difference between the named and unnamed brand reflects the measurement perspective rather than the conceptual perspective.
- (2) Mandating the presence of the referent unnamed brand to assess the equity of a target brand sometimes makes it infeasible to measure the brand equity when a brand does not possess any physical, substantive or explicit transaction properties (e.g., Heinz, P & G, New York, Britney Spears, L.A. Dodgers, etc).
- (3) It may not lead to the accurate measure of brand equity when objectively identifiable marketing mix elements play an important role for the equity build-up of the brand (e.g., iMac computer's distinctive design, Shrek 2, etc.).
- (4) It is the total set of marketing mix elements associated with the name, not the name that gives the brand its equity. It is not clear whether or not consumers are able to cognitively separate the brand from its name, particularly when they are able to identify a real brand from any exterior feature of the product (e.g., Terminator).

3. Conclusions:

- (1) Brand equity definition: “The financial estimation of a brand’s contribution to operating profit through its power to acquire and retain customers”. (the difference between sales and the cost of sales as reflecting the value from intangible assets, according to Leonard Nakamura of the Federal Reserve Bank of Philadelphia, Economic Policy review, 2003, Baruch Lev).
- (2) The comparison with the unnamed brand may not have to be part of the measurement requirement. The use of the baseline profit identified from the most recent historical data may serve the purpose of the referent brand better.
- (3) Determinants of brand equity:
 - Price premium
 - Demand Premium
 - Market premium
- (4) The need to develop the process model of brand equity that is based on the nomological network (i.e., how to get there, as opposed to what are involved in brand equity).