Managing Brands and Their Role in the Marketplace Richard Guha

A brand has intrinsic value and there are certain requirements needed to manage it for maximum effect. It´s instructive to look at what a brand is, as well as explaining why and how it has value. Also, to look at what elements are involved in the management of brand value by illustrating how a company can increase the value of its brands. Richard Guha, former who started his marketing career at Procter & Gamble, and went on to be CMO at US West/ Comcast, BMC Software, and CEO of Reliant Energy Retail, was interviewed by James Nelson of The Knowledge Curve for an upcoming article.

When did registered protection for brands first become possible?

A brand name is a legally registered adjective which describes a product or group of products. Protection was first established in the late 1800s to enable manufacturers to differentiate their product from 'no-name' and competitors' products.
However, from a business person's perspective a brand is much more. It denotes a guarantee of consistent quality. The value of a brand lies in the perception of it in the minds of customers and end-users, and an understanding of this perception is a necessary first step towards understanding the value of this asset. A brand name is an asset because it enhances a buyer's perception of value without affecting the supplier's costs. Therefore, a brand name adds perceived value, and as such it represents a final intangible step in the process of adding value. In all companies it represents a large part of the market value – as much as 70% for Coca Cola, but also 15-20% for such companies as SAP or Oracle.

Let´s take as our starting point a mass of raw material /data /labor. This is then value enhanced by several process steps. The result is a finished product. While these are of greater value than our starting point, we still have what could easily be a commodity unless we can establish barriers to entry. This can be achieved in many ways, including technology, economies of scale, and so on. One of the best ways of adding more value is by adding in the brand name quality guarantee to reach the complete brand name product or service.

Buyers are not strictly economic in their decision-making. Strong brands such as IBM, Levi, and 3M can command premiums for essentially parity products. While business people generally recognize that consumer brands influence purchase beyond pure rationality, they often do not understand that many business-to-business markets are price insensitive, but brand sensitive, particularly when people are not spending their own money. This means that the needs of brand positioning are even more important and necessary in business-to-business markets.

An established brand name promises the customer that one example of the product will be consistent with another of the same brand. Also that each product will be consistent with the customer's perception of the brand. In effect, it is a promise that the buyer won´t go wrong in making the decision to buy. An example of differing brands with consistent images would be a *Harvard Business Review* article; several pages long in black and white, research-based with a conceptual framework. The subjects reflect leading-edge management thinking. By contrast, a *Business Week* article may be brief, may include relevant color pictures, and concerns subjects of topical interest. We don't need to see the two articles to know this is based on each publication's brand image.

How do you go about putting a financial value on a brand?

Obviously, brand names have identifiable financial value. Australian and UK accounting rules allow the financial value of brands to be put on the balance sheet. In the US these assets may be part of the goodwill in an acquisition. In many of the recent takeovers, the high prices paid represent a premium for the brand names, and while the highest prices are paid for consumer brands, business-to-business brands are increasingly important. The valuation of a branded product is distinct from the product without the brand name. When a newly branded product or service is launched, investment is made to establish the name. Until credibility is established, the profitability growth is slower than it would be for an existing brand name.

The additional value of the brand is based on the perception that its target group has of the brand. Because the perception adds value, the marketer can either charge a higher price for it or spend less to support it. This value-adding perception we call the brand equity.

However, the valuation put on a company by financial analysts, in theory at least, already takes into account the value of its brands since the earnings stream considered relies on the existing brand trends being at least maintained. To impute an additional value to these brands, we have to assume that we can manage them better than in the past. This means very careful identification of opportunities for the brands which are not being exploited, as well as specific action- plans, and financial evaluations of these plans. All too often management underestimates the difficulty of this task, and acquisitions more often than not under- perform rather than exceed expectations.

So, like any other asset, a brand needs to be managed. Well managed, it can produce revenue and profits as well as justify further investment. Poorly managed, it can drain resources until the best option is to eliminate it. Some brands get stronger: IBM, Levi's, Honda; some get weaker: Studebaker, Brylcreem, Pepsodent.

How do the other elements of the marketing mix tend to affect brand equity?

Brand equity is affected by all the elements of the marketing mix, and these elements are often influenced or controlled by a wide variety of people, many of whom do not normally appreciate branding. Included among these people are those who work in production, distribution and sales. So, it´s critical to ensure that all people who can influence the brand perception understand the desired perception so that they do not act or talk in a way which is inconsistent with it. Constant monitoring and feedback is essential.

Canon was a brand name known for fine quality photographs, but Canon cameras were seen as being primarily for amateurs, while Nikon dominated the professional market. When the Canon name was put on photocopiers it strongly supported the idea of superior print quality and helped make the copiers successful. The success of Canon in the world of industrial copying built Canon's image for durability and Canon cameras now lead in professional photography.

When a brand is inappropriately applied, not only is the new product less likely to be successful, but its introduction can really hurt the original brand-name/product, resulting in the loss of the original image. Well established perceptions about brands are very difficult to change. Therefore, it makes greater business sense to take advantage of the existing brand perception. Nevertheless, brand name perception must be kept continually dynamic through planned, thought-out shifts. IBM used to mean cash registers. This was shifted to punch-card machines and then to computers. Essentially, the key user perception, ”they make machines which count and present the results” has remained unchanged, while the mechanism for meeting this perception has changed.

A brand cannot be all things to all people and retain any strength. The strongest brands carry specific perceptions to a defined target audience. *The Wall Street lournal* is an immensely strong brand name in providing timely national business news. It did not try to fight for the territory of mass-market national general news taken by *USA Today*. It did not need to, since it was already the first and strongest in its own segment, and did not want to risk losing its reputation for focused expertise. When managers understand exactly how and what their customers think about their brands, they can successfully extend it to cover new products and services and avoid applying the brand on product or service areas which are inappropriate.

What is the single most important critical success factor in managing a brand?

The key marketing factor in a brand name is the perception of it among its customers. To manage the brand effectively, managers must understand customers perceptions in four key areas: target market, products and product attributes, associations carried by the brand, and personality or tonality of the brand.

The definition of target markets is the first step in understanding a brand; This must be investigated among current and prospective buyers and users. Certain key characteristics are used to identify a target market. Even with products targeted primarily for business use, it is people who use these products and make purchase

decisions. These people must be understood in terms of age, gender, geographic location, other purchasing patterns, and characteristics appropriate to the market such as the industry they work in, their job function, their education and company size.

Target market definition is often more complex than it appears. For example,

*Often the buyer and end-user are different.

*Individuals who are not buyers may influence the purchase decision.

*Some brands may target different products to different target audiences.

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As an example, college textbooks are purchased by students, but specified by professors. Thus, the professor is the target market for the product, whereas the student is the target market for availability, and for the benefit of new books vs. old books. And many business-to-business marketers have built a brand beyond their corporate customer, i,e., Teflon. Although Du Pont's customer for Teflon is the cooking utensil manufacturer, their target market is consumers. Because end-users want Teflon, Du Pont's direct customers are forced to buy and use the branded, higher priced product.

Brands also carry certain associations which go well beyond product attributes. There are often different associations among segments of the target market, but a strong brand has substantial commonality. The broadest association is simply familiarity, but, as in a personal relationship there are events and characteristics which cement the relationship. It is often even more difficult to define personality or tonality of a brand. But it´s important to have a feeling for personality to ensure that the brand remains consistent. Coca-Cola for example is associated with summer, good company, youth, and the color red. It´s fun.

What are some of the differences in managing a corporate name vs. a brand name?

It´s been said that initially the parent defines the offspring, later the offspring redefines the parent. Often businesses launch new, and slightly different products which rely on carry-over from an existing brand equity. Later they may be surprised to find that the brand positioning has changed so much that the original product no longer fits the brand image.

There is indeed a major difference between a corporate name and a brand name, and the two should not be confused. Simplistically, a corporate name can be regarded as the brand name of a certain stock or employer, i.e., its target market is the stockholder and employee. Even if the same name is used as a brand name on a product or service, it can carry a different perception since it addresses a substantially different target market. However, it is beneficial if the two uses of the name are clearly differentiated.

Sara Lee is a US brand name for a range of frozen baked goods to consumers. It is also the name of a corporation in a broad range of foods and apparel. We could say similar things about Cadbury-Schweppes or Nestlé

You´ve written about the six ”Ps” of brand perception. Please explain.

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Managing a brand involves a carefully coordinated manipulation of the marketing elements for optimum effect. These elements which together create the brand perception are the six ”Ps” of the marketing mix.

The first is *product*. The specifications and quality of the product marketed under the brand name affects the perception of the brand.

When Apple computers were first introduced, they were seen as ”hackers” machines. Although the development of Visicalc did allow them to get some placement in offices, penetration was very low. IBM PCs were powerful enough to expand penetration to middle management. This prevented further business growth for Apple and pushed out the few machines it had placed. The Macintosh had to be developed to get Apple into offices against IBM, an uphill battle which has met with some success because the Macintosh offered greater ease for some, and capabilities -particularly in desktop publishing -which were superior to IBM. While other elements of the mix were also very important to the business community, it took a different product to change brand perception, such that if a company has Apple computers, they are Macintoshes.

The second is *positioning*. The message communicated in advertising and communication must be very deliberately developed.

American Express has long presented its cards as different from revolving credit cards -”members” not cardholders -allowing possession of a card to confer status, ”membership has its privileges.” As it has introduced first gold and then platinum cards, the company has been able to increase profitability by charging higher annual fees than are reflected in additional costs. These cards do have a brand-name related added value which justifies the cost to the ”member”.

The third is *presentation*. The customer´s first contact with the product(s) marketed under a brand is usually visual and is an important constituent of the brand perception. *The Wall Street Journal* does not use photographs, and relies instead on close-packed columns of type. This graphic presentation communicates an instant feeling of seriousness and the impression that the newspaper is packed with information.

Then comes *price*. Whether high or low, the price of a product or service contributes to the brand's perception. Careful selection of price points is critical in optimizing long-term profitability by trading off volume vs. margins -and the desired brand perception based on long range planning.

Compaq's computers were introduced as a slightly lower-cost alternative to an IBM PC. As the company became established it introduced new products ahead of IBM, at a higher price, which has helped build its image as a technology leader. Mercedes Benz has also used pricing as a tool to reinforce its image.

Fifth is *promotion*. To communicate most of the elements of the marketing mix, money has to be invested, whether in paid media, public relations or other promotions. Nutrasweet brand of aspartame sweetener was built in the US by a combination of advertising to customers and consumers, heavy public relations activity, and a major sampling promotion.

Last is *place*. The location where the product or service is found for purchase has a major impact upon the brand perception. This location is a function of the distribution channels used. Pet foods which are sold only through veterinarians or specialty pet food retailers are perceived differently from those sold through supermarkets.

What are the major challenges of global branding?

Many people have not yet recognized the global implications of branding. Even companies such as Procter & Gamble are still wrestling with the implications of using two brand names –Tide and Ariel – for lead heavy duty detergents internationally. While most countries get one or the other, the brands can occasionally co-exist. There is much talk about global marketing which carries implications of global communications media, and uniform brand positioning. Two barriers make this very difficult. The first is a barrier of execution. Companies have often executed brand names differently across the globe, and it is impossible to undo years of effort. Brands may represent different products, target groups and positionings in each market, even if the markets are contiguous. The second is more subtle. The consumer/buyer in each country has been exposed to a mix of cultural, marketplace and behavioral influence since birth, and as a result, the context in which a brand is positioned is different. It is very difficult, if not impossible, to place a brand in the same position on the map when the very topography of the map is different. In this situation we must find an 'equivalency' which enables us to be consistent without being the same.

We would normally develop a quantified map which would represent the current market in each county. Each available brand would be shown on the map, then we would overlay the maps. This would enable us to find the center of gravity. In each country, we would be faced with a different direction and distance in which to move, and from this we can develop positioning strategies. We must recognize that global marketing does not require identical positioning, but rather more likely different positioning. While this may sound complicated, it is actually a rather straightforward and pragmatic procedure, dependent only on well designed and executed research. The marketing implications are then developed by someone who is experienced in positioning. We must be careful to remind ourselves that positioning is a matter not only for the end user, but also for the distribution channel.