Brand Equity with an Improved Role for the Marketing Mix in a Practice-oriented Brand Valuation Framework

by

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ABSTRACT

The study in this paper seeks to ascertain why problems persist in brand valuation from the literature and identifies the need for theory about valuation and brand equity to be made more relevant to practitioners. Brand equity represents the sum of what consumers and companies think of brands in terms of their marketing and financial worth. Purposive sampling was employed to identify managers from accounting, marketing and brand management functions in thirty German companies knowledgeable about practice-oriented brand valuation. In-depth interviews utilising a questionnaire were undertaken. The research results showed that a modified approach was needed to incorporate marketing mix activities in generating added value for brands within a ‘process-based structure of a developed brand equity framework’. The conclusions indicate that such a framework is capable of meeting the different needs of marketing and accounting managers to optimise greater acceptance and adoption of brand processes in determining brand equity.

Keywords: brand equity, consumer & financial valuation, marketing mix

Introduction

The assessment of brand equity is a complicated process due to the varied existence of financial and non-financial methods. A review of the literature identified concerns with brand valuation with no one technique or framework fitting all and the need for marketing theory to be more relevant to practitioners. As Ambler (2008) noted, it would be convenient to have brand equity simply measured by its financial value, but short-term accounting measures fail in recognising the intangible asset of brand equity. The marketing mix itself has been criticised in the marketing literature for not being consumer-oriented as the 4Ps (price, product, promotion and place) provide internal variables which are manipulated by firms rather than by consumer demand. In the absence of an agreed framework it is proposed in this paper that taking account of the marketing mix would lead to a directly improved financial outcome e.g. the price premium that consumers pay would lead to achievement of a financial result. The research study in this paper confirms the marketing mix as important in adding value to a process-based and practice-oriented branding framework that could be adopted by both the marketing and accounting functions with a result of generating a more integrated relationship between them.

So the objectives of the research are as follows;

(1) to conduct qualitative research of brand manufacturers in the consumer goods sector to investigate the contribution of the marketing mix for their brand equity requirements.

(2) to analyse and integrate the qualitative results in the brand equity construct to develop a practice-oriented brand valuation framework incorporating the marketing mix, to encourage managers to accept and integrate the brand equity construct.

Brand equity represents the sum of what consumers and companies think of brands in terms of their marketing and financial worth. The marketing mix (price, product, promotion and place) is a well known concept in marketing literature which adds value to brands by the
activities of its 4Ps. Thus, the exploration of a practice-oriented brand valuation framework would have considerations for academic and marketing practitioners’ requirements.

Purposive sampling was employed to identify managers from accounting, marketing and brand management functions in thirty German companies knowledgeable about practice-oriented brand valuation. In-depth interviews utilising a questionnaire were undertaken. The research results showed that a modified approach was needed to incorporate marketing mix activities in generating added value for brands within a ‘practical structure of a developed brand equity framework’. The conclusions indicate that such a framework is capable of meeting the different needs of marketing and accounting managers to optimise greater acceptance and adoption of brand processes in determining brand equity.

**Review of the literature**

Brand equity is a term broadly used to represent important intangible assets developed by companies to increase demand for their products and services. This perspective is widely accepted in the literature (e.g. Ambler 2008; Taylor et al 2004; Keller 2003; Chen 2001; and Aaker 1991). Customer-based brand equity occurs when the consumer has a high level of awareness with brand associations (Keller 2003) reflecting aspects independent of the brand itself (Chen, 2001). Brand associations and perceived quality form good bases for consumer purchase and re-purchase decisions, creating more brand value to the firm. Brand differentiation generates a reason to buy by creating positive attitudes, as supported by Rio et al. (2001) who proposed that brand associations were a key element in brand equity valuation. However, controversy abounds when it comes to valuing brands or ultimately, determining a brand’s equity. Ambler and Barwise (1998) pointed to eight deficiencies in brand valuation for assessing marketing performance ranging from problems in determining future cash flow from past marketing actions to limitations in fine tuning brand valuation for accurate short term results. A noticeable shift has been an emphasis on financial performance measurement for brand valuation using financial accounting data in estimating value to shareholders (Stewart 1999).

The problem for marketing practitioners is that there are numerous approaches in the measurement of brand equity and the assessment of its role in the marketing of particular brands that have appeared in the literature (e.g. Pappu et al. 2005; Ward 2004; Yoo et al. 2000; Srivastava et al 1991; Aaker 1991). The individual approaches are based on a wide range of variants both in terms of the focus, the objective and the occasion for the brand valuation and thus also in terms of the underlying valuation basis for the brand equity and for the method used to obtain the determinants and factors of brand equity. For example, one variant of brand equity approaches has considered the added value endowed by the brand name by focusing the application of momentum accounting to assess the rates of relevant sales and expenses over time (Farquhar and Ijiri, 1993). Another variant of brand valuation approaches considers brand loyalty, brand name recognition and awareness, perceived quality, brand associations, and other proprietary brand assets (e.g. Pappu et al 2005 de Chernatony et al 2003, Yoo et al 2000) and price premium (Crimmings 2000).

Other studies have also shown that the use and measurement of brand equity in practice tends to be an exception rather than the rule. A study from 2002 revealed that only 20% of the 419 German and Swiss companies surveyed used brand equity, of those only 5% used brand equity as top-5 key figure (Reinecke et al 2002) Reinecke et al (2006) also analysed that although 30% of the 276 companies they surveyed used brand equity, only 9% calculated the brand equity regularly and not only used it for brand management but also for strategic management accounting, a controlling function. Even in 2006, only 23% of the German companies had implemented brand equity (Sattler et al., 2006). There is no indication that there will be a trend towards the greater use of brand equity in practice in the
coming years. Only 20% of the companies surveyed plan to include brand equity as an indicator in the future, in 1999 the figure had at least been 27% (Sattler et al., 2006).

The disproportion between the generally accepted importance of brand equity in the success of a company contrasts with the decision not to actually carry out a brand valuation in practice, which is particularly conspicuous. The main argument for rejecting brand equity is the lack of standardisation of brand equity, which can be problematic for companies. Most of the brand valuation methods listed above produce a lack of comparability i.e. the brand value is subjective and the problems involved in developing a completely objective and standardised approach are considerable (Schimanski 2004).

This is despite the fact that the concept of brand equity is not new, as defined by the Marketing Science Institute, (Srivastava and Shocker, 1991).

“a set of associations and behaviours on the part of...customers, channel members and parent corporations that permit the brand to earn a greater volume or greater margins than it could without the brand name and that gives a strong, sustainable competitive advantage”

This definition starts out from the idea that the origin of brand equity is in the consumer’s mind (the memory structures) as the main source of the value of a brand. In other words, the perceived added value is the core value of the brand equity. Consumer intangible associations with their brands and their behaviour towards them, including their emotions and loyalty generated by brands, allow managers to command price premiums. These generate consumer-based indicators, such as those shown in Figure 1. They create financial market values of brands as tangible assets, sustain market value to shareholders and generate strategic differential advantages for organisations.

*Take in Figure 1 here: ‘Consumer decision-making process...........indicators’.

However, even with consulting companies advising manufacturers about their brands there is disagreement over what methods are best and brand manufacturers have to handle brand valuation models very carefully as there are significant discrepancies in the results they deliver. The results of a study carried out in 2004 (Absatzwirtschaft, 2004) illustrate the need for caution. Using some of the most important brand valuation models the brands of ‘Tank AG’, a fictitious German company, was valued by a sample of companies. The results were surprising as the gaps between companies were big: Semion (EUR173 million), BBDO Consulting GmbH/Ernst & Young (EUR 386 million.), Interbrand (EUR 463 million), Pricewaterhouse Coopers/GfK (EUR 833 million) and, Konzept&Markt/ACNielsen (EUR 958 million). The doubtful range from EUR173 million to EUR958 million for the same brands illustrates why there is no one brand valuation model that is accepted and used by all companies to determine brand equity. Despite this, brand equity remains one of the most popular and potentially important marketing concepts, as extensively discussed by both academics and practitioners (e.g. Aaker, 1991, Keller, 2003), prompting the interest in researching it.

**Methodology**
The study took place with 33 in-depth expert interviews with 30 managers drawn from marketing and brand management functions as well as three 3 managers of the strategic management accounting department from a total of 30 different German consumer goods companies who had sound knowledge of practice-oriented experiences in brand valuation. Through purposive sampling these managers, who were highly experienced in their respective fields, were identified and they agreed to become interviewees. The interviews that followed took place either face to face at subsequent exhibitions and company premises or by telephone. All fieldwork took place between February and December 2006. The reason for
concentrating in-depth interviews with these managers was that marketing and brand managers plus managers of the finance and accounting departments would be the ones in the companies undertaking work applications for brand valuation and would, therefore, have the knowledge and experience. The breakdown of companies for the following consumer goods sectors which participated in this study were: food & beverages sector (11 companies); cosmetics and toiletries sector (4 companies); household-care sector (3 companies); stationery sector (4 companies); clothing & footwear sector (3 companies); china & earthenware sector (3 companies); and household-appliances sector (2 companies). Only seventeen managers had detailed experience of ‘consumer-based brand valuation’, which in the literature is defined as the differential effect of brand knowledge on consumer response to the marketing of the brand (Keller, 2003). These were the marketing managers in the sample who stated that consumer-based brand equity incorporating marketing mix activities is concerned with the consumer paying for the brand as the main source of its value. Seven managers were much less knowledgeable about the marketing inputs as their experience was confined to financial-based brand valuation. This is explained as a financial concern with determining the monetary value of a brand. The literature describes this concept as the price premium that a brand typically commands over a generic product or as the total financial value of a brand in company buy-outs, mergers or transfers of company sections to foreign markets (see Esch, 2004). The remaining managers who were interviewed had experience with both methods of consumer-based and financial-based brand equity.

Findings of the developed brand valuation framework

The managers were asked about the benefits of brand equity in bringing together a closer relationship between the marketing and accounting functions, when relevant marketing information to support brand related decision-making could be raised in importance as a counter to short-term metrics promoted by conventional accounting performance measures. None of the managers in our study reported finding any particular model which included consumer-based and financial-based aspects to fit with their accounting and company valuation systems and their own requirements. This finding represents a clear unfulfilled need and impetus for the development of a new brand valuation model based on a framework, such as the one proposed in this paper. In detail, there were clear differences between marketing managers and accounting managers, but there were also agreement broadly that the marketing mix activities were important to generate both tangible and intangible values for the brand.

Figure 2 shows how the marketing mix activities can foster a closer relationship between the two functions where the marketing strategy for the company utilises the marketing mix (pricing, product quality, promotion and place/distribution) to create consumer-based impact and positioning of the brand in the consumer mindset. This will lead to financial based impact in that the financial outcomes or rewards lead to a cycle of expenditure to maintain investment in a brand.

- Please take in Figure 2 here: ‘The impact of marketing mix.......consensus’

**Marketing managers need a brand valuation model that will be recognised by the company,** in particular by financial accounting colleagues. The lack of an industry-adopted-brand-valuation-model in Germany as indicated in the literature means that marketing managers need a brand valuation model that will be recognised by their companies and in particular, by their financial accounting colleagues. The perceived lack of accountability of marketing managers in making the final decisions for the brand equity scenario seems to present a difficulty. It undermines marketing’s credibility and threatens
marketing’s standing within the companies. When buying and implementing a brand valuation model the intention of top management was to make marketing more accountable. Such accountability refer to the ways in which marketing expenditure could increase shareholder value and reduce the risks involved in branding and marketing planning. However, cutbacks in marketing during recessionary times the reverse as it undermines marketing’s existence as a distinct capability within companies.

At the outset the interviewees made it clear that a good brand valuation model must offer much more than a “simple” financial value of a brand. We found that three quarters of the marketing and brand managers insisted on an approach that was capable of fitting into their financial accounting systems and performance systems. One key requirement for such an approach was that it should not be viewed as being either for management accounting or marketing management development. Rather it must be recognised as an inter-functional approach in which both meet as equal partners.

Over the question asked about the “importance” and “daily” use of brand-related performance metrics there appears to be a wide gap between regularly used metrics and desirable metrics. Financial accounting-driven metrics such as turnover or sales volume, market share, variable gross margin, profitability and net profit are common norms for inclusion in German, as in Western ones from the literature review. For the interviewed companies these metrics alone were insufficient to support the strategic decision-making processes of marketing management. With the interviewed marketing managers it was relevant for a model to possess as much information as was necessary to enhance their management decision-making regarding their companies’ brands. However, each of these ‘lagging’ indicators did not really help them to react and manage the brand in a long-term successful way. This was because none of them showed specifically what went right or wrong or helped to clarify what needed to be done strategically to improve the brand. As one manager said,

“What marketing needs is a way to measure inputs or those strategic non-monetary or monetary things that lead to favourable outcomes.”

Such a view presents a challenge to have a comprehensive, balanced set of information including metrics relevant for marketers and accounting managers so that both have access to (accessibility was clearly important) and had understanding of the value creation capacity of brands. The identified indicators in Figure 3 would enable the companies to work towards a framework for making strategic brand decisions.

*Please take in Figure 3 here: ‘Cause-related added value chain’*

By considering the requirements and components, namely the cause-related added-value chain, one can see that the marketing mix through its various activities is the starting point for every value generation, see Figure 3. There was agreement from all the managers that the marketing mix had an essential role in developing the added value in consumers’ minds and that it is triggered by brand expenditures and investments. There is support in the literature that the added value created improves the sequence throughout a value chain. This is because the concept of a value chain suggests a basic sequence of processes which must be performed. The perceived added value is the core value of the brand equity. Added value aims to give customers the confidence in the choices that they make in each purchase (de Chernatony and McDonald 2003). Ward (2004) recommends also that the brand planning process should be fully linked with the control process and the performance measurement system and thus also with the brand valuation system, with all of them being consistent with the business objectives and strategies. The whole process is governed by the principles of
value-based management and shareholder value in order to obtain long-term and sustainable brand equity.

Without exception the interviewed managers wanted a brand valuation framework which would be verifiable and future-oriented to ensure objectivity and reliability in brand valuation. The requirements above for the cause-related added value chain appear to represent a positive setting for a practice-oriented brand valuation framework, as shown in Figure 4. It interweaves three parts of the framework: consumer-based; financial-based and performance metrics against the background of needing to meet finance accounting regulations and future-orientated organisational needs.

Nearly all those interviewed made mention of the shareholder value approach as their internal company value system, an important consideration for the German companies. Shareholders are also consumers and it was the marketers in the sample who defended the assumption that successful brands must have strong consumer propositions because this, in turn, has the potential to improve financial outcomes. Strong brands, customer awareness, market share and satisfied customers are not only goals for marketers, but they go to create shareholder value. Therefore, brands have to be positioned and managed in a sufficiently attractive market in order to maximize the value of their long-term cash flow. Traditionally, marketers and accountants have been encouraged to emphasise short-term measures for short-term shareholders’ gains. However, these measures do not always reflect the real success of marketing, which is to secure the long-term preferences of consumers, generate future cash flow, and maximize returns for shareholders, a view supported in the literature (Ward, 2004). Simon et al (1993) pointed out that brand equity, if correctly and objectively measured, is an appropriate metric for evaluating the long-term impact of marketing decisions. So a balance is required between short-term and long-term performance measurements.

*Take in Figure 4 here: ‘The developed brand valuation framework.......structure’. *

Figure 4 shows the connection between the two functions of marketing and strategic management via the marketing mix, which is planned and managed by the marketing department, whereas the strategic management accounting department mainly applies the marketing mix when it requires information about marketing. Based on the concept of the value chain and shareholder value the figure above shows how the marketing mix covers and influences the consumer-based and the financial-based component of the brand valuation framework. The financial outcome, in particular the price premium and volume premium, depends on the perceived added value from the marketing mix. The accounting department uses the marketing mix to access marketing costs. At present the marketing mix is nearly the only regular link between marketing and accounting. The marketing department and accounting department understand nowadays that the marketing mix as a company-individual framework, allows them to contact and interact with consumers and to generate an added value. Almost all the managers suggested incorporating the marketing mix into a practice-oriented framework in order to provide an acceptable overall conceptual framework for both parties.

In summary for the interviewed marketing managers it was relevant for a framework to possess as much information as was necessary to enhance their management decision-making regarding their companies’ brands. The identified indicators in this paper would enable marketers to develop a framework for making strategic brand decisions. These measures represent significant challenges to marketers and accountants, particularly in terms of strategic decisions, resource deployment and reported results, as the strategic management accounting departments appear to have the main control over brand valuation. Our developed brand valuation framework is an input and output-oriented metrics’ framework that enables
both sets of managers to measure the brand and its value for cause-related efficiency and effectiveness. The marketing mix offers the input metrics, the financial-based and consumer-based indicators the outcome metrics.

The objectives of the paper to conduct qualitative research with a view to researching an agreed brand equity construct agreeable to managers have led to the development of such a brand valuation framework. The findings point to several aspects and requirements, as discussed, to ensure that such a proposed framework could be adopted into their company valuation systems. One of the requirements is that the practice-oriented brand valuation framework is suitable for both marketing and strategic management accounting, i.e. it creates a connection between the two functions and departments.

A summary of the requirements are that the framework should: (1) not only support the marketing function, but also the strategic management accounting function; (2) follow the principles of the marketing performance system; (3) consider the parameters of value-based management and shareholder value; (4) avoid non-transparent transformation of non-monetary brand values into monetary values; and (5) components which consider the financial-based brand value of a brand and the consumer-based indicators for brand strength.

Conclusion
The literature review, the objectives of the research and the interviews with the sampled managers showed that there is a need for developments in theory to be made more relevant to practitioners by identifying new ways of formulating and implementing branding knowledge. The use of the marketing mix in this way is arguably a good way of repositioning marketing’s importance to companies. The focus of this study was fundamental in highlighting the basis and requirements from researching with the managers to offer a practice-oriented brand valuation framework that could be acceptable and practically used by both. This is because the processes of the practice-oriented brand valuation framework supports both the marketing function and the strategic management accounting function in the long-term brand planning, management and the monitoring of the brand. This ensures that brand equity increases in the long-term by generating a high added value through brand strength and sustainable brand promise.
FIGURES

Figure 1: The consumer decision making process and the consumer-based indicators

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<tr>
<th>consumer decision making process</th>
<th>Aided Recall</th>
<th>Sympathy (Image)</th>
<th>Intention to buy</th>
<th>First purchase</th>
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<th>Loyalty</th>
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Figure 2: Impact of the marketing mix in a value-based management consensus
Figure 3: Cause-related added value chain

Figure 4: Developed brand valuation framework and its process-based structure
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