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Brand Equity and Shareholder Value

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It is often assumed that brands represent an asset, as well as a source of current and future earnings and cash flows for a firm. As such, the value of the brand, or brand equity, should manifest itself in the market value of the firm and thus have an impact on shareholder value. Yet, almost no research exists that has empirically investigated this relationship between brand value and shareholder value. In the present study, brand equity is measured for 43 Dutch corporate brands using the Brand Asset Valuator® for the years 1993 and 1997. Directional changes within the BAV Power Grid, measuring Brand Strength and Brand Stature, are statistically compared with directional changes in shareholder value between 1993 and 1997. Three different measures for determining shareholder value are used: Total Shareholder Return, Earnings per Share, and the Market-to-Book ratio. Various indications are found that confirm the expected relationships, but a clear need is observed to develop reliable and valid indicators for shareholder value. Some managerial implications, limitations of the study and directions for future research are discussed.

Keywords: Brand equity, Shareholder value, Brand asset valuator

Introduction

Typically, brands are considered intangible corporate assets. It is often suggested that they possess economic value and create wealth for the company's shareholders (Aaker, 1996; Doyle, 2001; Kerin and Sethuraman, 1998). However, publications providing empirical evidence for the relationship between brand equity and shareholder value are exceedingly scarce. Still, according to Kerin and Sethuraman (1998), the conceptual arguments for the existence of such a relationship are compelling enough to suggest that this linkage justifies further attention. However, they conclude that: 'a conclusive linkage between brand value and shareholder value has yet to be established' (Kerin and Sethuraman, 1998, p. 271).

In this paper, we attempt to provide some new evidence for the link between brand equity, measured using the Brand Asset Valuator® (BAV®) model (Young and Rubicam, 2000), and shareholder value, that was measured using Total Shareholder Return, Earnings Per Share, and the Market-to-Book ratio. To our knowledge, this is the first time that the BAV® is used to study the relationship between brand equity and shareholder value, while using three different indicators for shareholder value.

Background

Intuitively, one would expect brand equity to influence the market value of a firm (Doyle, 2001). However, little is known about whether investors actually value the effects of brand equity as reflected in the stock price. Finance and marketing are usually viewed as two separate entities within organizations and little attention has been paid to the effect of marketing decisions on the value of a company (Kerin and Sethuraman, 1998). Although this often resulted in separate academic research agendas, a few studies have been carried out on stock market reactions to brand extension announcements, customer service changes and product errors (Lane and Jacobson, 1995; Nayyar, 1995; Pahud de Mortanges and Tourani Rad, 1998). Kerin and Sethuraman (1998) conducted a first empirical study investigating the relationship between brand equity and shareholder value for US-based consumer goods companies. In their study the (mostly finance-based) Interbrand method was employed, using secondary sources (data were extracted from the *Financial World*). The market-to-book value of the company was used as a single indicator for shareholder value. Using this approach, a positive (albeit weak) relationship between brand equity and shareholder value was found.

The Brand Asset Valuator (BAV®) Model

Several methods for measuring what a brand may be worth have emerged over the years (Kriegbaum, 1998). Many of these methods are finance-, or accounting-based. There is no clear evidence that marketing-based *consumer evaluation* models for determining brand equity are superior in comparison to financial models, but the latter appear to be a rather static approach and the managerial implications derived from research based on financial indicators are limited. Also, a narrow focus on financial data is probably more useful for accounting purposes, or when a brand is put up for sale (Murphy, 1989). We believe one of the more versatile and usable consumer-based methods, is the *Brand Asset Valuator*® (BAV®) model (cf. Young & Rubicam, 2000). This is an intuitively appealing, dynamic, marketing-based consumer evaluation technique developed by Young & Rubicam Inc. for measuring brand equity (Agres and Dubitsky, 1996). The model dynamically conceptualizes brand equity as driven by two components: customer perceived brand *Stature* and customer perceived brand *Strength*. Antecedents of these two components are: the level of *Differentiation* of the brand, *Relevance* of this differentiation to the consumer, the resulting *Esteem*, residing in the mind of the consumer as *Knowledge* (See Figure 1).

The factor *Differentiation*, or the 'perceived distinctiveness of the brand to the customer' (Agres and Dubitsky, 1996, p. 23) precedes all other features. It is often argued that consumer choice and potential margins are driven by *Differentiation* (e.g. Aaker, 1996; Kapferer, 1994; Keller, 1999). Once a brand is introduced, its *Differentiation* will define the brand and distinguish it from others. As brands mature and competing brands are introduced, we see that *Differentiation* often declines. However, even after reaching the maturity phase in the life cycle, a brand can perpetuate its level of *Differentiation* as a result of good brand management.

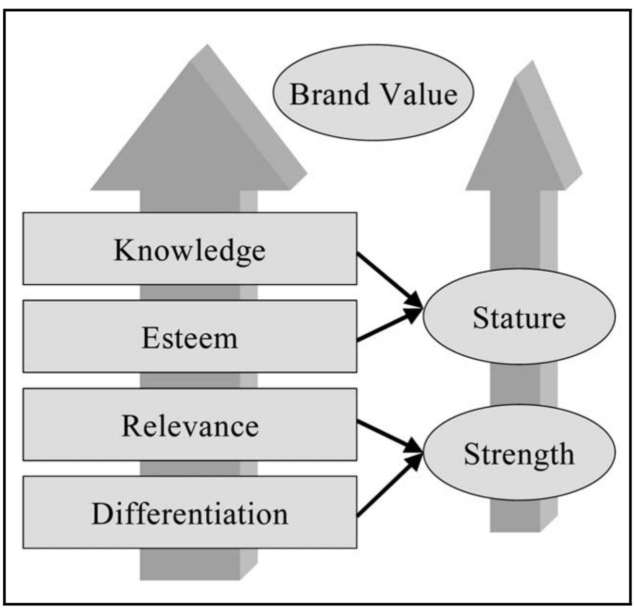

Figure 1 Brand Equity Measurement with the Brand Asset Valuator® (BAV®)

Creating and maintaining *Relevance* of the distinct brand to the customer will be the next step. *Relevance* measures the appreciation of a brand to a customer in terms of the marketing mix. Is it priced right? Is it distributed where consumers can find it? Does it come in the right form? Is it packaged well? *Relevance* and *Differentiation* together result in *Brand Strength*, according to Young & Rubicam a strong indicator for future brand performance and brand health (see Figure 1). It is the aim, and challenge, of every brand in the world to create relevant differentiation for the customer.

Esteem is considered a third driver of brand equity. *Esteem* is defined as the extent to which consumers hold a brand, which is relevant to them, in high regard. Does it live up to consumers' expectations? How well does it do what it is intended to do? According to Agres and Dubitsky (1996) *Esteem* is the result of consumer perceptions of quality and popularity.

If a brand has established a relevant *Differentiation* and consumers come to hold it in high *Esteem*, brand *Knowledge* is the outcome. *Knowledge* in the context of this model implies that consumers are both explicitly aware of the brand *and* understand what the brand stands for. Thus, *Knowledge* is not simply equal to brand awareness, and is not a consequence of advertising and/or publicity alone.

Brand Stature results from *Esteem* and *Knowledge* (see Figure 1). *Brand Stature* indicates brand status and scope — and determines the consumer's responses to a brand. *Brand Strength* plotted against *Brand Stature* produces a grid, which provides managers with diagnostic insight. In the BAV® model, this is called a Power Grid (see Figure 2).

The Power Grid defines a cycle for brand development and provides a foundation for strategic marketing decisions. By exposing the strengths, or the weaknesses of a brand, it shows which strategic route will lead to a stronger brand position. Furthermore, it helps to identify the roles and potential contributions of each of the elements of the marketing mix. Therefore, the Power Grid is a good summary tool for the information captured in the BAV®. The scores on the different items are plotted as percentile ranks among all other brands measured. Especially for corporate brands, a strong relationship should be expected between the position on the grid and the financial health of the company.

Thus, the BAV® model, where evaluation is based