

Research Connection...

IPSOS-ASI THE ADVERTISING RESEARCH COMPANY

RESEARCH ARTICLE FOUR

This paper was originally presented by John Hallward, President of Ipsos-ASI, Ltd. – Canada at the ARF Week of Workshops on October 18, 2000.

Brand Equity, Loyalty, and In-Market Performance; Lessons Learned So Far

This paper presents useful facts for managing future brand strategies, such as: the role of brand Familiarity, the importance of Relevance, the relationship of 'price' to purchase interest, a review of attitudinal brand equity versus purchase loyalty and in-market competitiveness, the importance of brand size, the effect of Uniqueness/Differentiation, and market share trends related to Brand Promise versus Brand Salience.

Introduction

It is generally recognized that a brand name offers financial goodwill for the brand owner. However, to the consumer, this financial 'goodwill' means very little. Instead, the brand represents reasons-to-buy, a "promise", an informed decision, reduced risk, and so on. For the brand manager, how does one measure this consumer empathy in a meaningful way? This was our question in early 1998 when we set out to develop an appropriate measurement tool of 'brand equity' and 'brand health.' After extensive work, we arrived at our brand equity/health model. Since then, we have expanded our database to now include 400,000 brand

assessments across 350 different brands, from 75 different categories. In turn, this has allowed us to learn a few lessons about brand equity, brand loyalty, and brand health. This paper reviews some key factual lessons learned [so far].

Model Background

In 1998, we conducted an extensive literature search and executed R+ D research to develop a brand equity model. From this, we arrived at a model which would calculate a score for brand equity, correlating with purchase loyalty. This was consistent with many other published opinions and was felt to be generally acceptable. However, we noticed two unsettling situations: [1] not all brands with good equity earned good purchase loyalty, nor performed well in-market, and [2] some brands had good purchase loyalty without strong brand equity [see Exhibit 1].

We noticed that some [particularly older mature] brands had good brand equity and earned strong brand empathy from consumers. However, owing to pricing concerns, and due to high brand substitutability with other [equally good] competitors, these

brands were not performing well in-market. Thus, we felt we had to go back into a second phase of R+ D research to better understand the differences between attitudinal equity, versus purchase loyalty, versus in-market brand health.

We conducted a mail study of 12,000 adults. The study covered 200 brands from 40 product categories. Each consumer rated brands from 3-5 categories, for which they qualified as a category buyer. Our measured categories included packaged goods, financial services, travel, pharmaceutical, lotteries, hi-tech, and retail. Market share data, 5-year share trends, and 5-year profit trends were obtained from participating clients, and were included in the model database. The study yielded a valuable database of 200,000 brand assessments.

Once the database was in place, we examined relationships across four broad areas: attitudes toward the brand; attitudes toward the category; pricing and price elasticity variables; and brand and category purchasing behavior. Partial least square modeling was used to correlate the independent [attitudinal

Exhibit 1 Equity*Builder's Modeled Equity

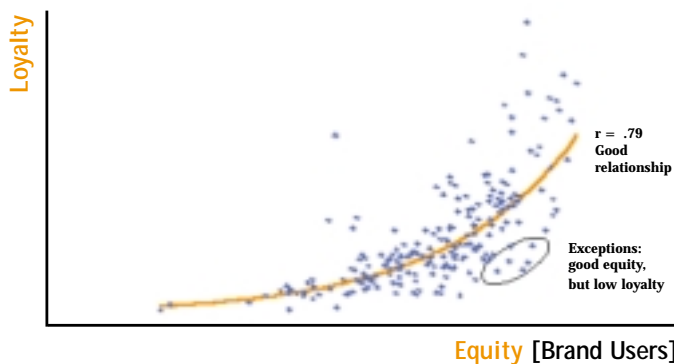
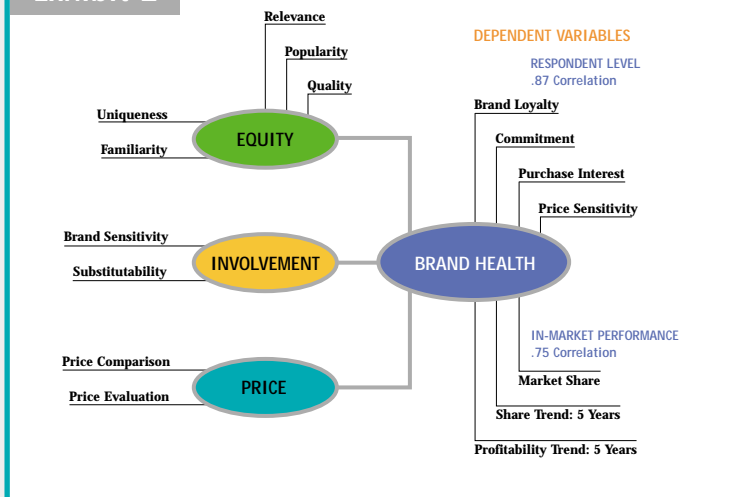


Exhibit 2



measures] with the respondent-level dependent measures of purchase loyalty. Our model obtained a .87 correlation. As validation, the in-market performance parameters correlated well to our model [.75] [see Exhibit 2].

Thus, in building our model, we learned:

[1] Attitudinal brand equity does correlate with purchase loyalty. This is an exponential relationship. At the weak end of equity, the relationship of equity to loyalty is small, but as brand equity increases it correlates well and loyalty strengthens.

[2] Not all brands with good equity will earn good purchase loyalty and will not necessarily

perform well for market share and share growth. Contextual issues can undermine brand equity and these need to also be managed. In particular, brand substitutability and appropriate [fair] pricing are important in achieving in-market success.

Database Mining & More Insights: Brand Size Affects Purchase Loyalty

Dr. Andrew Ehrenberg, a well-known authority on Brand Equity, has talked about the affect of brand size on purchase loyalty. That is, bigger brands have greater loyalty because they are big. It is hypothesized that big brands have greater distribution and preferred shelving space, and thus, are easily found by shoppers when purchasing the category. Conversely, smaller brands tend not to have equal distribution and cannot always be found when a category purchase is made. Thus, big brands stay big and small brands stay small. As well, many consumers may feel it is less risky to buy the big popular brands.

In our data-set, we explored brand size and found support for Dr. Ehrenberg's contention. It is true, big brands earn greater purchase loyalty [see Exhibit 3].

However, it is also true that big brands do decay and lose market share. And small brands do grow to be bigger brands. We were also curious about the role of 'brand equity'. To explore the contribution of brand equity, we divided the three 'brand size' groups [in Exhibit 3] by weaker versus stronger equity. And when we again reviewed purchase loyalty, we found

that 'brand equity' does affect purchase loyalty. In particular, medium sized brands with good equity earned greater loyalty than big brands with weak equity [see Exhibit 4]. It is due to this insight about brand size that we included brand size in building our equity/health model.

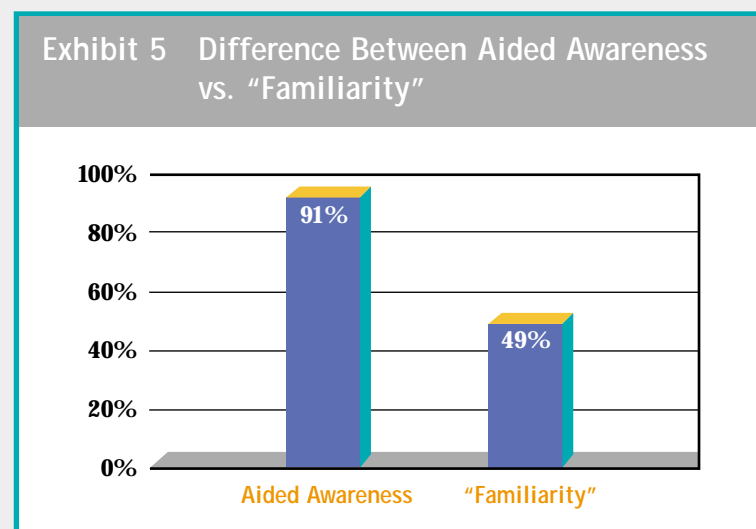
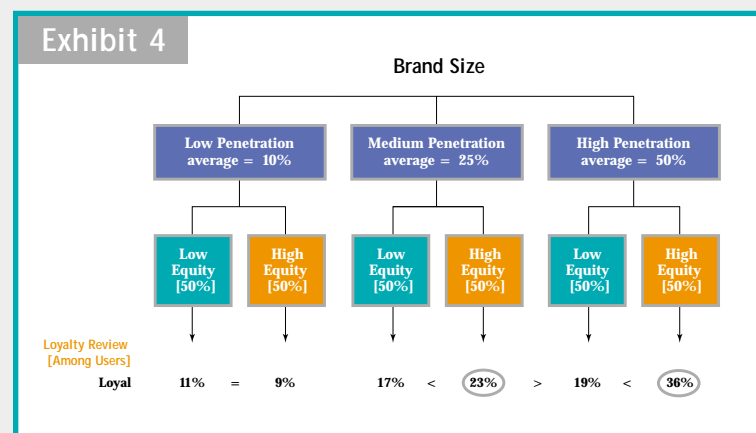
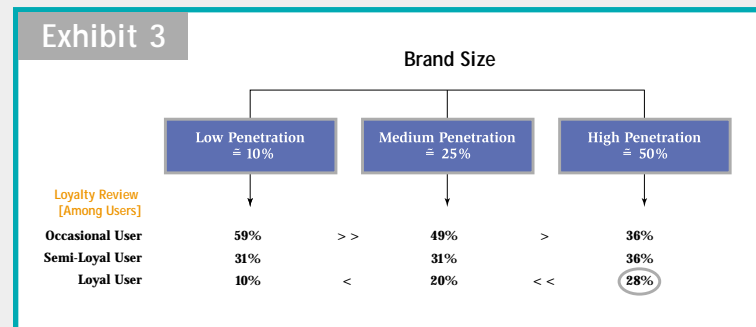
Brand Familiarity Is The First Step

Among the components of equity, Familiarity "understand what the brand stands for and is about" is the "price of entry" or required first step in establishing brand equity and earning greater purchase loyalty. This is also consistent with our Adgraph™ continuous tracking database for new product introductions. Many brands with high aided brand awareness ["heard of brand"] have below-norm levels of Familiarity [understanding]. Familiarity must be built along with brand awareness in order to achieve better brand equity and purchase loyalty. Many clients ask us about the role of "brand awareness" campaigns, and think in terms of building a new brand's awareness. We strongly suggest that it is important to build 'brand understanding,' not just awareness [see Exhibit 5].

We also found in our database that "Familiarity" correlates with "Brand Commitment" [.701], and as Familiarity increases, we see an increase in the correlation of "Equity" to "Purchase Loyalty." Building brand familiarity is very important.

As Familiarity Increases, "Relevance" Becomes Key To Brand Equity/Brand Health

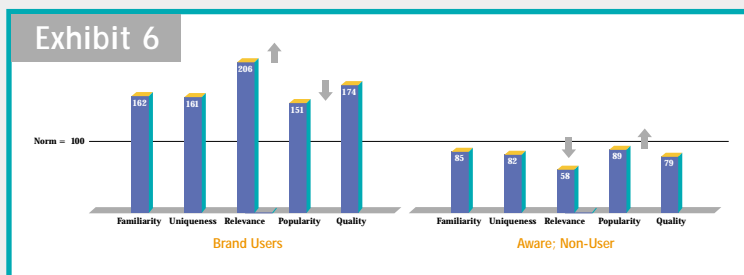
Without Familiarity, there is no good brand equity. However,



once brand Familiarity is established, it is Relevance which contributes the most in our model. Even for less familiar brands, Relevance still matters [see Table 1]:

'Relevance' is also scored quite differently between brand users versus non-users. It is this one key dimension which differs the most between users and

Table 1 Correlation	Less Familiarity with brand	Medium Familiarity with brand	Highest Familiarity with brand
“Relevance” to “Loyalty”	.44	.41	.68 ↑



non-users [relative to the other variables of Equity]. Among brand users, it is Relevance which scores highest, and for non-users, it scores lowest [see Exhibit 6].

Uniqueness/Differentiation Is Somewhat Important

“Uniqueness” [distinct or different image or features] alone, has the lowest load factor for equity, overall. This is a tricky characteristic; a little Uniqueness is good, but too much correlates negatively with purchase loyalty [among brand users]. Such brands often become niched, and limit their potential [see Exhibit 7].

Thus, some Uniqueness is good, but one needs to ensure that this point-of-difference is relevant. [If Uniqueness is high, and only Relevant to a small group, the brand is likely to be limited in its size and “niched”.]

Low ‘Category Sensitivity’ Does Not Yield Weak Brand Importance

In the marketing industry, one often hears the term “low interest category.” In order to learn more

about this, we explored our database for a brand parameter we call category sensitivity: “How much do you care about brand choice in this category?”

We did not find any correlation between “Care about brand choice” and brand purchase loyalty [.044 correlation]. We found only a slight correlation

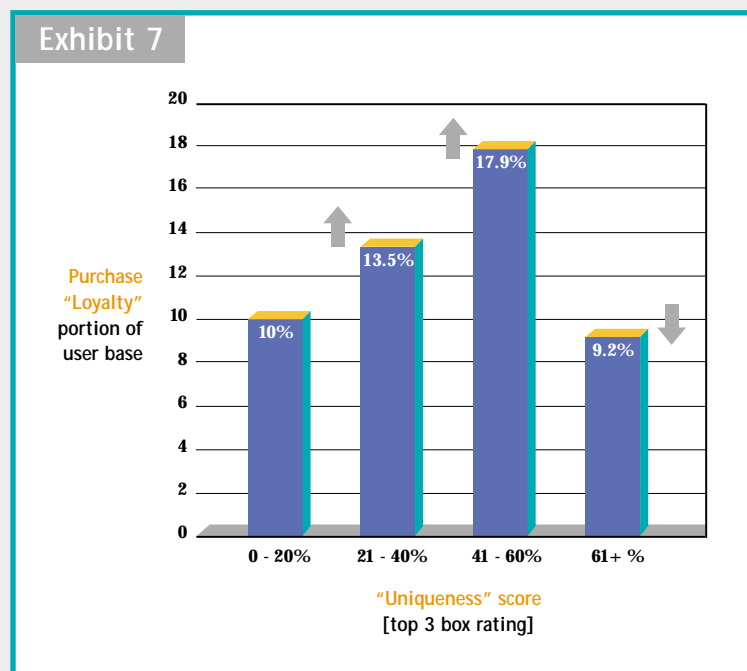
with price sensitivity [.221 correlation], and Equity [.170 correlation].

Thus, overall, we concluded that a supposed “low interest” category is not subject to greater price sensitivity, and such categories have brands which have good established equity.

Low Volume Users Also Have Good Brand Equity/Brand Health

We initially wondered if ‘frequency of use’ would affect Brand Equity, price evaluation, or branding involvement. That is, are infrequent category users generally more or less price sensitive and do they regard brands with less or more empathy?

Although we recognize that high volume consumers are more valuable for sales purposes, we found that ‘frequency of use’ did not yield different brand equity values, nor differences in price sensitivity. However, we found



that light users found greater substitutability among brands. Light category users are less likely to see differences between brands. On the other hand, fortunately, the heavier category users are more likely to see differences between brands.

'Value' Is Key Not Cost

Overall, the price or cost of brands has little-to-no correlation on purchase interest. That is, purchase interest is not lower for more expensive brands. And conversely, purchase interest is not higher for cheaper priced brands. As well, we found that comparative prices had little-to-no correlation with 'purchase loyalty'.

Instead, it is 'value' [what one gets for the cost] which makes a brand competitive.

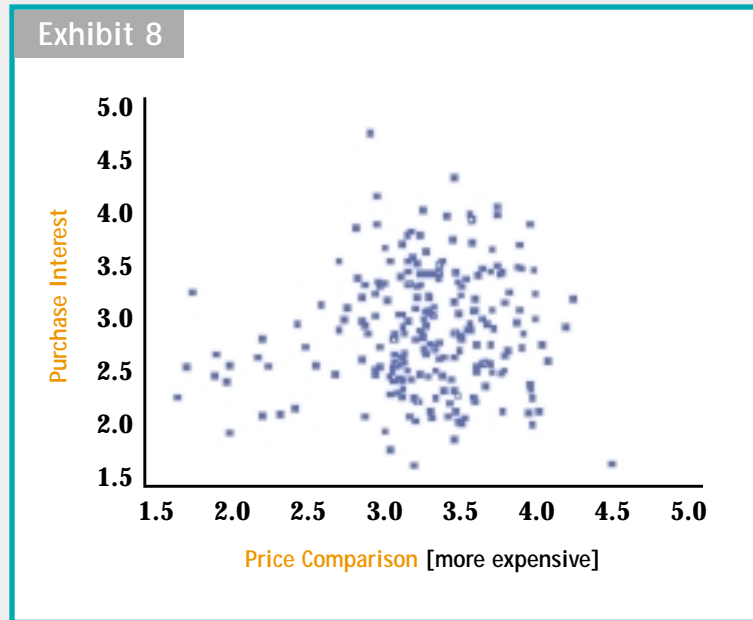
Thus, the strategy of having 'low pricing' does not necessarily support or increase brand equity nor purchase loyalty.

In our database, the price index score between users versus non-users is quite similar. Instead it is the brand's equity, and value which makes the difference [particularly 'Relevance']. Equity is key. And strong equity supports higher pricing in our database.

Managing Brand Situations

Although it might be interesting to learn about Brand Health, to a specific brand manager, their brand is what it is. To review what one might expect, we reviewed market share trends by the components of Brand Equity:

- "Brand Promise" [Relevance, Uniqueness, + Quality]
- "Brand Salience" [Familiarity + Promise]



Market Share	Declining	Unchanged	Up a little	Up a lot
Brand Promise	31	33	31	27
Brand Salience	51	50	45	38
Ratio	.61 ↓	.66	.69	.71 ↑

Growing brands tend to have a stronger ratio of Brand Promise to Brand Salience [see Table 2].

For current established brands, as "Brand Promise" decreases, this increases the pressure [and need] to support "Brand Salience" [Popularity] to keep Brand Equity strong. Ultimately, brands with high "Salience", and weak "Promise" will likely weaken/decline. In the interim, it is important to support "Salience" as the brand team tries to enhance "Brand Promise."

Summary

- Brands with low Brand Health are either niched, or more likely lack brand equity owing to a lack of Familiarity, Uniqueness, or Relevance. A key requirement is often simply trying to stimulate trial to get better penetration, and to advertise to boost Familiarity.
- Brands with medium Brand Health might have strong brand equity, but low "Involvement" [and, in turn, low Price scores]. In such a situation, since brand equity is already high, advertising alone is not likely to be a fruitful solution to enhance

Brand Health. Such brands are likely to be decaying and need to strengthen their “Brand Promise.” Often the challenge is to diminish “substitutability” [from competitors] by adding a new secondary or tertiary benefit [such as a new package format or product form]. In the interim, ‘advertising’ may work to sustain the brand’s salience.

- Alternately, brands with medium Brand Health might have average equity and good “Involvement.” In this situation, either these brands are somewhat niched and have reached their limit owing

to their restricted appeal [Relevance] of their “Promise,” or they need to advertise to increase their Familiarity to expand the brand’s appeal to a greater number of consumers. This is a growth opportunity.

- Brands with high Brand Health tend to lose their Uniqueness, but usually have high Brand Salience. Such brands likely need to re-invent a unique differentiating benefit or feature to reduce “substitutability” with a competitive alternate choice. [Often “price brands” and private-label products copy the leaders and reduce their

Uniqueness.] Often a tertiary benefit comes into play as a way to differentiate versus an alternate choice. ‘Brand Salience’ also becomes key which often requires on-going advertising to maintain such popularity.

- Lastly, in all situations, ‘price’ is not as important as ‘value.’ One must support brand equity to justify the brand’s value. Brand equity does correlate with greater purchase loyalty [above and beyond ‘brand size’], and stronger brand equity supports a higher price.



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