

HOW TO MEASURE THE VALUE OF A BRAND

White Paper Series



Two companies offer consumers the same product at the same price and quality, yet one sells a lot better than the other. Why? The answer is the intangible value inherent in the brand name. It could manifest in the form of positive image, higher market share or even a price premium. But how can we measure the intangible value of a brand? Simple methods such as ratings of a brand's attractiveness (either in the form of a single question or an index) will not distinguish the impact of tangible features and brand intangibles. What is required is an approach that can make this distinction and indicate the pure value of the brand in dollar terms. In this discussion we will take a look at how such brand value (often referred to as brand equity) can be reliably measured.

The basic problem in measuring the value of a brand is the degree to which one can control for the influence of various extraneous problems. The extent of these problems can vary by category. For example, if one were interested in understanding the brand value (or lack thereof) of private label brands (or store brands) compared to national brands in the breakfast cereal market, a simple experiment can be run. In this experiment one could switch the packaging but not the contents of the various cereal brands being tested, to measure the impact of the brand name. The problem becomes more difficult when we talk about complex services such as hotel chains or cell phone service. Simply switching packaging is no longer an option. What can we do in these situations?

The answer lies with a technique called discrete choice conjoint analysis. It is a trade-off based method that requires consumers to make choices based on the product combinations provided [for a more detailed explanation see the article *Deriving Value from Research: The Use of Conjoint Analysis for Product Development*]. The pattern of choices made provides us with enough information to identify the relative importance of the various features – brand included - being tested. Once we know this information it is relatively straightforward to hold the impact of the various features constant and identify the actual impact of the brand name on respondent choice. In essence, this is akin to switching the cereal boxes and holding the contents constant. This approach can be used as long as the product or service in question can be described using tangible features.

Example 1: Hotel Brand Value

The first example is from the hotel industry. Business travelers completed a discrete choice conjoint exercise where product bundles were described using seven features: hotel brand name, proximity to destination, restaurant location, presence or absence of a gym, internet access, rewards points and room rate. Importance scores were calculated for each of these features based on the choices made by the respondents and are given in Table 1. Note that brand is not the most important feature on which choice decisions are being made.

Table 1 - What drives hotel choice?

Features	Importance
First	20
Second	19
Third	18
Brand	16
Fifth	12
Sixth	9
Seventh	7

Next, a simulation was run to calculate the value of the brand. All five products were specified in exactly the same way except for the brand name. So effectively, it mirrors a market where there is no product differentiation whatsoever except for the brand name. This resulted in each brand having a different share of preference, but the differences in preference are now based solely on brand name. This is how we control for the effect of other features. In essence, holding the contents of the cereal box constant and varying the box itself.

Next we need to translate this difference in preference to difference in price premium. To do that, we change the prices for each brand in such a way that the shares are made equal. Once the shares of preference are equalized by varying the room rates, we are able to identify the different room rates that each brand could charge for exactly the same product. This information is given in Table 2 and shows the price premium enjoyed by the Brand B in this market place.

Table 2 - Hotel brand values

Brand	Room Rates (\$)
A	182
B	195
C	152
D	162
E	157

This means is that for exactly the same features, Brand B would be able to charge a premium of \$13 a night more than the next highest brand (A) and a premium of \$43 a night more than the lowest value brand. Such an advantage can turn into substantial revenue differences over the course of a year between these brands. This is true even when brand is not the primary criterion in the choice.

Example 2: Cell Phone Brand Value

Cell phone users were asked to make choices between various cell packages described by cell carrier brand name, price per month, length of contract, free minutes per month and cell manufacturer brand name.

Again, based on the choices made importance scores were calculated for each of these features and are shown in Table 3.

Table 3 - What drives cell phone choice?

Features	Importance
First	35
Brand	20
Third	19
Fourth	16
Fifth	10

As in the previous example, price premiums were calculated (using price per month) and are shown in Table 4 and show the advantage enjoyed by Brand A.

Table 4 – Cell Phone brand values

Brand	Price (\$)
A	56
B	46
C	47
D	50

Here brand A enjoys a \$6 per month advantage over the next best brand and a \$10 per month advantage over the least valuable brand name.

As these examples illustrate, it is possible to measure the impact of brand only, when controlling for the impact of tangible features. The results can be put to good use by a company, either in the form of increasing market share or improving profit. Brands that don't enjoy a price premium in the market (i.e. when brand names are not valuable) will need to work on it either by improving their performance on tangible features or by better communications.

When embarking on research of this nature, it is important to understand that there are limitations. The shares of preference and the subsequent value of the brand are fully reliant on the features that have been used in the study to describe this product category. Exclusion of an important feature can easily distort the results.

For example, in the hotel example let us assume that Internet access was not included as a feature. Let us further assume that this was an important feature on which customers base their choice. Then the results that we get essentially apply to a marketplace that does not provide Internet access and is therefore not a true representation of the real marketplace. Further if there is a brand that is especially good at providing this service and has built a reputation based on that, then its impact will be underestimated. Still, given all that, this approach provides the best practical way for measuring the value of a brand.

For brands in various categories there is a need to understand and measure the pure value offered by the brand name. The approach described in this discussion can be very helpful in achieving that goal.