

# Brand Policy and Brand Equity

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## *Abstract*

*A brand represents the awareness and the image that a product has managed with a segment of customers. In business terms, a brand can be defined as a specific relationship created within a given market for the promotion of a particular product.*

*The specific existing relationship between a brand and a given market indicates the functional and symbolic values that demand attributes to the product through the brand.*

*Brand equity expresses brand value in operating conditions. Brand equity shapes the value, at a certain time, of brand identity (awareness and image) that has been established with a specific demand.*

**Keywords:** Brand; Trade Mark; Brand Equity; Brand Value; Brand Image; Brand Awareness; Brand Identity; Brand Policy; Product-Brand Policy; Umbrella-Brand Policy; Brand Portfolio

## **1. Brand Equity and Intangible Assets**

### **1.1 Intangible Assets in Managerial Economics**

In today's economies, companies do battle in global markets characterized by highly intense competition and an abundance of offerings<sup>1</sup>.

In over-supplied markets, basic product use characteristics are being constantly improved and offered at ever lower prices and in quantities over and above the capacity for market absorption. Physical product characteristics<sup>2</sup> tend to become standardized under such conditions and consequently lose the part they play in competitive product differentiation. The success of company strategy in highly competitive socio-economic systems is influenced by company intangible assets, that is, by sophisticated management factors that involve, according to a well-known definition, 'the sum of accumulated company knowledge and the channels used to acquire information that is important to the company'<sup>3</sup>.

Intangible assets in economics are thus of a double nature: as *input*, that is as the flow of information from the environment, and as *output*, the flow of information from companies outwards into the environment.

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Specifically, the *input* potential of intangible assets allows for the acquisition of knowledge not previously available, that is, knowledge that is necessary for subsequent improvements to company business operations. Intangible asset *input* follows from company operations designed and implemented to acquire continuous flows of data and information. Such flows are similar to what modern corporate information systems, which are designed for highly competitive environments, produce as a matter of course.

Intangible assets, that can be managed by companies as *output*, can involve the development of a specific company function within an organization (internal affairs), and also the creation and management of specific brand equity<sup>4</sup>, which the external environment associates with certain offerings or with a company as a whole.

The intangible assets thus defined allow us to observe that ‘information flow exists in all developmental stages’, and furthermore, that knowledge assets constitute a competitive differential wherever decisions or observations are made<sup>5</sup>. From a ‘market-driven management’ perspective, intangible assets are related to information flows that exhibit important synergistic potential when they are used to improve *corporate culture*, *corporate information systems* and *brand equity*.

Brand equity is a part of a company’s larger system of intangible corporate assets<sup>6</sup> that influence company management success.

## **1.2 Corporate Intangible Assets System: Brand Equity, Information System and Corporate Culture**

Brand equity is a critical factor in management of instability with respect to the company-demand-competition equation, and hence interacts with other intangible assets such as:

1. Corporate information system where its information inflows and outflows determine the knowledge-base for brand equity management.
2. Corporate culture, from which the guidelines for structuring information systems are defined in line with the workforce harmony and participation characteristics, which are specific for each and every company.

The critical importance of the synergistic relationship between brand equity, information systems and corporate culture becomes particularly evident in the ever more frequently occurring agreements and alliances that large corporations form in the interests of increasing competitiveness specifically to reduce excess supply. Examples of these agreements and alliances can be found involving VW, SEAT and Skoda; BMW, Rover and Rolls Royce; Daimler and Chrysler; Peugeot and Citroen, etc.

Indeed, it is clear how the valuing of brand equity does not reduce down to simply quantifying a labeling value in large international agreements. These face values reflect highly volatile micro-indicators such as market share, the number of exclusive POS's, etc. that are valued independently of the structural characteristics of the organizations that generate them and have power over them. On the other hand, the experiences of recent years have shown that neither agreements nor mergers and acquisitions can be carried out on the basis of predominantly financial objectives without previously assessing the real potential for integrating intangible

assets from the involved organizations, for example, as happened in the KLM-Alitalia alliance. Specifically, these assets are the respective cultures and information systems.

□ *On 27 November 1998, KLM Airways and Alitalia formed an alliance with the goal of creating a group capable of competing with Lufthansa, British Airways and Air France (with 260 planes, three hub cities, 39 million passengers and 3771 connections throughout the world). The agreement included the planned privatization of Alitalia by June 2000 and the barring of new alliances without the mutual consent of both sides. Additionally, KLM was to put 200 billion liras towards the new Milan-Malpensa airport hub. The merger was expected to be completed in 2002.*

*In reality, KLM broke off negotiations on 29 April 2000 with the following statement, that ‘... the alliance is not feasible due to continued uncertainty concerning the future of Malpensa and the Alitalia privatization ... . The absence of clear decisions constitutes a risk that could jeopardize KLM’s financial position, profitability and the potential for finding a future partner’. Italian newspapers summed it up as follows: ‘... the agreement between Alitalia and KLM made excellent business sense in theory. One airline is very strong on the domestic market but weak abroad and makes a good complement to the other airline which is global but without a home base .... In practice things turned out to be much more complicated than had been expected’<sup>7</sup>.*

## **2. Brand and Brand Equity**

### **2.1 Trade Mark**

Brands used to be defined as a ‘name, term, insignia, symbol, drawing or combination of the above that sought to identify a producer’s, or producers’, goods or services and distinguish them from the competition’ (American Marketing Association). This concept particularly focused on the *identifying function* of brands as the basis that allowed purchasers to associate a particular company with certain goods or services.

The identifying function of a brand has always been of fundamental importance in the market economy. This is the most important information element in the product choice process and above all protects products and producers from similar products offered by the competition.

In reality, however, brands are only limited to the identifying function in scarcity markets (i.e. when the demand greatly exceeds supply), where there is significant unsatisfied demand. Indeed, unsatisfied demand conditions generate not only real competitors (intending to compete in and grow a given market, and remain there for some time), but also numerous imitators. This last group is merely imitative and often their goal is simply to create confusion in the market regarding available product brand names.

A brand's identifying function amounts to the legal foundation for the protection of a product from copying. In the context of legal protection, moreover, the distinctive element of a particular product (name, term, insignia, symbol, drawing or all of the above) does not refer to brand-name but rather to *trade mark*<sup>8</sup>.

The identifying function therefore represents only one aspect of brand equity. In over-supplied markets, the mere association of product with brand-name ignores many qualities (both functional and symbolic) that demand can attribute to a product through a brand-name. In a highly competitive environment, however, these qualities become decisive factors in choice-making, and constitute the basis for brand-name policy management<sup>9</sup>.

## 2.2 The Brand Concept in Managerial Economics

Under limited competition conditions, that are when products are differentiated by tangible factors and characteristics of non-trivial value, brand function can be limited to identification.

As competitive pressure intensifies (i.e. numerous well-differentiated products featuring mostly intangible attributes), brands tend to take on more complex functions<sup>10</sup>. A brand's distinguishing role (i.e. the identifying function performed by its trade mark) is, indeed, only the first part of that particular link that a brand establishes between a given supply and demand situation.

In highly competitive conditions, a brand represents the awareness and image that a product has managed to establish with a segment of customers. Seen in managerial terms, it can be defined as 'a specific relationship created within a given market for the promotion of a particular product'<sup>11</sup>.

The specific existing relationship between a brand and a given market indicates the functional and symbolic values that demand attributes to the product through the brand. These values make up 'product or service recognition'.

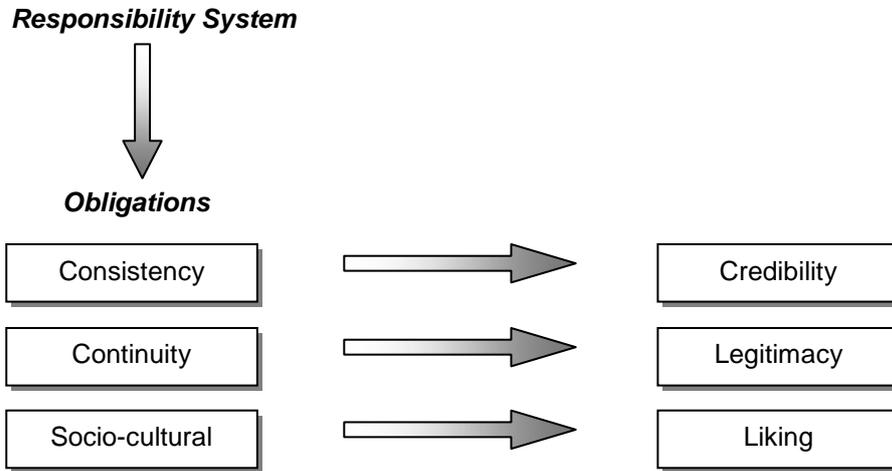
A brand signifies the history of a product both in terms of real growth and experience gained through demand. Seen in this way, a brand is the sum of assets allocated by an enterprise to the competitive market process and, in particular, the investments dedicated to developing knowledge of and relationship with the market.

A brand ties a given product to the specific expectations of defined demand segments. Therefore, along with identifying a product, it delivers on a promise. More specifically, a brand expresses a set of demand expectations while at the same time defining a *responsibility system* with respect to the public from the supply standpoint (Figure 1).

From a producer's point of view, a brand imposes a multiplicity of obligations. The fulfillment of these obligations defines the nature and intensity of the relationship with a given demand. In other words, the brand tends to express a set of assets (credibility, legitimacy and liking) that in practice support a supply and demand relationship. The assets require action directed at fulfilling specific obligations: consistency, continuity as well as socio-cultural. These obligations are manifested by first, the technical characteristics and performance of a product (tangible aspects of a given offering) and second, business communication

activities (intangible aspects of a given offering - of primary importance in over-supply conditions).

**Figure 1:** *Brand as a Relationship Link: the Responsibility System*



Source: S.M. Brondoni, A. Di Gregorio, *Brand Equity e politiche di marca* (1996)

*Consistency obligations* refer to company actions designed to establish and preserve a given brand's distinctive characteristics and are aimed at developing a specific brand relationship *resource* consisting of the *credibility* of special product characteristics. Saturated and highly competitive markets feature a large number of products that are available in quantities in excess of the potential for demand absorption. Hence, every product looks for its own competitive growth space and tends to uniquely characterize itself. Under these conditions, qualifying a certain product (or establishing that specific relationship defined by the brand) is the *result* company decisions and competitive action. Indeed, companies and their direct competitors, generate actions and reactions that reflect upon a product's distinguishing traits and credibility. Consequently, consistency obligations pursue brand relationships through supply and demand over space and time. Hence, they tend to support a consistency profile that is suited to fighting competitors' attacks.

□ *'One of the major problems facing brands in mature Westernized economies is the inexorable trend towards commodity. Each new technological innovation or exciting piece of new product development is rapidly 'me-tooed' by rival brand manufacturers and demanded as own label by retailers. This is the difficulty that marketers face in sustaining an adequate price premium over retailer own brands to continue to invest in creating the very brand values that differentiated their product in the first place'*<sup>12</sup>.

Within an operating profile, brand credibility results from uniform targeting by all sales/marketing, institutional and organizational communication tools (integrated company communication) aimed at highlighting a product's distinguishing features.

*Continuity obligations* refer to the necessary conditions in order to maintain a brand's relationship with a specific market, both qualitatively and quantitatively. With respect to the latter (quantity), continuity obligations are connected to the number of companies able to offer substitute goods in highly developed economic systems. The availability of alternative products forces a brand to seek constant market presence in order to counter a weakening in the relationship caused by competition and preserve the identity which has been built. In short, this means developing a specific brand relationship *resource* represented by the *legitimacy* of brand presence. With respect to the former (quality) especially for established brands, continuity obligations concern the need to adapt brand values over time and space to demand expectations. This avoids radical and sudden changes to a product claim that cause confusion and disorientation in the market.

Lastly, the responsibility system represented by a brand takes the form of *socio-cultural obligations*. These influence the way in which a given brand ties itself to a defined market and, more generally, to the environment. As economic systems evolve, choices are less and less determined by the satisfaction of basic needs and more determined by complex and multi-faceted expectations (requirements). Moreover, demand is less and less a passive part of business strategy and tends to play an active role on the basis of the convictions and values it embodies.

Today, brand responsibility is, therefore, characterized by specific *socio-cultural obligations*. These obligations are the interpretation of the values contained in a specific socio-cultural context<sup>13</sup>, and consequently lead to the development of suitable *emotive resources* that are the basis for rational and unconscious motivation in determining brand preference.

In summary, marketing and communication policies put demand expectations into focus and define the lines of action to take in order to build a relationship with the objective market and face competing products.

The qualification of a brand as the relationship between a product and a given demand, highlights the fact that intangible product attributes are now dominant with respect to tangible product attributes in the decision and choice-determining process.

Lastly, a company must describe a brand responsibility system in order to build a lasting relationship in the sense of determining the loyalty conditions to a particular brand. This means singling out the specific obligations that affirm product credibility, legitimacy and liking.

### **2.3 Brand Value and Brand Equity**

In over-supplied markets strategies centered on intangible assets are the norm. Here the economic value of brand equity – that is to say, the value (state), at a given moment 't', of a specific supply-demand relationship (brand) - exceeds the functional purpose of strategic and operating marketing and appears as a rather key element in company management. In such an environment, brand equity rationale and supporting assessment procedures take on predictable qualities. These cannot be confused with procedures and techniques used in the event of the discontinuation of well-known brands resulting from agreements, joint ventures or extraordinary action (cessation, mergers and acquisitions, takeovers or splitting out

business areas or whole companies). The brand value concept is of particular importance with respect to agreements and mergers & acquisitions. In this case brand value concerns the *economic value of the transaction* in relation to the loss of control over the brand. This is, to a greater extent, representative of events that are outside a brand's competitive dynamics. The brand value concept tends to attribute value to past company events (e.g. advertising spend over previous years or historical movements in particularly positive/negative share prices) that are felt to be of particular importance in order to establish a real value to start or conclude a market transaction.

□ *'Corning's transformation from glassmaker to high-technology concern continued yesterday when the US group confirmed it had acquired the Italian Pirelli group's fiber-optic telecommunications business unit for nearly \$3.6 billion. If the full amount were paid in cash, the subsidiary would be valued at 165 times this year's turnover – high even by optical components industry standards'*<sup>14</sup>.

Estimates of brand value for selling purposes are usually based on the assessment of events and trends external to the company (e.g. average capitalization on the Stock Exchange). They may also be based on the use of rationalization procedures applied to an increase or decrease in value in order to determine the value of the transaction better. These brand value estimates can be used for negotiations, short-term assessments (like short-term incentive plans) or as a contribution to company or specific brand purchase/sale negotiations<sup>15</sup>. However, the financial quantification of brand value does not serve any purpose when measuring a brand's competitive position, providing indications as to value continuity to company owners and company management, and to interested third parties (minority stockholders, public regulatory authorities, national and international supervisory bodies, etc.).

In modern economies characterized by over-supply and limited comparable competition, companies must nevertheless develop brand value awareness that goes beyond any potential company/brand sale. Selling a company/brand is a special situation in which brand value depends mainly on the identity of the parties involved in the transaction and their separate reasons behind the purchase/sale<sup>16</sup>.

Actually, brand assessment as part of *brand equity* is closely connected to the conditions regarding managerial continuity and takes on particular operating significance in a highly competitive environment.

In brand equity, the economic value of a brand can be taken back to a company economics concept of brand equity, that can be defined as the value (state) of the strength of the relationship that exists between a specific offering and a particular market. Brand equity is therefore connected to a whole series of *intangible* and *tangible* product attributes. Their importance for the brand can be measured in relation to various perceptions held by specific demand segments. Naturally, such quantification cannot only be measured in financial terms.

The economic value of brand equity is connected to different analytical parameters, that are in turn linked to the extent of demand loyalty and customer satisfaction. Hence an estimate of brand equity is carried out by using indicators that relate to brand awareness and brand image strength. These indicators can,

moreover, be expressed in financial terms through procedures that take into account the necessary financial resources for the various operating areas. This is carried out in order to decide on brand management policies on a quantitative basis, and more generally, to express comparative values (uniform in terms of time, space and product classes) for the cost/benefit impact of positioning a given brand against different levels of competition.

### **3. Brand Equity Evaluation**

Brand equity is a corporate intangible asset based on the knowledge of a specific brand (Brand Perception) in a market.

Thus, brand equity expresses the resulting response to the actions executed by a company, in a target market, to establish a specific brand identity, which is meant as a 'theoretical' profile to be achieved.

The in-depth understanding of the awareness and the image, which together determine the brand perception, is the required business economic precondition for the brand identity management and the brand equity quantitative evaluation.

#### **3.1 Brand Perception in Managerial Economics**

To evaluate the brand perception in a business economic perspective is primarily useful give a look at the representation of the structure of the memory, according to the known pattern called 'network memory model'.

For example, if one considers the chocolate spread, an Italian consumer could immediately think at the 'Nutella Ferrero' cause the strong identification between the brand and the class of product. This first consideration is not sufficient for the explanation of the consumer loyalty; indeed, the consumer would think at the perception of the taste, the product packaging, the latest operational experience and/or those in the past have had a special significance, the latest (or most effective) advertising.

Once adopted the explained concept of brand perception, the central problem for the evaluation of the brand equity is the explanation of the properties of those core elements and the related links (connections). In other words, the core is the evaluation of quantitative and qualitative aspects inherent the 'thickness' and the 'characterization' of the brand perception, i.e. awareness and image.

In particular, brand awareness expresses the degree of consciousness that consumers have regard a specific brand, i.e. the level of selective identification of a defined brand. Therefore, in the scheme outlined above, brand awareness identifies the solidity of a specific 'junction' in the structure of the consumer's memory.

However, brand image reflects the perceptions of a brand for the demand, or rather the connections contained in the relationship and established in the memory of the brand. The qualitative assessments of a brand are contained in the junctions of the memory and, depending on the characteristics of these junctions, they determine more or less favorable connotations. Therefore, this dimension of brand perception summarizes the qualitative determinants of brand equity, namely loyalty, perceived quality and other associations evoked by the brand.

In short, brand perception highlights the concomitant presence of two distinct types of associations: the associations which determine the awareness (quantitative), and the associations that form the image (qualitative). Below will be examined these associations in order to deepen the joint evaluation in the estimation of brand equity<sup>17</sup>.

### 3.2 Brand Awareness

Brand awareness defines the ability to identify a brand from a potential demand. Awareness expresses a variable that defines a quantitative phenomenon, which range of variation has at the lower limit the non-complete knowledge of the brand, and at the upper limit the association of the brand at the class of product (in this case, the brand is qualified as 'top of mind', and its reputation configures values close to 85-95 percent of the demand potential<sup>18</sup>). Within these extreme situations, it may indicate two-standard levels of awareness, briefly associated with the typological conditions of recognition and recall of the brand.

The recognition of the brand (i.e. aided recall) defines a standard of awareness in which the demand, suitably stimulated, is able to recognize certain elements of the trademark; therefore, defined segments of demand are able to recall information from their memory. The standard of awareness associated with the recognition is limited to a proper discrimination of the brand, and is only about 25-45 percent of the demand potential. This standard level of awareness becomes of critical importance when the choice of alternative offers is related to a condition of direct comparability (as happen for consumer goods in modern retail stores), in which brand contributes to the choice and is related with other factors of selection. By contrast, the memory (recall) of the brand assumes that the potential demand is able to pinpoint the major brands of a given class of product, without receiving any stimulus (spontaneous recall).

Thus, the standard of awareness bound to the memory expresses a precise definition of the distinctive brand values, and in this case constitutes a value of awareness of 55-75 per cent of the demand potential.

*□ A survey on the coffee industry has clearly demonstrated the impact of awareness. In the survey conducted by telephone for 19 consecutive times with a bimonthly schedule, the market share and the advertising expenditure were correlated with the results of the survey, which goal was the measurement of the spontaneous recall and attitudes toward brands of coffee. The results showed that advertising only indirectly impacts, through public awareness and attitudes, the market share. Moreover, brand awareness stimulated by advertising, and focused to maintain the memory of the brand, greatly influences on purchasing decisions<sup>19</sup>.*

From the perspective of business management, awareness is primarily an indicator of stability and continuity over time of the offer; therefore, it can be interpreted as an index of 'absolute competitive strength' of a defined brand. In other words, the value of awareness tends synthetically to express the market

power of a brand and, in this way, it integrate a dynamic concept with the static meaning expressed by the market share of sales.

### **3.3 Brand Image**

Brand summarizes the peculiar characters of preference expressed by the demand, and linked to the ways particular information or sensations are understood. Thus, in the competitive dynamics brand stimulates associations that arise from demand perceptions, and that differentiate products offered by competitors; as a result, a brand has a more distinctive profile if these associations (whose determinants define the brand image) are unique (that is considered unique to a particular offer), solid and favorable.

From the perspective of business management, the special values that denote a specific offer from defined segments of demand (i.e. the factors that characterize a brand image) are prerequisites to estimate - and especially to predict - the behavior of preference and comparative selection, obtained by the combined effect of the activities developed by the companies and competitors.

Brand image can be understood as an indicator of competitive relationship (as it tends to summarize the specificity and intensity of differential factors of offer, whose are distinctive in spite of its competitors but still linked to them). In this sense, brand image expresses an index of 'relative competitive strength' of a defined brand, and summarize complex qualitative phenomena in levels of acceptance/not acceptance, whose range of expression includes - as theoretical limit-values - levels of acceptance that are total positive ( $+\infty$ ), or in the extreme opposite situation that are total refusal ( $-\infty$ ) with very negative image configurations.

### **3.4 The Quantitative and Qualitative Evaluation of Brand Perception**

Brand equity evaluation is based, in operational terms, on the estimate of brand awareness<sup>20</sup>. In particular, brand perception is a multi-dimensional phenomenon; therefore, to be quantified it requires the simultaneous appreciation of quantitative and qualitative indicators, such as are specifically relevant brand awareness and brand image.

The evaluation of brand perception also requires a comparative analysis of the brand compared to the competitive interrelations with competing brands. On the other hand, the estimate of brand equity identifies in the comparison of competing brands - especially in the dynamic comparison of different 'ties' between brands and market - a characteristic key of the evaluation process.

The definition of the brand competitive space requires the prior identification of competing brands; namely the delimitation of boundaries of offer within certain products are proposed to a demand, and exist a effective relationship of substitutivity.

According to a traditional view, competition between brands is confined within the class of product, it needs to be understood in two ways: 1. the whole industry of the product (e.g., cars), 2. partial and homogeneous sub-systems in terms of production (eg, SUV, station wagon, coupé, cabrio, etc.).

However, in a market characterized by over-supply, the exceedance of the value of functional use of resources, and the complexity of buying behavior define sophisticated boundaries for the operating of brands, leaving the primary reference to the production process of goods.

Indeed, the mere reference to a class of goods can lead to bring, in a certain area of perception, brands that actually are not in competition, and exclude others that traditionally are placed in different classes of goods, which instead represent effective alternatives for the potential demand. In other words, referring to a class of product could prevent a full understanding of the phenomena of customer satisfaction; thus, it could lead to define not useful key determinants of brand image for the correct measurement of brand equity.

In competitive environments dominated by over-supply, the brands that actually contribute to develop a market and to monitor steadily a part of consumption, namely brands that meet a particular need for a defined demand, can be identified considering explicitly 'basic associations for reasons of choice'. These reasons can unite in the same use brands that are not classified in the same class of product. For example, the typical benefit expected from the class 'snacks' is constituted by the functional use of 'fast break', which today outlines a very complex function. Indeed, snacks are in competition with products of other classes of goods that tend to satisfy the same need (such as, for example, milk, yogurt, fruit, bread with jam, ice cream, chocolate bars, chips); therefore, to evaluate brand equity of a particular brand of snack, the definition of competitive space have to consider the branded products of other classes of products that contribute to meet the same need.

The evaluation process of brand equity refers to a specific brand - as has been proposed previously - expresses a very simplified reality, is valid only in socio-economic proto-capitalistic systems, where companies compete with a only-one product and on a only-one market.

In today's business realities, characterized by multiple products (often of different classes of good), the enhancement of brand equity must be attributed to a complex business process, and it usually need to consider:

1. a pool of brands, with specific and different brand equity;
2. the different profiles of the same company's brands development (with positive, and sometimes negative interactions), in terms of 'brand name', and as a relationship between 'corporate name' and individual 'product brand name'.

The articulation of a company offer (and/or group of companies) involves to analyze the brand policy for a number of products in order to test the effects of the complex brand management on brand equity of the individual brands, and the brand equity as a whole (Corporate Brand Equity).

#### **4. Brand Equity and Brand Portfolio Policy**

Many factors contribute to increasing the number of brands managed by a company. These factors include the development of the operating coverage area, company growth<sup>21</sup>, mergers and acquisitions processes, agreements, alliances and

joint ventures<sup>22</sup>, and lastly, the increasingly active, direct role of intermediate demand (trade and financial intermediaries) and final demand. Demand in the more sophisticated economic systems is generally split into functional and symbolic demand that cannot be satisfied by a single claim, that is, the responsibility system represented by a single brand. In an environment split amongst supply-demand relationships, there is a need to use different brands to match competitive offerings.

□ *The L'Oréal group, founded in 1907, today has an extensive portfolio of brands, including Garnier, Lancome, Vichy, Helena Rubinstein, Biotherm and Cacharel.*

There are many multinational companies with extensive brand portfolios, for example, 3M (*Scotch, Scotch Brite, Post-it*), Lever, Procter & Gamble and Philip Morris. Philip Morris in particular can be looked on as a prime example as it controls companies (such as Kraft, General Foods, Jacobs Suchard, Miller Brewing Company) that in turn operate with a similarly wide number of brands.

The existence of a complex brand portfolio is not just the prerogative of multinational companies that deal in fast-moving consumer goods as the phenomena also exists in the business to business and services sector. A brand portfolio should not be considered a feature of specific corporate cultures. Certain Japanese multinational companies<sup>23</sup>, that have historically pursued a single corporate name policy, are interested in developing a portfolio of their own brands, as can be seen from developments at Toyota and the Sony Corporation.

□ *Toyota aligned itself with the famous brand 'Lexus-The luxury brand of Toyota' for top range cars, set to compete with Mercedes and BMW. The Lexus Project was started by Toyota in 1983 with 24 production teams, 60 designers, 1400 engineers and 2300 specialist technicians.*

□ *Sony Corporation is a world leader in consumer electronics. The Sony brand in particular has been established in the world of video equipment, audio and television. It has maintained a claim based on innovation and mass specialization factors. The Sony Corporation began a diversification process at the beginning of the 1990's in the entertainment industry (cinema and the recording industry). It bought up consolidated brands like Columbia, Epic and Tristar. Then it went on to widen its brand portfolio by launching the brands Chaos and Tristar Music Group in the recording industry.*

Brand portfolio management is the central feature of brand management because of the high level of investment needed to allow for suitable visibility. More generally, the level of resources needed to maintain a good relationship with a given market is always very high.

How can be decided upon the number and strength of brand identities the company wants establish in different markets and/or target segments? There is no single answer. An initial idea for making a choice can be gained by analyzing the

strengths and weaknesses that distinguish portfolio policies: the single-brand portfolio policy and the multi-brand portfolio policy.

#### 4.1 The Multi-Brand Portfolio Policy

A multi-brand portfolio policy features *a specific brand for each demand segment*. Such a policy is consistent with a strategic focus aimed at diversification. A company sets out to characterize individual offerings and develop precise brand awareness for each of them. In other words, they target offerings to satisfy the demands of each market segment.

There are many advantages to this brand portfolio policy.

A range of brands may be necessary in order to foster competition and create a market: a single offering does not normally satisfy broad, sophisticated demand. There are many examples of this: Philips for color TV's (the Italian market sees competition amongst group brand Philips, Grundig and Phonola), Rossignol for sports equipment (especially with the *Rossignol*, *Dynastar*, *Kerma* and *Lange* brands) and even Philip Morris for modern fresh cheeses in Italy.

□ *Philip Morris is in the national modern fresh cheese market with the range-brand Philadelphia (Philadelphia, Philadelphia Light, Philadelphia Fantasie and Philadelphia Mousse), Jocca and Maman Louise (the last two are produced by Kraft General Foods). Direct competition includes Sitia-Yomo (with Belgioioso) and Galbani-BSN (with Fior di Certosa). Having Jocca and Maman Louise has allowed Philip Morris to improve competitiveness (Sitia-Yomo and Galbani-BSN). It has captured enough of the market to reach the minimum critical size in order to carry out suitable marketing to grow demand.*

The multi-brand portfolio policy allows for competition involving several brands in the same market. It also allows for the commercialization of low-profile brands for tactical purposes (for example, to limit the potential for brand extension by competitors) or to defend the main brand from cut-priced attacks that could damage the image of brand leader.

A multi-brand policy may be necessary in order to satisfy specific demands in regional markets - like Heineken in Italy.

□ *Heineken is an international group that produces and distributes its products in over 170 countries. The headquarters is in Amsterdam, where Gerard Adriaan Heineken in 1864 bought the brewery De Hooiberg, producing beer since 1592. Today, Heineken is the largest brewer in Europe, the second in the world with a production of beer that count over 79 million hectoliters, the employees are about 33,000 and total sales amount around 13,800 billion Italian Lira (25% America, 50% Europe, 13% Africa, 12% Asia/Australia/Oceania - data of the year 1998). The international brands are: Heineken, with over 20 million hectoliters sold in the world, Amstel, Murphy's. The international brands are supported by regional brands (sold in the regions: Europe, Western Hemisphere, Africa, Asia/Pacific) and national brands including: Tiger, Anchor, Mutzig, Primus, Dreher,*

*Pelforth, Aguila, Calanda, Bintang, Number One, DB, Reeb, Rong Cheng, Piton, Kalik, Talléros, Lorraine, Bourbon, Zlaty Bazant, Fischer, Moretti, Zywiecz, Adelshoffen, Corgon. In Italy, Heineken has been present since 1974 with the acquisition of Dreher SpA, a company of ancient origins. Heineken Italy (with approximately 36% national market share and a turnover of 1279 billion Italian Lira - data 1999) has approximately 1100 employees, and it is present in the area with six plants, with a production and sell of 5.6 million hectoliters of beer. The brands of Heineken Italy SpA are: Heineken, Birra Moretti, Dreher, Stella Artois, Amstel Baffo D'Oro, Buckler, Henninger, Hoegaarden, Ichnusa, Jupiler, Labatt Blue, Labatt Ice, Leffe, Loburg, McFarland, Messina, Moretti La Rossa, Murphy's, Pedavena, Sans Souci, Sans Souci Ice, Adelscott, Desperados (Heineken Financial Report, 1999).*

The burden of a multi-brand portfolio policy is particularly obvious over the medium to long-term. Inadequate investment in the promotional support of diverse brands tends to cloud perception of specific brand identities, limits brand resources (credibility, legitimacy and liking) and, therefore, jeopardize the various brand equities involved.

#### **4.2 The Single-Brand Portfolio Policy**

A single-brand portfolio policy is obviously in contrast to the above. Here company assets are dedicated to the growth of a single brand regardless of the number of potential demand segments.

The advantages and limits of a single-brand policy are the mirror image of a multi-brand policy. With the potential to concentrate financial and managerial resources on a single brand identity to be transmitted to the related market, there is a limit to the focus permitted in competing across different areas with a single claim and a single system of responsibility<sup>24</sup>.

□ *Coca-Cola is an emblematic case. The creation of wide-ranging, favorable brand familiarity spread over various demand areas allows for the achievement of massive management savings in relation to the vast and numerous penetrated markets. The extension over various demand areas resulted from communications consistency and continuity, the qualitative characteristics of tangible product factors and, above all, the crushing force of intangible supply factors. The marketing depth over a given market on a national basis and the expansion into different markets on an international basis naturally emphasize how critical the operational levers are with respect to consistency in brand mission.*

An umbrella-brand policy does not completely eliminate the limits that are typical of a multi-brand portfolio policy. A single distinctive logo and a single general claim characterize an umbrella brand. However, individual products marketed under an umbrella brand can include a system of separate relationships that originated from the same brand.

□ *For example, the Japanese multinational Yamaha operates across various merchandising divisions under its corporate brand. Amongst them are the musical instrument and motorcycle divisions that compete in their markets with products of the highest technology. What perspective can render comparable the perceptions of a piano teacher and a motorcycle enthusiast? What level of awareness and brand image values can embrace such different products? What, in the final analysis, do the Yamaha-musician and Yamaha-motorcyclist relationships have in common given that their choices concern profoundly different products that nonetheless have identical brand identity profiles? In reality, there are two distinct claims, two different responsibility systems, and therefore two brands derived from a single brand, Yamaha<sup>25</sup>.*

Evidently, the effects on a business that supplies resources in support and development of an umbrella-brand extending over numerous classes of products are substantially the same as for the management of a brand portfolio and present the same constraints on both financial and managerial resource allocation.

## **5. Valuing the Brand Portfolio Equity**

In the context of today's corporate competition, the value of brand equity cannot be limited to a hypothetical single-brand structure, but must be extended to a given company's system of active brands. From this standpoint the brand gains a new dimension, in functional terms and in relation to the brands that compete in a given competition space, represented by the internal comparison with the brands in the company's product portfolio, which determine the more complex problem of valuing the brand portfolio equity (BPE).

In concrete terms, valuing the product portfolio is not a new issue for the management of large corporations, which has for some time been planning and controlling the synergetic advantages and diseconomies that derive from processes of diversification, vertical and horizontal integration, co-marketing and so on.

However, in economic systems dominated by over-supply, product portfolio assessments cannot be limited to productive interaction or conditioning, but must extend to the intangible components of the goods – first and foremost the brand – for the positive or negative repercussions these may have on company revenues and costs.

In conditions of over-supply, verification of the selling and manufacturing potential of a corporate asset system (product portfolio) presupposes the preventive evaluation of the synergies and diseconomies of the corporate brand system (brand portfolio), which backs up and supplements the estimated equity of the individual brands, procedures that were examined earlier.

The complexity of the problem of assessing the brand portfolio equity and the different levels of importance that this value can acquire in time and space is easy to understand.

The evaluation of the brand portfolio evidently identifies an emerging management issue, which has never been suitably formalised in managerial theory,

and now becomes increasingly crucial. This is due on one hand to the widespread state of over-supply (which imposes absolute consistency in the intangibility of supply, first and foremost the brand system of the goods marketed)<sup>26</sup>, and on the other to the implementation of corporate management policies underpinned by a 'market-driven' logic, in which the intangible factors of marketing, finance and 'human resources' are closely intertwined.

The economic evaluation of the brand portfolio equity may adopt an approach similar to the one used to quantitatively determine the equity of the individual brand; this logic, which envisages the simultaneous use of qualitative and quantitative indices, generates a complex judgement, based on an estimate by sequential steps of:

- the consistency of the corporate brand portfolio;
- the soundness of the corporate brand portfolio.

In order to measure the consistency of the portfolio, the factors that characterise the portfolio must first be determined, possibly expressed in a company positioning map. For a given country in a given time, this map reveals the key vectors that characterise the brand system of a given company and normally do not share any similarities with the basic vectors of competitive organisations.

The different brands in a given portfolio are distributed in the map in reflect the 'dominant force' expressed in relation to the basic vectors (very similar to the links between 'brand extension' and 'brand equity'). These vectors tend to become increasingly characteristic as the various brands develop consistent portfolio equity according to lines of 'elementary uniformity' and 'minimum dispersion' around the key vectors.

The evaluation of the brand portfolio equity is completed with an estimate of the soundness of the corporate brand system, specifically verifying the level of homogeneity expressed by the individual brands in the portfolio compared to standard levels of 'awareness' and 'specialisation' of the portfolio.

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## Notes

<sup>1</sup> Cf. Silvio M. Brondoni (ed.), *La comunicazione nell'azienda pubblica. I paradigmi di efficacia e di efficienza*, Giappichelli, Turin, 1999; Silvio M. Brondoni, Comunicazione, risorse invisibili e strategia competitiva d'impresa, in Silvio M. Brondoni (ed.), *La comunicazione d'impresa*, in *Sinergie*, May-December, 1977; Silvio M. Brondoni, Comunicazione integrata d'impresa e 'nuove sfide' competitive, in AA.VV., *Progettare e gestire l'impresa innovativa*, Etaslibri, Milan, 1992.

<sup>2</sup> Today, in advanced economies the 'physical' characters of goods actually are the basic-characters of the use. In this sense, the connotation of 'physical' can also relate to the services sector (and more generally the intangible industry, such as banks, insurance, universities, political parties, etc..) if it is considered the elementary function of use of the offer (i.e., in the examples cited, credit risk coverage, higher education, popular consensus). These basic characters (called 'physical' for their primary nature) constitute a discriminating factor under limited competition conditions; however, in highly competitive environments the 'physical' factors become 'natural factors' –so, without discriminatory power - in the processes of choice, which evolve toward more complex structures and are influenced by the 'strength' of specific intangibles.

<sup>3</sup> Cf. Itami, *Le risorse invisibili*, ISEDI Petrini, Turin, 1988, p. 43.

<sup>4</sup> 'Brand equity, a concept born in the 1980s, has aroused intense interest among marketing managers and business strategists from a wide variety of industries... We must first determine exactly what the concept of brand equity means. A consumer perceives a brand equity as the value added to the functional product or service by associating it with the brand name. A company may view it as the future discounted value of the profit stream that can be attributed to the premium price or enhanced loyalty generated by the brand name. From a managerial perspective, it is a set of assets – including brand awareness, brand loyalty, perceived quality and brand associations – that are attached to a brand name or symbol'. See D. Aaker, A. Biel, Brand Equity and Advertising: an Overview, in D. Aaker, A. Biel (ed.), *Brand Equity and Advertising. Advertising's Role in Building Strong Brands*, Lawrence Erlbaum Associates Publishers, Hillsdale, 1993, pp. 1-2.

<sup>5</sup> See H. Itami, *Le risorse invisibili, cit.*, p. 44.

<sup>6</sup> 'Intangible assets are forms of property which, although they have value..., do not have any physical substance... Marks & Spencer has built up a formidable reputation in retailing through sustained investment in management, staff training, promotional support and dedication to the pursuit of quality. Although this 'goodwill' may not have any physical substance, it is clear that the Marks & Spencer name (a piece of property to which its owner has very specific legal title) and all that it means to the consumer in terms of quality, reliability and value for money is worth a great deal'. See P Stobart, Alternative Methods of Brand Valuation, in J. Murphy (ed.), *Brand Valuation*, Business Books Ltd., London, 1991, p. 25.

<sup>7</sup> See Alitalia e KLM, addio alla maxialleanza, in *Corriere della Sera*, April 20, 2000. The KLM-Alitalia strategic alliance was primarily important for the fact that these two airlines developed regional bilateral trade agreements with other carriers, but were not part of the 'great international alliances' of airlines, which in December 2000 were composed of: **Qualifier** (Swissair, Sabena, Tap, Aom, South African, Turkish, Lot, Air Europe, Volare, American Airlines, Air Littoral, Air Liberté); **Oneworld** (British Airways, American Airlines, Qantas, Cathay Pacific, Iberia, Finnair,

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Aer Lingus, Lanchile); **Sky Team** (Air France, Delta Airlines, Aeromexico, Korean Air); **Star Alliance** (Lufthansa, United Airlines, Sas, Air Canada, Thai, Singapore, Varig, All Nippon, Ansett Australia, Air New Zealand, Austrian Airlines, Canadian, British Midland); **Wings** (Klm, Northwest).

<sup>8</sup> ‘A brand is, in one sense, simply a trademark which is in use and which has gathered to itself appeals and values. Nonetheless, in legal terms the trademark is at the heart of a brand, and it is this which enjoys the strongest legal protection. Indeed, trademarks, as pieces of property, are every bit as ‘crisp’ in legal terms as tangible assets such as freehold property and plant’. v. J. Fogg, Brands as Legal Property, in J. Murphy (ed.), *Brand Valuation*, cit., p.134. Regarding the definition of ‘trademark’ in Italy, DL 480/92, Art. 16, states: ‘all new signs capable of being represented graphically, particularly if they are words, including personal names, pictures, letters, numbers, sounds, product design or packaging, combinations or shades of colors, provided they are capable of distinguishing the goods or services of one company from those of others... can be registered as a trademarks’.

<sup>9</sup> The complex system of values related to the brand, according to a known pattern, can be leads back to: attributes of qualification (product-related factors, or other factors for the identification of the offer); benefits (functional, social and symbolic); associations (i.e. the values associated with a brand in the perceptions of a defined segment of demand). See K. Keller, Conceptualising, Measuring and Managing Customer-Based Brand Equity, *Journal of Marketing*, January 1993.

<sup>10</sup> In high competitive context, the structure of the brand functions system find concise expression in the functionalist perspective of the brand; according to a known pattern, it can be explained by: identification, orientation, guarantee, personalization, amusement, practicality. See J.N. Kapferer, G. Laurent, *La sensibilité aux marques*, Fondation Jours de France, Paris, 1983.

<sup>11</sup> See S. M. Brondoni, A. Di Gregorio, *Brand Equity e politica di marca*, in Progetto Comunicazione Aziendale, CREA-Università L. Bocconi & DEPA-Università degli Studi di Milano, Research Report not published, January 1996.

<sup>12</sup> Cf. H. Pringle, M. Thompson, *Brand Spirit, How Cause Related Marketing Builds Brands*, J. Wiley, Chichester, 1999, p. 13.

<sup>13</sup> In this context, we may recall the statements, which occurred during 1994, two multinational companies did (leading brands, respectively, in the casual and sports shoes). They affirmed not using suppliers (located mostly in developing countries) which do not were shown to be in compliance with the strict U.S. regulation on child labor. Similar examples may relate to the social awareness about the issues of environmental protection; or corporate communications that link established brands (or even the purchase of certain products) to fund initiatives of particular social value.

<sup>14</sup> ‘Corning said it would be paid \$ 3.4bn cash for a 90 per cent stake in Optical Technologies, a Pirelli subsidiary which supplies undersea optical transmission equipment. It would be pay a further 180m depending on the business’ subsequent performance. The other 10 per cent of Optical Technologies is owned by Cisco Systems, one of its biggest customers. Optical Technologies, which has 310 employees, achieved sales last year of \$25m’. v. P. Abrahams, Corning to Acquire Pirelli Optics Division, in *Financial Times*, September 28, 2000, p. 22.

<sup>15</sup> The problem of transferability of intangibles can have specific importance when the evaluation will be carried out during a corporate transfer, because the requirement of portability allows to determine the goods actually transferable, which can be assigned a specific monetary value. See L. Guatri, *Trattato sulla valutazione delle aziende*, Egea, Milan, 1998. In case of operating business, however, the monetary value of specific intangible resources (trademarks, licenses, patents, etc..) is very different from the valuation of intangible assets, since these assets (corporate culture, information system, and brand equity) are generated they are linked as a synergistic system; therefore, they are not separately transferable. In case of operating business, therefore, the estimation of intangible assets is aimed to evaluate the role and contribution of specific resources to the development of the corporate intangible assets system, and consequently to determine the impact on firm performance.

<sup>16</sup> In over-supply markets, licensing, merchandising, and franchise – while connoting different techniques of exploitation of the brand - identify a common formula of using a known brand that, rather than be in case of transfer of ownership of the brand, is based on the hypothesis of transfer of

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the value use of a known brand, with consideration of specific 'brand royalties'. Cf. R. Perrier, Valuation and Licensing, in J. Murphy (ed.), *Brand Valuation*, cit., p. 102 et seq; L. Hefter, Getting the Most from Your Brand, J. Murphy (ed.), *Branding. The Brand Policies*, cit., p. 93 et seq.

<sup>17</sup> 'What causes brand equity to exist? How do marketers create it? Customer-based brand equity occurs when the consumer has high level of awareness and familiarity with the brand (brand awareness) and holds some strong, favorable, and unique brand associations in memory (brand image). The latter consideration is critical. For branding strategies to be successful and brand equity to be created, consumers must be convinced that there are meaningful differences among brands'. v. K. Keller, *Strategic Brand Management. Building, Measuring, and Managing Brand Equity*, Prentice Hall, Upper Saddle River, 1998, p. 50.

<sup>18</sup> When a brand clearly dominates the memory, the brand leader tends even to identify the product class. This risk of 'popularizing the brand' manifests specifically when the brand suffers influence derived by the class of product, without being able to offer distinctive characteristics. In this regard, we recall the cases of 'Frigidaire' and 'Phon' (established German brand of dryer owned by AEG) that, for competitive weakness of its policy of corporate branding, over time were dominated by the identity of the class of product that had developed; the other extreme lies the case of 'Champagne', where policies of different brand of 'Maisons' have always been able to exploit synergies between the brand identity of the product class and the individual brand equity. See S.M. Brondoni, *Pubblicità collettiva, notorietà di prodotto e immagine di marca*, Giuffrè, Milan 1987.

<sup>19</sup> Cf. D. Aaker, *Managing Brand Equity. Capitalizing on the Value of a Brand Name*, The Free Press, New York, 1991, p. 68-69.

<sup>20</sup> The quantification of brand perception does not express the evaluation of brand equity; indeed, brand equity is also determined by conditions that have been defined as 'other brand typical'. It is evident, however, that the estimate of brand perception is the critical aspect for the evaluation of the brand in hypothesis of operating business (brand equity), because it defines the most important determinant of continuity (regard time and space) of the control management, and especially as regards the possibility to use to estimate quantitative indicators.

<sup>21</sup> The growth is often accompanied by an increase of brands to penetrate new market segments and to facilitate entry into the distribution channels, without affecting the space acquired with existing offers.

<sup>22</sup> Process of merger and acquisition could help to increase the number of brands managed by an enterprise. In this regard, the acquisition of the division of Ford tractors by Fiat Geotech is emblematic: the contractual obligation to use the Ford brand for only a limited number of years has indeed forced to unify under a single brand the two brands. It was necessary creating a new brand, New Holland. This policy was actuated to give the market the sensation of a new higher profile of offer and to facilitate the integration of two networks of two competitors leader.

<sup>23</sup> '...Japanese corporate branding system provides ample flexibility in coping with quickly changing environments, such as technological development and market growth... On the other hand, the top-notch Western companies appear to concentrate on raising brands through longevity. They try to establish a brand franchise among consumers using unique and consistent brand personalities and visual symbols... Their motivation to maintain this independent brand system is derived from their profit orientation; long-life brands can stand 'milking' for a longer period'. See H. Tanaka, Branding in Japan, in D. Aaker, A. Biel (ed.), *Brand Equity and Advertising*, cit., p. 61-62. Japan, brand names are critically important and have a highly influential role in consumer decision-making...the modern Japanese corporation puts large emphasis on its intangible assets such as brands, information system and know-how... Mitsui & Co., a leading general trading company in Japan, alone handles more than 60 international luxury brands, including Pierre Cardin, Burberry, Balenciaga, Paco Rabanne, Marie Claire, Austin Reed, Scotch house, Bill Blass, Paul Stuart, Valentino, Versace, Basile and Etro. Ajinomoto, a major food product manufacturer, boasted a product range of 4000 different items at its peak, though it still lagged behind QP Corporation, which boasted 9000 products sold under its brand name'. See T. Oliver, The Importance of Intangible Assets in Economic Activity: the Japanese Information Capital Paradox, in J. Murphy (ed.), *Brand Valuation*, cit., p.184-186.

<sup>24</sup> 'The profusion of ways in which branding is used can at times present the value with particular difficulties, especially with regard to the valuation of corporate brands... ...if one were valuing a

corporate brand like Jaguar, now part of Ford, even though the brand is applied to a range of different products including sports cars, saloon cars, spare parts and accessories, in practice the products sold under the brand are so homogenous that the valuation would be a relatively straightforward one. The major problems arise with diffuse corporate brands such as ICI or Philips where it may be difficult or impossible to establish brand strength, as the brand means so many different things in so many different markets; it may also be difficult or impossible to identify brands earnings. In such instances, however, even though it may not be possible to establish a sufficiently reliable figure to allow for a formal valuation, the very process of brand evaluation and review can be helpful in identifying brand strengths and weaknesses and in improving brand management procedures'. See J.Murphy, C. Brymer, The Corporate Brand, in J. Murphy (ed.), *Brand Valuation*, cit., p. 171-172.

<sup>25</sup> The explained situation is similar to that of the same brand name used by different legal entities that have started their business in different geographical areas.

<sup>26</sup> A firm with well known brands can evaluate the contribution of each of its brands sold through different large retailers, using the brand portfolio view, in order to estimate the short and long term corporate performance.