Strategic Brand Management

Building, Measuring, and Managing Brand Equity

FIFTH EDITION

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Reconciling the Different Marketing Approaches

These and other different approaches to personalization help to reinforce important marketing concepts and techniques. From a branding standpoint, they are particularly useful means of both eliciting positive brand responses and creating brand resonance to build customer-based brand equity. Mass customization and one-to-one and permission marketing are all potentially effective ways to get consumers more actively engaged with a brand.

According to the customer-based brand equity model, however, these various approaches emphasize different aspects of brand equity. For example, mass customization and one-to-one and permission (or participation) marketing are particularly effective at creating greater relevance, stronger behavioral loyalty, and attitudinal attachment. Conversely, experiential marketing is particularly effective at establishing brand imagery and tapping into a variety of feelings as well as helping build brand communities. Despite potentially different areas of emphasis, all four approaches can build stronger consumer–brand bonds.

An implication of these new approaches is that the traditional "marketing mix" concept and the notion of the "4 Ps" of marketing—product, price, place (or distribution), and promotion (or marketing communications)—may not fully describe modern marketing programs or the many activities, such as loyalty programs or pop-up stores that may not necessarily fit neatly into one of those designations. Nevertheless, firms still need to make decisions about what exactly they are going to sell, how (and where) they are going to sell it, and at what price. In other words, firms must still devise product, pricing, and distribution strategies as part of their marketing programs.

The specifics of how they set those strategies, however, have changed considerably. We turn next to these topics and highlight a key development in each area, recognizing that there are many other important areas beyond the scope of this text. With product strategy, we emphasize the role of extrinsic factors; with pricing strategy, we focus on value pricing; and with channel strategy, we concentrate on channel integration.

PRODUCT STRATEGY

The product itself is the primary determinant of what consumers experience with a brand, what they hear about a brand from others, and what the firm can tell customers about the brand. At the heart of a great brand is invariably a great product.

Designing and delivering a product or service that fully satisfies consumer needs and wants is a prerequisite for successful marketing, regardless of whether the product is a tangible good, service, or organization. For brand loyalty to exist, consumers' experiences with the product must at least meet, if not surpass, their expectations. After considering how consumers form their opinions of the quality and value of a product, we consider how marketers can go beyond the actual product to enhance product experiences and add additional value before, during, and after product use.

Perceived Quality

Perceived quality is customers' perceptions of the overall quality or superiority of a product or service compared with alternatives and with respect to its intended purpose. Achieving a satisfactory level of perceived quality has become more difficult for companies as continual product improvements over the years have led to heightened consumer expectations.[36]

A wealth of research has tried to understand how consumers form their opinions about quality. The specific attributes of product quality can vary from category to category. Nevertheless, consistent with the brand resonance model from Chapter 3, research has identified the following general dimensions: primary ingredients and supplementary features; product reliability, durability, and serviceability; and style and design.[37] Consumer beliefs about these characteristics often define quality and, in turn, influence attitudes and behavior toward a brand. Product quality depends not only on functional product performance but broader performance considerations as well, such as speed, accuracy, and care of product delivery and installation; the promptness, courtesy, and helpfulness of customer service and training; and the quality of repair service.

Brand attitudes may also depend on more abstract product imagery, such as the symbolism or personality reflected in the brand. These "augmented" aspects of a product are often crucial to its equity. Finally, consumer evaluations may not correspond to the perceived quality of the product and may be formed by less thoughtful decision making, such as simple heuristics and decision rules based on brand reputation or product characteristics such as color or scent.

Managing Customers Post-Purchase

To achieve the desired brand image, product strategies should focus on both purchase *and* consumption. A great deal of marketing activity is devoted to finding ways to encourage trial and repeat purchases by consumers. Perhaps the strongest and potentially most favorable associations, however, come from actual product experiences—what Procter & Gamble calls the "second moment of truth" (the "first moment of truth" occurs at purchase).

Unfortunately, too little marketing attention is devoted to finding new ways for consumers to truly appreciate the advantages and capabilities of products. Perhaps in response to this oversight, one notable trend in marketing is the emphasis on the post-purchase phase of the consumer decision-making process. Marketing in this phase is sometimes referred to as *aftermarketing*—that is, the marketing activities that occur *after* customer purchase. Innovative design, thorough testing, quality production, and effective communication—through mass customization or any other means—are without question the most important considerations in enhancing product consumption experiences that build brand equity.

Post-purchase marketing or aftermarket is particularly important in the context of e-commerce. Companies such as Zappos have made their mark primarily through their aftermarketing efforts, which involves integrating their support operations with an e-commerce platform, to ensure seamless integration across the two. Also, ensuring that the company's contact information is accessible and support is available to customers across a multitude of channels (e.g., phone, web, live chat) is critical to enhancing customers' post-purchase experience.[38]

User Manuals. Instruction or *user manuals* for many products are too often an afterthought, put together by engineers who use overly technical terms and convoluted language. As a result, consumers' initial product experiences may be frustrating or, even worse, unsuccessful. Even if consumers can figure out how to use the product's basic functions, they may not learn to appreciate some of its more advanced features, which are usually highly desirable and possibly unique to the brand.

To enhance consumers' consumption experiences, marketers must develop user manuals or help features that clearly and comprehensively describe both what the product or service can do and how consumers can realize these benefits. With increasing globalization, writing easy-to-use instructions has become even more important because they often require translation into multiple languages.[39] Manufacturers are spending more time designing and testing instructions to make them as user-friendly as possible.

User manuals increasingly may need to appear in online and multimedia formats to most effectively demonstrate product functions and benefits. Intuit, makers of the Quicken personal finance management software package, routinely sends researchers home with first-time buyers to check that its software is easy to install and to identify any sources of problems that might arise. Corel software adopts a similar "Follow Me Home" strategy and also has "pizza parties" at the company where marketing, engineering, and quality assurance teams analyze the market research together so that marketing does not just hand down conclusions to other departments.[40]

Customer Service Programs. However, aftermarketing is more than the design and communication of product instructions. As one expert in the area notes, "The term 'aftermarketing' describes a necessary new mindset that reminds businesses of the importance of building a lasting relationship with customers, to extend their lifetimes. It also points to the crucial need to better balance the allocation of marketing funds between conquest activities (like advertising) and retention activities (like customer communication programs)."[41] Customer service plays an important role in the post-purchase phase. Investments in customer service offer multiple benefits, including the ability to connect with customers and gain valuable feedback.

One study examined Twitter data on customer service interactions in the airline and wireless carrier industry and found that when customers had interacted with a brand's customer service representative on Twitter, they were significantly more willing to choose the brand from a set of

Sephora is an example of a company that uses its online community of users to provide customer service.
Source: Patti McConville/Alamy Stock Photo

competitors and were also willing to pay more for the brand. In the airline industry, for example, these same customers were willing to pay $9 more than those who had not interacted with a customer service representative on social media.[42] Customer service agents who added initials or signatures to their responses were able to elicit an even better response, and customers were willing to pay a premium of $14 after their interactions.

Bad customer service, on the other hand, can create significant negative publicity and with the help of social media, has the potential to go viral and damage the reputation of the company. American Airlines was subject to ridicule on the Internet when it responded to a sarcastic customer complaint which began with the word "congratulations." Without having read the complaint fully, American Airlines customer service mistook this message for a compliment and responded with a canned message thanking the customer for their support. In fact, the message went on to complain about the company. Incidents like this can tarnish a brand's customer service reputation because of the speed with which they can spread on the Internet.[43]

In recent years, to strengthen ties with customers, companies are turning to brand communities to help enhance the support provided to customers and quickly resolve technical issues. Nearly half of all companies with brand communities can reduce customer support costs by 10 to 25 percent.[44] A good example of this is Sephora's community Beauty Talk, which allows users to post questions and share ideas about Sephora products. Brand enthusiasts are fully engaged with helping answer questions asked about Sephora beauty products by others in the online community. In this way, Sephora has effectively used its online branded community as a vehicle for enhancing customer service. Microsoft's Xbox community is another example of a brand community that helps with customer service. The community is made up of Xbox enthusiasts who are often involved in providing support on Xbox forums, creating YouTube videos, and providing product feedback. These enthusiasts often have achieved a minimum game score to qualify to become a brand ambassador and are rewarded with games, branded merchandise, and the like.

Companies can also gain significant benefits from cross-selling and up-selling following good customer service. Post-purchase marketing can include the sale of complementary products that help make up a system or, in any other way, enhance the value of the core product. Printer manufacturers such as Hewlett-Packard derive much of their revenue from high-margin post-purchase items such as ink-jet cartridges, laser toner cartridges, and paper specially designed for PC printers. The average owner of a home PC printer spends more on consumables over the life of the machine than on the machine itself.[45]

Aftermarketing can be an important determinant of profitability. According to a McKinsey & Co. study across 30 industries, the provision of aftermarket services, such as parts, repair, maintenance, and digital services, resulted in earnings of 25 percent, compared to 10 percent for new equipment.[46] Aftermarket sales are strongest when customers are locked into buying from the company that sold them the primary product, due to service contracts, proprietary technology or patents, or unique service expertise.[47] The percentage of original equipment manufacturer products sold with a service contract reflects the *attach rate* or the *share of lifetime*—that is, the percentage of a product's lifetime in which the manufacturer is the primary service provider. Together, the attach rate and the share of lifetime determine the lifetime penetration, which contributes to aftermarket profitability.[48]

Loyalty Programs. *Loyalty* or *frequency programs* have become a popular means by which marketers can create stronger ties to customers.[49] Their purpose is "identifying, maintaining, and increasing the yield from a firm's 'best' customers through long-term, interactive, value-added relationships."[50] Firms in all kinds of industries—most notably the airlines—have established loyalty programs through different mixtures of specialized services, newsletters, premiums, and incentives. Often, they include extensive co-branding arrangements or brand alliances. With the growth of mobile commerce and digital payments (e.g., PayPal and Apple Pay), loyalty programs can be integrated into e-commerce transactions quite easily. Branded apps can be used to maintain relationships with customers, administer loyalty programs, and allow customers to transact with the firm. For example, in addition to helping customers make payments, the Starbucks app keeps track of rewards for customer loyalty, thereby aiding in brand building.[51]

In 1981, American Airlines founded the first airline loyalty program, Advantage. This frequent-flier program rewarded the airline's top customers with free trips and upgrades based on mileage flown. Many companies in addition to the airlines introduced loyalty programs in the intervening years because they often yield positive results.[52] Loyalty programs reduce defection rates and increase retention, and the value created by the loyalty program creates switching costs for consumers, reducing price competition among brands. To get discounts, however, consumers must typically hand over personal data, raising privacy concerns.

The appeal to marketers is clear as well. Most loyalty marketers employ sophisticated databases and software to determine which customer segments to target with a given program. However, loyalty programs are increasingly finding it difficult and costly to maintain, given the proliferation of such programs. Companies must constantly update the program to attract new customers and prevent other companies in their category from developing "me-too" programs.[53] Suggestions and complaints from top customers deserve careful consideration, because they can lead to improvements in the program. Because they typically represent a large percentage of business, top customers must also receive better service and more attention. It is also helpful if the program is easy to use and offers immediate rewards when customers sign up. After they become members, many companies also try to make customers "feel special" by, for example, sending them birthday greetings, special offers, or invitations to special events.

The product is at the heart of brand equity. Product strategy entails choosing both the tangible and intangible benefits the product will embody and marketing activities that consumers desire and the marketing program can deliver. A range of possible associations can be linked to the brand—some functional and performance related, and some abstract and imagery related. Perceived quality and perceived value are particularly important brand associations that often drive consumer decisions.

PRICING STRATEGY

Price is the one revenue-generating element of the traditional marketing mix, and price premiums are among the most important benefits of building a strong brand. This section considers the different price perceptions that consumers might form and the different pricing strategies firms might adopt to build brand equity. The increasingly competitive retail environment and the increasing dominance of online retailing have posed significant pricing challenges for many brands. The Science of Branding 5-1 outlines key insights generated from research on pricing.

THE SCIENCE OF BRANDING 5-1

Understanding Consumer Price Perceptions

Economists traditionally assumed that consumers were "price takers" who accepted prices as given. However, as Ofir and Winer note, consumers often actively process price information, interpreting prices from knowledge acquired from past purchasing experience, formal corporate communications (e.g., advertising), informal communications with friends or family members, and point-of-purchase or online information. Consumers' purchase decisions are based on perceived prices and not on the marketer's stated value. Understanding how consumers arrive at their perceptions of prices is thus an important marketing priority.

A wealth of research has shown that surprisingly few consumers can recall specific prices of products accurately, though they may have a fairly good idea of the relevant range of prices. When examining or considering price, however, consumers often compare it with internal frames of reference (prices they remember) or external frames of reference (a posted "regular retail price"). Internal reference prices occur in many forms, including the following:

- "Fair price" (what the product should cost)
- Typical price
- Last price paid
- Upper-bound price (the most consumer would pay)
- Lower-bound price (the least consumer would pay)
- Competitive prices
- Expected future price
- Usual discounted price

When one or more of these frames of reference comes to mind, consumers' perceived price can vary from the stated price. Most research on reference prices has found that "unpleasant surprises," such as a higher stated price than the perceived price, have a greater impact on purchase likelihood than pleasant surprises.

Alternative pricing strategies also affect consumers' perceptions of prices. For example, research has shown that a relatively expensive item can seem less expensive if the price is broken down into smaller units (a $500 annual membership seems pricier than "less than $50 a month"). One reason prices often end with the number nine (e.g., $49.99) is that consumers process prices in a left-to-right manner rather than holistically or by rounding. This effect is more pronounced when competing products' prices are numerically and psychologically close together. Another study shows that package size affects perceived quality, such that consumers believe that the identical product in a smaller package, by influencing perceptions of unit prices, is seen to be of higher quality than if in a larger package.

Sources: Chezy Ofir and Russell S. Winer, "Pricing: Economic and Behavioral Models," in *Handbook of Marketing*, eds. Bart Weitz and Robin Wensley (New York: Sage Publications, 2002): 5–86; John T. Gourville, "Pennies-a-Day: The Effect of Temporal Reframing on Transaction Evaluation," *Journal of Consumer Research* 24, no. 4 (March 1998): 395–408; Manoj Thomas and Vicki Morwitz, "Penny Wise and Pound Foolish: The Left-Digit Effect in Price Cognition," *Journal of Consumer Research* 26 (June 2005): 54–64; Eric Anderson and Duncan Simester, "Mind Your Pricing Cues," *Harvard Business Review* 81, no. 9 (September 2003): 96–103; Tridib Mazumdar, S. P. Raj, and Indrajit Sinha, "Reference Price Research: Review and Propositions," *Journal of Marketing* 69 (October 2005): 84–102; Yan, Dengfeng, Jaideep Sengupta, and Robert S. Wyer. "Package Size and Perceived Quality: The Intervening Role of Unit Price Perceptions." *Journal of Consumer Psychology* 24, no. 1 (2014): 4–17.

Consumer Price Perceptions and Setting Prices

Choosing a pricing strategy to build brand equity means determining

- A method for setting current prices, and
- A policy for choosing the depth and duration of promotions and discounts.

There are many different approaches to setting prices, and the choice depends on various considerations. This section highlights a few of the most important issues as they relate to brand equity.[54]

Factors related to the costs of making and selling products and the relative prices of competitive products are important determinants in pricing strategy. Increasingly, however, firms are putting greater importance on consumer perceptions and preferences. Consumers perceptions of pricing are based on price tiers in a category.[55] For example, Figure 5-3 shows the price tiers that resulted from a study of the ice cream market.[56] In that market, as the figure shows, the price is also related to quality.

Within any price tier is a range of acceptable prices, called *price bands*, that indicate the flexibility and breadth marketers can adopt in pricing their brands. Some companies sell multiple brands to better compete in multiple categories. Figure 5-4 displays clothing offerings from PVH Corp. (formerly Phillips-Van Heusen) that, at one time, covered a wide range of prices and corresponding retail outlets.[57]