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Managing Brand Equity

ABSTRACT

The purpose of this study is to discuss and elaborate the main issues encountered in managing brand equity. In order to achieve this purpose, we first analyse the concept of brand equity; second, we provide a comprehensive framework for managing brand equity; and finally, we distinguish different ways to leverage and measure brand equity. The concept of brand equity emerged in the early 1990s. Brand equity can be regarded as a managerial concept, as a financial intangible asset, as a relationship concept or as a customer-based concept from the perspective of the individual consumer. The main asset dimensions of brand equity can be grouped into brand loyalty, brand awareness, perceived quality and brand associations. There are three alternative ways to leverage brand equity: first building it, second borrowing it, or third buying it. Brand equity can create advantages and benefits for the firm, the trade or the consumer.

Key Words: Brands, Brand Equity, Brand Management

1. INTRODUCTION

The historical evolution of brands has shown that brands initially have served the roles of differentiating between competing items, representing consistency of quality and providing legal protection from copying. Apart from providing the offering with the badge of its maker, thereby indicating legal ownership of all the special technical and other relevant features that the offering may possess, the brand can have a powerful symbolic significance. The brand can in itself imply status, enhance image and project or augment lifestyle so that the ownership of the

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brand becomes of value in its own right. Its accepted qualities can simplify the decision making process by reducing perceived risk while from the supplier's perspective, it can not only assist in differentiating the offering, but also lead to brand loyalty, deter market entry and, well deployed, enable its owners to command higher prices and profit margins. (Bradley 1995, 522–524; Egan – Guilding 1994, 450–453)

1.1 Different characteristics of brands

A brand is a name, term, sign, symbol, or design, or a combination of them intended to identify the goods or services of one seller from among a group of sellers and to differentiate them from those of the competitors. Thus, a brand identifies the seller or manufacturer. Under trademark law the seller is granted exclusive rights to the use of the brand name in perpetuity. This differs from other assets such as patents and copyrights that have expiration dates. If a company treats a brand only as a name, it misses the point of branding. The challenge in branding is to develop a deep set of meanings for the brand. Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands. (Kotler 1994, 444–445)

Two principal approaches to branding can be identified: 1) manufacturer brands and 2) private label brands which are also called own label, distributor, retailer, dealer or store brands. Manufacturer brands usually contain the name of the manufacturer. These brands appeal to a wide range of consumers who desire good quality and a low risk of poor product performance. Manufacturers, which brand their products, face a decision of whether to use individual or family brands or a combination. Manufacturers sell their brands in many competing retail outlets, spend large sums on promoting them and frequently run co-operative advertisements with retailers so that costs can be shared. Recently, there has been considerable growth in private label brands, whereby channel members such as retailers are able to sell products using their own brand name or label. By doing so these retailers do not incur the large promotional cost normally associated with manufacturers brands. Part of this cost saving is usually passed on to the consumer in the form of a lower price. Private label brands mean that retailers have greater control over the supplier, since private labels have become more powerful. (Bradley 1995, 529–535; Burton – Lichtenstein – Netemeyer – Garretson 1998, 293–306; Hankinson – Cowking 1993, 106–119; Keegan – Moriarty – Duncan 1995, 326; Kotler 1994, 448–451)

A successful brand is an identifiable product (consumer or industrial), service, person or place, augmented in such a way that the buyer or user perceives relevant and unique added values, which match their needs closely. If a brand provides good service over many years of regular use, it acquires added values of familiarity and proven reliability. The added values can come for example, from experience of using the brand, e.g., familiarity, reliability, risk

reduction and character; from the kind of people who use the brand, e.g., rich and snobbish, young and glamorous; from a belief that the brand is effective, e.g., promised satisfaction and delivered uniform and consistent quality; from the appearance of the brand, which is one of the prime functions of packaging; and from a manufacturer's name and reputation. (Bradley 1995, 517–519; de Chernatony – McDonald 1992, 18–19; Doyle 1998, 169–170; Jones 1986, 30–31)

Consumers' feelings about themselves are often reflected in their brand choices and the particular associations embedded for them in brand personalities. One way to build a relationship between a brand and a consumer is to create an appealing brand personality – that is, to associate human characteristics with a brand to make it more attractive to consumers. This works because personality is generally seen as a bundle of traits – e.g., friendliness, neighborliness and responsibility – which make a person distinctive. A considerable amount of research has focused on how the personality of a brand enables a consumer to express his or her own self, and ideal self, or specific dimensions of the self through the use of a brand. Further brand personality can be viewed as a key way to differentiate a brand in a product category, as a central driver of consumer preference and usage, and as a common denominator that can be used to market a brand cross cultures. (Aaker 1997, 347–350; Keegan – Moriarty – Duncan 1995, 319)

Advertising and sponsorship are often used to convey images of prestige or success by associating the brand with personalities. Beliefs in efficacy can be created by comparative evaluations and rankings from, e.g., consumer associations and industry endorsements. The design of the brand can clearly affect preference by offering cues to quality. In many situations a strong company name attached to a new product will provide confidence and incentive to trial. (Doyle 1998, 169–170)

A brand can be seen consisting of generic or core, expected, augmented and potential levels. The generic level is the commodity form that meets the buyer's or user's basic needs. Within the expected level, the commodity is value engineered to satisfy a specific target's minimum purchase conditions, such as functional capabilities, availability and pricing. With increased experience, buyers and users become more sophisticated, so the brand would need to be augmented in more refined ways with added values satisfying both emotional and functional needs. The augmented brand provides a range of basic ancillary services not associated with the core brand. These include guarantees, credit and purchase terms, customer service, installation, training and delivery. With even more experience with the brand, it is only creativity that limits the extent to which the brand can mature to its full potential level. (Bradley 1995, 515–516; de Chernatony – McDonald 1992, 160–166; Christopher – Payne – Ballantyne 1991, 57–62; Doyle 1998, 174–179)

Brands vary in the amount of power and value they have in the marketplace. Brands are complex entities, but ultimately they reside in consumers' minds. Consumers are not passive recipients of marketing activity and consequently branding is not something done to consumers, but rather something customers do things with. Brands can be seen developing through evolutionary stages. At one extreme are brands that are unknown to most buyers in the marketplace. Further, there are brands for which buyers have a fairly high degree of brand awareness as measured either by brand recall or recognition. Beyond this are brands that have a high degree of brand acceptability, i.e., most customers would not resist buying them. Then there are brands, which enjoy a high degree of brand preference. They would be selected over the others. Finally, there are brands that command a high degree of brand loyalty. (de Chernatony 1993, 174–175; Kotler 1994, 445)

With the advent of experienced buyers and increasingly sophisticated marketing techniques, de Chernatony and McDonald (1992, 31–41) have identified eight different functions of brands. These functions include brand as 1) a sign of ownership; 2) a differentiating device; 3) a communicator of functional capability; 4) a device which enables buyers to express something about themselves; 5) a risk reducing device; 6) a shorthand communication device; 7) a legal device and 8) a strategic device.

Recently, de Chernatony and Dall'Olmo Riley (1998a, 418–424) have published a detailed content analysis of over one hundred articles from trade as well as from academic journals, providing a broad and rich perspective of the range of definitions used for brands. As a result of their analysis they identified twelve main brand elements which clearly indicate the broad range of definitions of the "brand" in the literature. These brand elements consider brands as 1) legal instrument; 2) logo; 3) company; 4) shorthand; 5) risk reducer; 6) identity system, 7) image in consumers' minds; 8) value system; 9) personality; 10) relationship; 11) adding value; and 12) evolving entity.

The twelve brand elements are not entirely mutually exclusive, but they clearly represent a categorisation of the most important elements of brands in the marketing literature. Each of the twelve brand elements takes the perspective of either company or consumers (or both) in determining the antecedents and the consequences of the brand. Hence, the company's activities and consumers' perceptions emerge as the two main boundaries of the brand. The brand exists mainly by virtue of a continuous process whereby the values and expectations imbued in the brand are set and enacted by the company and interpreted and redefined by the consumers. (de Chernatony – Dall'Olmo Riley 1998a, 427–428)

Brand success is a complex and multidimensional construct, which should be assessed over a long-term perspective and in relation to both the brands' stakeholders and its competitors. The criteria for a brand's success can be classified to business-based measures or to

consumer-based measures. They are interrelated and cannot be considered in isolation. Rather, they are mutually dependent because business-based measures such as profit or market share often follow from consumers' perceptions and responses to a brand. (de Chernatony – Dall'Olmo Riley – Harris 1998, 766–778)

1.2 Brand pyramid

A brand is not a product: it is the product's source, its meaning and its direction, and it defines its identity in time and space. Too often brands are examined through their component parts: the brand name, its logo, design, packaging, advertising or name recognition. Real brand management, however, begins much earlier with a strategy and a consistent integrated vision. Its central concept is brand identity, which must be defined and managed. A brand identity is the message sent out by the brand. (Doyle 1998, 172; Kapferer 1992, 12)

A model of brand pyramid is suitable for analysing and understanding the concept of brand identity. The pyramid model consists of three tiers. The fundamental and upper part of the brand pyramid is the brand core, which remains fairly fixed over time. The middle tier of the pyramid is called the brand style. It articulates the brand core in terms of the culture it conveys, its personality and its self-image. The base layer of the pyramid comprises the brand themes. These themes indicate how the brand currently communicates e.g., through its advertising, press releases, and packaging. Brand themes include the physique of the brand (e.g., colour, logo, packaging), its reflection (e.g., type of spokesperson used to advertise the brand) and the relationship expressed (e.g., glamour, prestige). Brand themes are more flexible than the brand style and brand core, and will change easier with fashion, style or technology. (Doyle 1998, 172–174; Kapferer 1992, 37–42)

The set of brand style and themes can be described as a six-sided identity prism. The identity prism emphasises the brand's identity as a structured whole of six integrated facets of culture, personality, self-image, physique, reflection, and relationship. The first three facets of culture, personality and self-image are incorporated within the brand itself and the last three facets of physique, reflection and relationship are the social facets which give the brand its outward expression. These outward facets are communicated explicitly and they are visible and material. The brand pyramid and the identity prism are illustrated in figure 1. (Doyle 1998, 172–174; Kapferer 1992, 75–77)

The emotional and representational components in the identity prism are more valuable, because the component of physique only forms the first stage in brand building. The intangible elements refer to the beliefs and meanings created in the minds of consumers. These intangible and symbolic elements include the brand personality, the way brands reinforce consumers' self-images and brands' abilities to represent consumers to others. (de Chernatony –

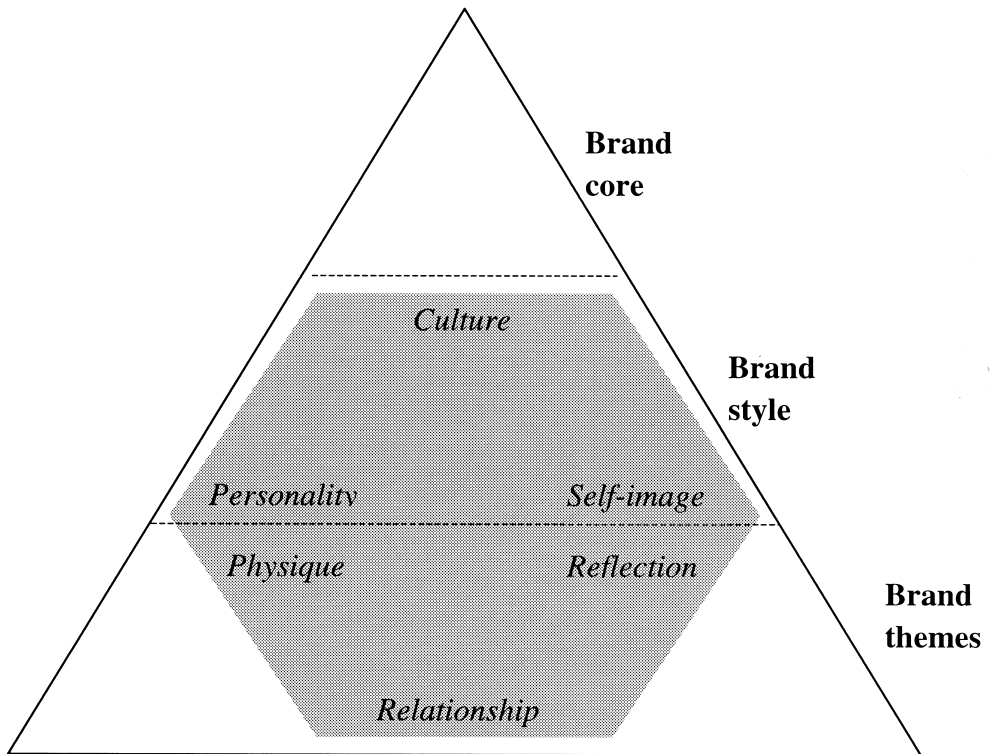


FIGURE 1. *The brand pyramid and the identity prism.*

Dall’Olmo Riley 1998a, 420; de Chernatony – Dall’Olmo Riley 1998b, 1076–1077; Doyle 1998, 172–174)

The concepts of the brand pyramid and identity prism are effective in use. First, they enable management and their agencies to understand the brand, its strengths and opportunities. Second, they help to develop brand strategy and the formulation of the brand’s positioning in the market. Third, they enable the brand team to develop consistency in the message being transmitted through packaging and design, advertising, below-the-line activities and through potential brand extensions. Finally, understanding the brand’s core and style helps to determine how far the brand can be meaningfully stretched to other products and market segments. (Doyle 1998, 173–174)

1.3 The purpose of the study

The primary capital of many firms consists of their brands. For decades the value of a firm was measured in terms of its real estate, then tangible assets, plants and equipment. However, it

has been recognised that a firm's real value lies outside the business itself: in the minds of potential buyers. (Aaker 1996; Pearson 1996; Ind 1997) Customers and other stakeholders integrate all they see, hear and read about a product with all their experiences using or consuming it to form a single, but often complex, mental image about both the physical product and the company that makes it. (Keegan – Moriarty – Duncan 1995, 318) In paying very high prices for companies with brands, buyers are actually purchasing a position in the minds of potential customers. Awareness, trust and reputation are the best guarantees of future earnings. (Kapferer 1992, 9)

In order to better understand the tangible and intangible values of brands the concept of brand equity has emerged in the marketing literature and it has become a central issue in marketing management research. Previous research has approached brand equity mainly from two perspectives. The original focus was on brands as financial assets. (See, e.g., Blackett 1991, 27–35; de Chernatony – McWilliam 1990, 111–119; Crimmins 1992, 11–19; Farquhar – Ijiri 1993, 77–92; Kamakura – Russell 1993, 9–22; Kerin – Sethuraman 1998, 260–273; Saunders 1990, 95–110; Swait – Erdem – Louviere – Dubelaar 1993, 23–45) Previous research on brand equity has further focused on the short-term responses of consumers to brand extensions under experimental conditions. (See, e.g., Aaker 1990, 47–56; Aaker – Keller 1990, 27–41; Aaker – Keller 1993, 55–59; Arnold 1992, 208–222; Boush – Loken 1991, 16–28; Keller – Aaker 1992, 35–50; Park – Milberg – Lawson 1991, 185–193; Rangaswamy – Burke – Olivia 1993, 61–75; Sullivan 1992, 793–806; Sunde – Brodie 1993, 47–53)

This study focuses mainly on the strategic and managerial aspects of brand equity: e.g., in defining, managing and leveraging brand equity. The management of brand equity can be seen as a continuous, planned and long-term strategy, which aims at increasing confidence in the brand. The current study will provide a holistic framework for managers developing successful brand strategies, so that the relationship with the consumer can be strengthened.

The purpose of this study is to discuss and elaborate the main issues encountered in managing brand equity. In order to achieve this purpose, we first analyse the concept of brand equity; second, we provide a comprehensive framework for managing brand equity; and finally, we distinguish different ways to leverage and measure brand equity.

2. THE CONCEPT OF BRAND EQUITY

2.1 Literature review

The concept of brand equity emerged in the early 1990s. It was not defined precisely, but in practical terms it meant that brands are financial assets and should be recognised as such by top management and the financial markets. Brand equity includes not only the value of the

brand, but also implicitly the value of proprietary technologies, patents, trademarks, and other intangibles such as manufacturing know-how. Although a company's stock price represents more than brand equity, when one of a company's brands gets into trouble, a change in brand equity can significantly affect the stock price. (Aaker 1996; Keegan – Moriarty – Duncan 1995, 325; Kerin – Sethuraman 1998; 260–261) The financial value of a brand depends on its brand strength. It can be strengthened by investing in product quality and in advertising. In contrast, price promotions produce short-term increases in sales but do nothing to build long-term brand equity. (Barwise 1993, 94–95)

In a general sense, brand equity is defined in terms of the marketing effects uniquely attributable to the brand. That is, brand equity relates to the fact that different outcomes result from the marketing of a product or service because of its brand element, as compared to outcomes if that same product or service did not have that brand identification. Although a number of different views of brand equity have been expressed, they all are generally consistent with the basic notion that brand equity represents the "added value" endowed to a product or a service as a result of past investments in the marketing for the brand. Researchers studying brand equity at least implicitly acknowledge that there exist many different ways that value can be created for a brand; that brand equity provides a common denominator for interpreting marketing strategies and assessing the value of a brand; and that there exists many different ways in which the value of a brand can be manifested or exploited to benefit the firm. (Keller 1993, 1; Keller 1998, 42–44)

There have been two general motivations for studying brand equity. One is financially based motivation to estimate the value of a brand more precisely for accounting purposes in terms of asset valuation for the balance sheet or for merger, acquisition or divestiture purposes. A second reason for studying brand equity arises from a strategy-based motivation to improve marketing productivity. Given higher costs, greater competition, and flattening demand in many markets, firms seek to increase the efficiency of their marketing expenses. As a consequence, marketers need a more thorough understanding of consumer behaviour as a basis for making better strategic decisions about target market definition and product positioning. Perhaps one of the firm's most valuable assets for improving marketing productivity is the knowledge that has been created about the brand in consumers' minds from the firm's investment in previous marketing programs. Financial valuation issues have little relevance if no underlying value for the brand has been created or if managers do not know how to exploit that value by developing profitable brand strategies. (Keller 1993, 1–2)

Brand equity can be defined in several ways and it has value both to a branding company and to a brand's user. An important characteristic of virtually all definitions of brand equity is that they focus on the incremental effect of the brand compared with some concept of what

the customer response would be to the same product or service, if it were unbranded. (Barwise 1993, 99–100) In the literature we can, e.g., find the following different definitions for brand equity:

- a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customer (Aaker 1991, 15),
- a utility not explained by measured attributes (Barwise 1993, 100),
- a differentiated, clear image that goes beyond simple product preference (Barwise 1993, 100),
- the value a brand name adds to a product (Broniarczyk – Alba 1994, 214),
- the added value that a brand endows a product with (Farquhar 1990, RC7; Farquhar – Herr – Fazio 1990, 856),
- the differential effect that brand knowledge has on consumer response to the marketing of that brand (Keller 1993, 2; Keller 1998, 45),
- the combination of brand awareness, liking and perceptions (Moore 1993, 36),
- the added value endowed by the brand to the product as perceived by a consumer (Park – Srinivasan 1994, 271),
- the value attached to a brand because of the powerful relationship that has been developed between the brand and customers and other stakeholders over time (Keegan – Moriarty – Duncan 1995, 323),
- the incremental price that a customer will pay for a brand versus the price for a comparable product or service without a brand name on it (Keegan – Moriarty – Duncan 1995, 324),
- a long-term relationship with those people who loyally buy the brand over and over again (Keegan – Moriarty – Duncan 1995, 340),
- the accumulated brand support by all stakeholders, not only by customers (Duncan – Moriarty 1997, 10),
- a product of the total net brand support of customers and other stakeholders that is determined by all communication interactions of the company (Duncan – Moriarty 1998, 165–166),
- off-balance sheet intangible brand properties embedded in a company's brand (Kerin – Sethuraman 1998, 260).

The preceding review of the literature reveals that brand equity can be regarded as a managerial concept, as a financial intangible asset, as a relationship concept or as a customer-based concept from the perspective of the individual consumer.

We can further conclude on the basis of the prior literature review that several authors provide definitions of brand equity that are broadly consistent with Farquhar's definition of equity as the value added by the brand to the product. According to the definitions of brand equity, no single number of concepts captures brand equity. Rather, brand equity should be thought of as a multidimensional concept that depends on which knowledge structures are present in the consumers' minds and which actions a company can take to capitalise on the potential offered by these knowledge structures. (Park – Srinivasan 1994, 271)

The literature review reveals further that brand equity provides value for both the customer and the firm. Brand equity creates value to customers by enhancing efficient information processing and shopping, building confidence in decision making, reinforcing buying, and contributing to self-esteem. Brand equity creates value to firms by increasing marketing efficiency and effectiveness, building brand loyalty, improving profit margins, gaining leverage over retailers, and achieving distinctiveness over the competition. (Bagozzi – Rosa – Celly – Coronel 1998, 320)

Brand equity offers certain strategic benefits to companies. It is important for adding line extension. When a product category has entered the decline stage of the product life cycle, strong brand equity can help a brand survive longer than its competitors. Likewise, in periods of economic downturn, brand equity provides a platform that keeps the brand afloat at a profit long after competing products without strong brand identification begin to flounder. The power of brand equity is especially important in international marketing. Global brands have international presence and visibility, and this "equity" makes it easier for them to expand. Brand equity is also what enables branded products or services to charge premium prices. Many major brands are positioned as quality products, and many people are willing to pay more for a quality product they are familiar with, particularly if the brand has an image with which they would like to be associated. The challenge is to find the point where the premium price is still acceptable in exchange for the confidence embedded in the brand. (Keegan – Moriarty – Duncan 1995, 324–325)

We have found that brand equity helps to differentiate the product from competitors' offerings; serves as a proxy for quality and creates positive images in consumers' minds; presents market share erosion during price and promotional wars; and prevents market share erosion by giving a firm time to respond to competitive threats.

2.2 Customer-based brand equity

We have experienced from the previous literature review that brand equity can be approached from the perspective of the individual consumer. The basic premise with customer-based brand equity is that the power of a brand lies in the minds of consumers and what they have experi-

enced and learned about the brand over time. The advantage of conceptualising brand equity from the consumer's perspective is that it enables managers to consider specifically how their marketing program improves the value of their brands. Though the eventual goal of many marketing programs is to increase sales, it is first necessary to establish knowledge structures for the brand so that consumers respond favourably to marketing activity for the brand. (Keller 1993, 8)

Customer-based brand equity can be defined as the differential effect that brand knowledge has on consumer response to the marketing of that brand. There are three key ingredients to this definition: 1) "differential effect", 2) "brand knowledge", and 3) "consumer response to marketing". First, brand equity arises from differences in consumer response. If no differences occur, then the brand can essentially be classified as a commodity or generic version of the product. Second, these differences in response are a result of consumers' knowledge about the brand. Thus, although strongly influenced by the marketing activity of the firm, brand equity ultimately depends on what resides in the minds of consumers. Third, the differential response by consumers that makes up the brand equity is reflected in perceptions, preferences, and behaviour related to all aspects of the marketing of a brand. (Keller 1993, 8–9; Keller 1998, 45)

Conceptualising brand equity from the consumer's perspective is useful because it suggests both specific guidelines for marketing strategies and tactics and areas where research can be useful in assisting managerial decision making. Two important points emerge from this conceptualisation. First, marketers should take a broad view of marketing activity for a brand and recognise the various effects it has on brand knowledge, as well as how changes in brand knowledge affect more traditional outcome measures such as sales. Second, markets must realise that the long-term success of all future marketing programs for a brand is greatly affected by the knowledge about the brand in memory that has been established by the firm's short-term marketing efforts. In short, because the content and structure of memory for the brand will influence the effectiveness of future brand strategies, it is critical that managers understand how their marketing programs affect consumer learning and thus subsequent recall for brand-related information (Keller 1993, 2)

A brand is said to have positive (negative) customer-based brand equity when consumers react more (less) favourably to a product and the way it is marketed when the brand is identified as compared to when it is not. Thus, a brand with positive customer-based brand equity might result in consumers being more accepting of a new brand extension, less sensitive to price increases and withdrawal of advertising support, or more willing to seek the brand in a new distribution channel. Customer-based brand equity occurs when the consumer is familiar with the brand and holds some positive brand associations in memory. Favourable consumer

response, in turn, can lead to enhanced revenues, lower costs, and greater profits for the firm. (Keller 1993, 8; Keller 1998, 45)

Brand knowledge is the key issue in creating customer-based brand equity. Brand knowledge can be conceptualised as consisting of a brand node in memory with a variety of brand associations. Brand knowledge is composed of 1) brand awareness, which relates to consumers' ability to recognise or recall the brand and 2) brand image, which consists of consumers' perceptions of and associations for the brand. Building brand awareness requires repeatedly exposing consumers to the brand as well as linking the brand in consumer memory to its product category and to purchase, usage and consumption situations. Creating a positive brand image requires establishing strong, favourable and unique associations for the brand. Figure 2 illustrates the main elements of brand knowledge. (Keller 1993, 3–7; Keller 1998, 94)

Brand awareness is related to the strength of the brand node in memory, as reflected by consumers' ability to identify the brand under different conditions. Brand awareness consists of 1) brand recognition reflecting the ability of consumers to confirm prior exposure to the brand and 2) brand recall reflecting the ability of consumers to retrieve the brand, when given the product category, the needs fulfilled by the category, or some other type probe as a cue. Brand awareness can be characterised according to depth and breadth. The depth of brand awareness concerns the likelihood that the brand can be recognised or recalled and the breadth of brand awareness relates to the variety of purchase and consumption situations in which the brand comes to mind. (Keller 1993, 3; Keller 1998, 120–123)

Brand image is defined as consumer perceptions of a brand as reflected by the brand associations held in consumers' memory. Brand associations are informational nodes linked to the brand node in memory and contain the meaning of the brand for consumers. Brand associations come in many different types, which include e.g., product-related and non-product-related attributes, functional, symbolic or experiential benefits and attitudes. For customer-based brand equity to occur, some of these brand associations must be strong, favourable, and unique. Strong associations are likely to result with information deemed relevant and presented consistently over time. Favourable brand associations occur when consumers believe that the brand possesses attributes and benefits that satisfy their needs and wants. In terms of uniqueness brand associations may or may not be shared with other competing brands. The strength, favourability, and uniqueness of brand associations play an important role in determining the differential response that makes up customer-based brand equity, especially in high involvement decision settings where consumer motivation and ability are sufficiently present. (Keller 1993, 3–8; Keller 1998, 124)

Brand image is the sum of impressions that affect how we perceive a brand, including elements that identify or distinguish the brand from others, the personality the brand acquires,

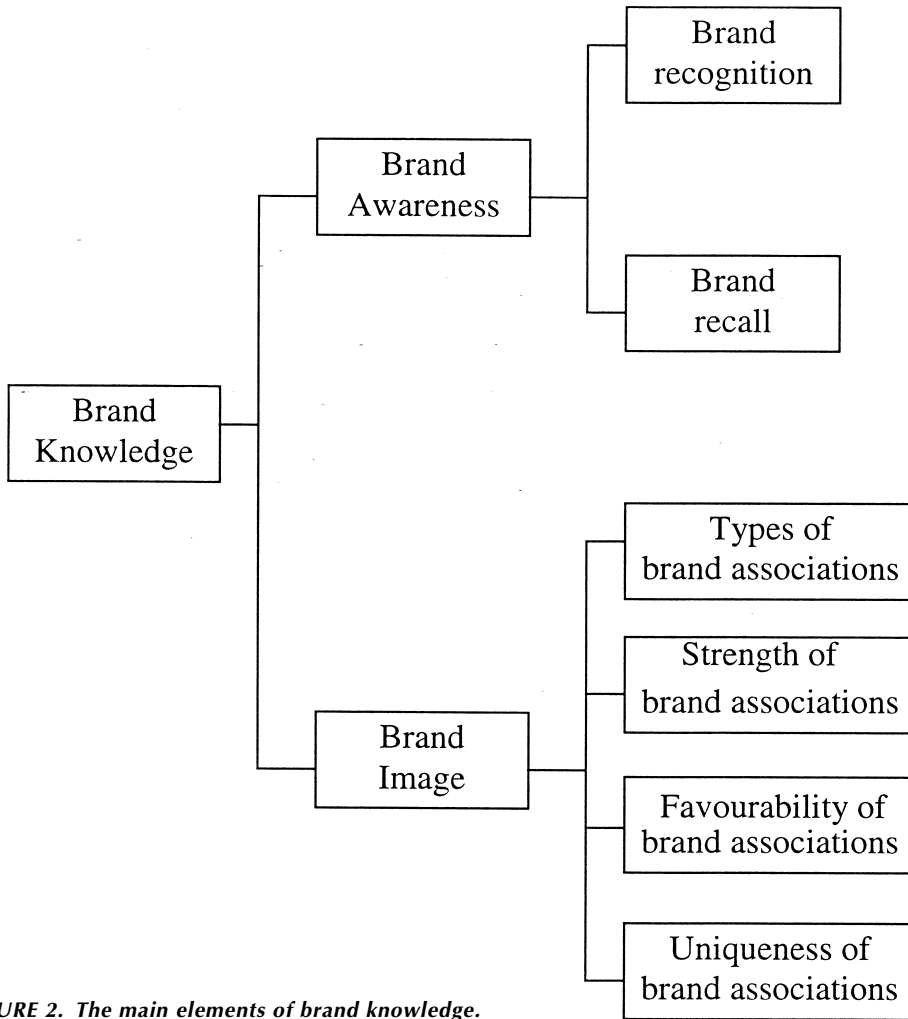


FIGURE 2. *The main elements of brand knowledge.*

and the benefits it promises. Brand image is largely a subjective and perceptual phenomenon that is formed through consumer interpretation, whether reasoned or emotional. When brand images are strong, they can be used to enhance a person’s self-image. (de Chernatony – Dall’Olmo Riley 1998a, 429; Keegan – Moriarty – Duncan 1995, 319–324)

Six general guidelines (Keller 1993, 14–15) for managing customer-based brand equity emphasise the importance of taking a broad view of marketing a brand; specifying the desired consumer knowledge structures and core benefits of a brand; considering a wide range of traditional and non-traditional marketing communication options; co-ordinating and taking a long-

term view of the marketing decisions to be taken; conducting tracking studies; and evaluating potential extension candidates. (Keller 1993, 17)

First, a marketer should adopt a broad view of marketing decisions. Marketing activity for a brand can create value for the brand by potentially improving consumers' ability to recall or recognise the brand and/or by creating, maintaining, or changing the strength, favourability, or uniqueness of various types of brand associations.

Second, marketers should define the knowledge structures that they would like to create in the minds of consumers by specifying desired levels of awareness and strength, favourability, and uniqueness of product and non-product-related attributes, and functional, experiential, and symbolic benefits. In particular, marketers should decide on the core needs and wants of consumers to be satisfied by the brand. Marketers should also decide the extent to which it is necessary to leverage secondary associations for the brand by linking the brand to the company, product class, particular person, place, or event in such a way that associations with those entities become indirect associations for the brand.

Third, marketers should evaluate the increasingly large number of tactical options available, especially in terms of various marketing communication alternatives. The entire marketing program should be co-ordinated to create congruent and strong brand associations. Different marketing tactics with the same strategic goals, if effectively integrated, can create multiple links to core benefits or other key associations, helping to produce a consistent and cohesive brand image.

Fourth, marketers should take a long-term view of marketing decisions. The changes in consumer knowledge about the brand on the basis of current marketing activities will also have an indirect effect on the success of future marketing activities. It is important to consider how resulting changes in brand awareness may help or hurt subsequent marketing decisions.

Fifth, marketers should evaluate potential extension candidates for their viability and possible feedback effects on core brand image. Brand extensions capitalise on the brand image for the core product or service to efficiently inform consumers and retailers about the new product or service.

Finally, marketers should employ tracking studies to measure consumer knowledge structures over time to detect any changes in the different dimensions of brand knowledge and to suggest how these changes might be related to the effectiveness of different marketing actions. Consumer knowledge of competitive brands should be similarly tracked to provide information on their sources of customer-based brand equity. (Keller 1993, 14–15)

There are two basic complementary approaches to measuring customer-based brand equity. The indirect approach attempts to assess potential sources for customer-based brand equity by measuring brand knowledge structures, that is, consumers' brand awareness and brand

image. The indirect approach is useful for identifying what aspects of the brand knowledge may potentially cause the differential response that creates customer-based brand equity. The direct approach to measuring customer-based brand equity, on the other hand, attempts to more directly assess the impact of brand knowledge on consumer response to different elements of the marketing program for the firm. The direct approach is useful in approximating the possible outcomes and benefits that arise from the differential response that creates customer-based brand equity. The indirect and direct approaches to measuring customer-based brand equity are complementary and should be used together. In order to apply these two different types of measures in a managerial setting, it is necessary to design and put into place a customer-based brand equity measurement system. There exists an extensive set of research procedures designed to provide timely, accurate and actionable information for marketers so that they can make the best possible tactical decisions in the short run and strategic decisions in the long run. (Keller 1993, 12–14; Keller 1998, 75–78)

A number of benefits can result from strong customer-based brand equity in terms of both greater revenue and lower costs. The benefits from customer-based brand equity can be grouped into 1) factors related to growth (e.g., a brand's ability to attract new customers, resist competitive activity, introduce line extensions and cross international borders), and 2) factors related to profitability (e.g., brand loyalty, premium pricing, lower price elasticity, and greater trade leverage). Brands with positive customer-based brand equity may provide also other benefits to the firm not directly related to the products or services themselves, such as helping the firm to attract better employees, generating greater interest from investors, and garnering more support from shareholders. (Keller 1998, 53–68)

3. A COMPREHENSIVE FRAMEWORK FOR MANAGING BRAND EQUITY

3.1 Asset dimensions of brand equity

The intangible assets of brands create the basis of brand equity. Brand equity consists of five different asset dimensions. These assets include 1) brand loyalty, 2) brand awareness, 3) perceived quality, 4) brand associations, and 5) other proprietary assets such as patents, trademarks and channel relationships. If managed well, these assets add value to the product or service and create additional customer satisfaction, which, in turn, provide a number of benefits to the firm. (Aaker 1991, 19–21)

3.1.1 Brand loyalty

Brand loyalty represents a favourable attitude toward a brand resulting in consistent purchase of the brand over time. It is the result of consumers' learning that only the particular brand can

satisfy their needs. Two approaches to the study of brand loyalty have dominated marketing literature. The first, a behavioural approach to brand loyalty, views consistent purchasing of one brand over time as an indication of brand loyalty. Behavioural measures have defined loyalty by the sequence of purchases and/or the proportion of purchases. Repeat purchasing behaviour is assumed to reflect reinforcement and a strong stimulus-to-response link. But, such loyalty may lack commitment to the brand and reflect repeat buying based on inertia. The second, a cognitive approach to brand loyalty, underlines that behaviour alone does not reflect brand loyalty. Loyalty implies a commitment to a brand that may not be reflected by just measuring continuous behaviour. A family may buy a particular brand because it is the lowest-priced brand on the market. A slight increase in price may cause the family to shift to another brand. In this case, continuous purchasing does not reflect reinforcement or loyalty. The stimulus (product) and reward links are not strong. We can conclude that some of the apparent limitations of the strictly behavioural approach in measuring brand loyalty are overcome when loyalty includes both attitudes and behaviour. (Assael 1992, 87–89; Samuelsen – Sanvik 1997, 1123–1128)

Brand loyalty – which can reflect a range from the habitual buyer to the satisfied buyer to those that like the brand to the truly committed – generates value mainly by reducing marketing costs: retaining existing customers is much less costly than attracting new ones. It is also difficult for competitors to communicate to satisfied brand users because they have little motivation to learn about alternatives. The burden on the competitor brand is substantial. A common mistake is to grow sales by enticing new customers to the brand while neglecting existing ones. Loyal customers, in some cases, can also entice others by using the product or advising others to use it. (Aaker 1992, 30)

Brand loyalty is a complex phenomenon. At least seven different types of brand loyalty can be distinguished. In emotional loyalty, unique, memorable, reinforcing experiences create a strong emotional bond with a brand. Positive word-of-mouth is likely to be very high. In identity loyalty, the brand is used as an expression of self, to bolster self-esteem and manage impressions. Branding prospects into related product categories are good. In differentiated loyalty, brand loyalty is based on perceived superior features and attributes. Here, demonstrations and trials are very important tools of marketing tactics. In contract loyalty, a consumer believes that continued loyalty earns him or her special treatment, but a competitor can question whether the consumer's trust is being exploited. In switching cost loyalty, a consumer is loyal because the effort involved in considering alternatives and adapting to a new alternative is not worth the expected return. Sometimes, the consumer may even be dissatisfied but will remain loyal because a competitor is perceived to be same. Competitors can undermine loyalty by making it easy to switch through, e.g., product design, training and terms. In familiarity

loyalty, brand loyalty is the result of top-of-mind brand awareness. This kind of loyalty is defended and attacked by constant, attention arising advertising that builds top-of-mind brand awareness. Finally, in convenience loyalty, brand loyalty is based on buying convenience. This type of loyalty may be attacked by the expansion of a competitor into convenience channels. It can be concluded that some types of loyalties are relatively easy to change because the habit is only superficial, sustained by buying convenience or the fact that the brand is the first to occur to mind. (Dickson 1994, 100–101)

The brand loyalty of the customer base is often the core of a brand's equity. It reflects how likely a customer will be ready to switch to another brand, especially when that brand makes a change, either in price or in product features. As brand loyalty increases, the vulnerability of the customer base to competitive action is reduced. There are at least five potential levels of loyalty. These levels are stylised, and they do not always appear in the pure form. These five levels do, however, provide a feeling for the variety of forms that loyalty can take and how it impacts upon brand equity. (Aaker 1991, 39–41)

The bottom loyalty level is the nonloyal buyer who is completely indifferent to the brand. Each brand is perceived to be adequate, and the brand name plays only a small role in the purchase decision. This buyer might be termed a switcher. The second level includes buyers who are satisfied with the product or at least not dissatisfied. These buyers might be termed habitual buyers. The third level consists of those who are also satisfied and, in addition, have switching costs, e.g., costs in time or money associated with switching. This group might be called switching-cost loyal. On the fourth level we find those that truly like the brand. Their preference may be based upon a symbol, a set of use experiences or a perceived high quality. Segments at this fourth level might be termed friends of the brand, because there is an emotional/feeling attachment. At the top level are committed customers. They feel pride in being users of a brand. The brand is very important to them either functionally or as an expression of who they are. Their confidence in the brand is such that they will recommend it to others.

The brand loyalty of existing customers represents a strategic asset that, if properly managed and exploited, has the potential to provide value in several ways. A loyal set of customers can reduce marketing costs, since it is much less costly to keep a customer than to gain and regain, and it provides trade leverage over others in the distribution channel. Customers can create brand awareness and generate reassurance to new customers. Loyal customers will also give a company time to respond to competitive threats. (Aaker 1991, 46-49; Dekimpe – Steenkamp – Mellens – Abeele 1997, 405–407)

3.1.2 Brand awareness

Brand awareness is the ability of a potential buyer to recognise or recall that a brand is a

member of a certain product category. A link between product class and brand is involved. Brand awareness involves a continuum ranging from an uncertain feeling that the brand is recognised to a belief that it is the only one in the product category. (Aaker 1991, 61–62)

Brand awareness consists of brand recognition and brand recall. Brand recognition relates to consumers' ability to confirm prior exposure to the brand when given the brand as a cue. In other words, brand recognition requires that consumers correctly discriminate the brand as having been seen or heard previously. Brand recognition is the minimal level of brand awareness. It is based upon an aided recall test. Brand recognition is particularly important when a buyer chooses a brand at the point of purchase. The next level of brand awareness is brand recall. It relates to the consumers' ability to retrieve the brand when given the product category, the needs fulfilled by the category, or some other type of probe as a cue. In other words, brand recall requires that consumers can correctly generate the brand from memory. Brand recall is based on unaided recall, which is a substantially more difficult task than recognition. The first-named brand in an unaided recall task has achieved top-of-mind awareness. The relative importance of brand recognition and recall depends on the extent to which consumers make decisions in the store versus outside the store. Brand recognition may be more important to the extent that product decisions are made in the store. (Keller 1993, 3; Keller 1998, 87–92)

Brand awareness can be characterised according to depth and breadth. The depth of brand awareness concerns the likelihood that a brand element will come to mind and the ease with which it does so. A brand that can be easily recalled has a deeper level of brand awareness than one that only can be recognised. The breath of brand awareness concerns the range of purchase and usage situations where the brand element comes to mind. The breadth of brand awareness depends to a large extent on the organisation of brand and product knowledge in memory. (Keller 1998, 88)

Brand awareness creates value in different ways. Brand awareness provides the anchor to which other associations can be linked. Recognition provides the brand with a sense of familiarity and people like the familiar. In the absence of motivation to engage in attribute evaluation, familiarity may be enough. Brand awareness can be a signal of substance. The first set in the buying process often is to select a group of brands to consider. Brand awareness can be crucial to getting into this group. (Aaker 1991, 63–67)

Brand awareness plays an important role in consumer decision making for three major reasons. First, it is important that consumers think of the brand when they think about the product category. Raising brand awareness increases the likelihood that the brand will be a member of the consideration set. Second, brand awareness can affect decisions about a brand in the consideration set. For example, some consumers have been shown to adopt a decision rule to buy only familiar, well-established brands. In low involvement decision settings, a min-

imum level of brand awareness may be sufficient for product choice, even in the absence of a well-formed attitude. Finally, brand awareness affects consumer decision making by influencing the formation and strength of brand associations in the brand image. (Keller 1993, 3)

3.1.3 Perceived quality

Perceived quality can be defined as the customer's perception of the overall quality or superiority of a product or service relative to alternatives. Perceived quality cannot necessarily be objectively determined, because perceived quality itself is a summary construct. (Aaker 1991, 85–86)

Perceived quality is valuable in several ways. In many contexts, the perceived quality of a brand provides a pivotal reason to buy. It is influencing which brands are included and excluded from the consideration set and which brand is to be selected. A principal positioning characteristic of a brand is its location within the dimension of perceived quality. A perceived quality advantage provides the option of charging a premium price. The price premium can increase profits and/or provide resources with which to reinvest in the brand. Perceived quality can also be meaningful to retailers, distributors and other channel members and thus aid in gaining distribution. Channel members are motivated to carry brands that are well regarded. In addition, the perceived quality can be exploited by introducing brand extensions, using the brand name to enter new product categories. A strong brand with respect to perceived quality will be able to extend further, and will find a higher success probability than a weak brand. (Aaker 1991, 86–88)

3.1.4 Brand associations

A brand association is any mental linkage to the brand. Brand associations may include, e.g., product attributes, customer benefits, uses, life-styles, product classes, competitors and countries of origins. The association not only exists but also has a level of strength. The brand position is based upon associations and how they differ from the competition. An association can affect the processing and recall of information, provide a point of differentiation, provide a reason to buy, create positive attitudes and feelings and serve as the basis of extensions. The associations that a well-established brand name provides can influence purchase behaviour and affect user satisfaction. Even when the associations are not important to brand choices, they can reassure, reducing the incentive to try other brands. (Aaker 1991, 272; Aaker 1992, 31)

Brand associations may take different forms. One way to distinguish among brand associations is the level of abstraction, that is, how much information is summarised or subsumed in the association. Within this dimension, the types of brand associations can be classified into three major types of increasing scope: 1) attributes, 2) benefits, and 3) attitudes. Several addi-

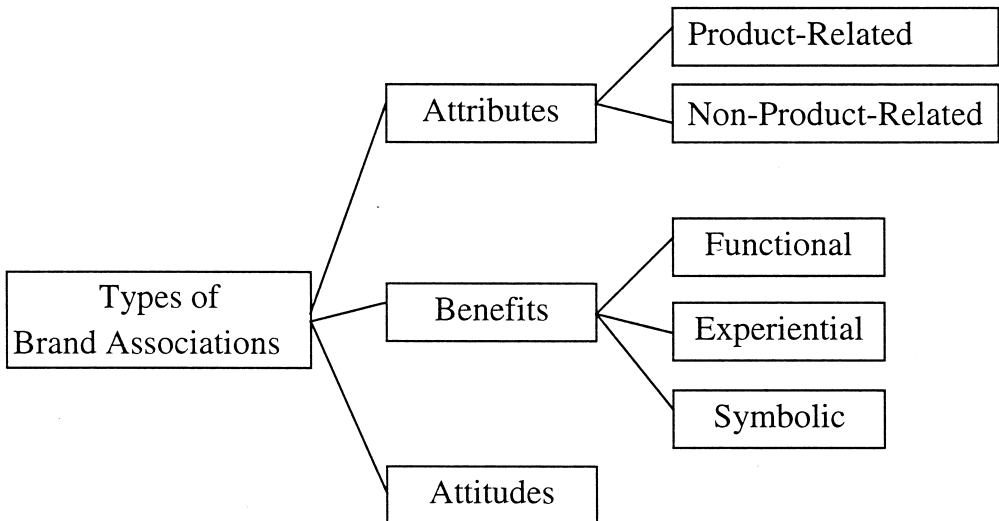


FIGURE 3. *The main types of brand associations.*

tional distinctions can be made within these types according to the qualitative nature of the association. Figure 3 illustrates the main types of brand associations. (Dickson 1994, 310–311; Keller 1993, 4; Keller 1998, 93–102)

The first types of brand associations are brand attributes. Attributes are those descriptive features that characterise a product or service. Attributes can be distinguished according to how directly they relate to product or service performance. Along these lines, attributes can be classified into product-related and non-product-related attributes. (Keller 1993, 4)

Product-related attributes are defined as the ingredients necessary for performing the primary product or service function sought by consumers. Hence, they relate to a product's physical composition or a service's requirements. Product-related attributes determine the nature and level of product performance. Product-related attributes can be further distinguished according to essential ingredients and optional features, either necessary for a product to work, or allowing for customisation and more versatile, personalised usage. (Keller 1998, 93–99)

Non-product-related attributes are defined as external aspects of the product or service that relate to its purchase or consumption. Non-product-related attributes may affect the purchase or consumption processes but do not directly affect the product performance. The four main types of non-product-related attributes are price information, packaging or product appearance information, user imagery i.e., what kind of a person uses the product or service, and usage imagery i.e., where and in which situations the product or service is used. The price of the product or service is considered a non-product-related attribute because it represents a

necessary step in the purchase process but is not intrinsic related to the product performance or service function. Price is a particularly important attribute, because consumers often have strong beliefs about the price and quality. In most cases, packaging does not directly relate to the necessary ingredients for product performance. User and usage imagery attributes can be formed directly from a consumer's own experiences and contact with brand users or indirectly through the depiction of the target market as communicated, e.g., in brand advertising. Associations of a typical brand user may be based on, e.g., demographic factors or psychographic factors. Association of a typical usage situation may be based on the time of day, week, or year, the location (inside or outside the home), or the type of activity (formal or informal), among other aspects. (Keller 1993, 4)

The second types of brand associations are brand benefits. Benefits are the personal value and meaning that consumers attach to the product or service. Benefits can be further distinguished into three categories according to the underlying motivations to which they relate: functional benefits, experiential benefits, and symbolic benefits. Functional benefits are the more intrinsic advantages of product or service consumption and usually correspond to the product-related attributes. These benefits often are linked to fairly basic motivations, such as physiological and safety needs, and may involve a desire for problem removal or avoidance. Experiential benefits relate to what is felt when the product or service is used and they usually also correspond to both product-related attributes as well as non-product-related attributes such as usage imagery. These benefits satisfy experiential needs such as sensory pleasure, variety, and cognitive stimulation. Symbolic benefits are the more extrinsic advantages of product or service consumption. They usually correspond to non-product-related attributes and relate to underlying needs for social approval or personal expression. Symbolic benefits are especially relevant for socially visible products. Thus, consumers may value the prestige, exclusivity, or fashionability of a brand because of how it relates to their self-concepts. (Keller 1993, 4; Keller 1998, 99–100)

The third and most abstract types of brand associations are brand attitudes. Brand attitudes are defined in terms of consumers' overall evaluations of a brand. Brand attitudes are important because they often form the basis for actions and behaviour that consumers take with the brand (e.g., brand choice) Consumers' brand attitudes generally depend on specific considerations concerning the attributes and benefits of the brand. It is important to note that brand attitudes can be formed on the basis of benefits about product-related attributes and functional benefits and/or beliefs about non-product-related attributes and symbolic and experiential benefits. (Keller 1993, 4–5; Keller 1998, 100–102)

The different types of brand associations can vary according to their favourability, strength, and uniqueness. Brand associations differ according to how favourably they are evaluated.

The success of a marketing program is reflected in the creation of favourable brand associations, i.e., consumers believe the brand has attributes and benefits that satisfy their needs and wants, so that a positive overall brand attitude is formed. The strength of brand associations depends on how the information enters consumer memory and how it is maintained as a part of the brand image. Thus, the more actively a consumer thinks about and elaborates on the significance of product or service information, the stronger associations are created in memory. This strength, in turn, increases both the likelihood that information will be accessible and the ease with which it can be recalled. The presence of strongly held favourably evaluated associations that are unique to the brand and imply superiority over other brands is crucial to a brand's success. Yet, unless the brand has no competitors, the brand will most likely share some associations with other brands. Shared associations can help to establish a category membership and define the scope of competition with other products and services. The favourability and strength of a brand association can be affected by other brand associations in memory. Congruence is defined as the extent to which a brand association shares content and meaning with another brand association. In general, information that is consistent in meaning with existing brand associations should be more easily learned and remembered than unrelated information. The congruence among brand associations determines the cohesiveness of the brand image. The cohesiveness of the brand image may determine consumers' more holistic or gestalt reactions to the brand. (Keller 1993, 5–8; Keller 1998, 103–109)

Secondary brand association occurs when the brand association itself is linked to other memorised information that is not directly related to the product or service. Because the brand becomes identified with this other entity, consumers may infer that the brand shares associations with that entity, thus producing indirect links for the brand. Secondary associations may arise from associations related to, e.g., the company, the country of origin, the distribution channels, a celebrity spokesperson of the product or service, or an event. The first three types of secondary associations involve factual sources for the brand. First, the brand may vary by the extent to which it is identified with a particular company. Similarly, a brand may be associated with its "country of origin" in such a way that consumers infer specific beliefs and evaluations. Finally, the distribution channels for a product may also create secondary associations. The last two types of secondary associations occur when the primary brand associations are linked to user and usage situation attributes, especially when they are for a particular person or event. Consider the case in which a well-known person lends credibility to product or service claims because of his or her expertise, trustworthiness, or attractiveness. Similarly, when a brand becomes linked with an event, some of the associations with the event may become indirectly associated with the brand. Secondary brand associations may be important if existing brand associations are deficient in some way. In other words, secondary associations can

be leveraged to create favourable, strong, and unique associations that otherwise may not be present. (Keller 1993, 11–12; Keller 1998, 268)

3.2 A five assets model of brand equity

The five asset dimensions (brand loyalty, brand awareness, perceived quality, brand associations and other proprietary brand assets) that underlie brand equity are creating brand equity. In figure 4, a five assets model of brand equity is illustrated. (Aaker 1991, 269–270)

The five assets model implicates that brand equity provides value to the customer, as well as to the firm. The resulting customer value becomes a basis for providing value to the firm. The implication is that in managing brand equity, it is important to be sensitive as to how value can be created in order to manage brand equity effectively and to make informed decisions about brand-building activities. (Aaker 1992, 30)

Brand equity provides value to the customer in at least three ways. (Aaker 1992, 31) First, brand equity assets can help a customer interpret, process, store and retrieve a huge quantity of information about products and brands. Second, the assets can also affect the customer's confidence in the purchase decision, a customer will usually be more comfortable with the brand that was last used, is considered to have high quality, or is familiar. The third way that brand equity assets, particularly perceived quality and brand associations, provide the customer with value is by increasing the customer's satisfaction when the individual uses the product.

Brand equity provides value to the firm in at least six ways. (Aaker 1992, 31–32) First, brand equity can enhance the efficiency and effectiveness of marketing programs. A promotion, for example, that provides an incentive to try a new flavour or new use will be more effective if the brand is familiar and if the promotion does not have to influence a consumer sceptical of brand quality. An advertisement announcing a new feature or model will be more likely to be remembered and stimulate action, if the potential consumer has a high-quality perception of the brand.

Second, brand awareness, perceived quality, and brand associations can strengthen brand loyalty by increasing customer satisfaction and providing reasons to buy the product. Even when these assets are not visibly pivotal to brand choice, they can reassure the customer, reducing the incentive to try other brands. Enhanced brand loyalty is especially important in buying time to respond to competitor innovations.

Third, brand equity will usually provide higher margins for products by permitting premium pricing and reducing reliance on promotions. In many contexts, the elements of brand equity serve to support premium pricing or to resist price erosion. In addition, a brand with a disadvantage in brand equity will often have to invest more in promotional activity just to maintain its position in the distribution channel.

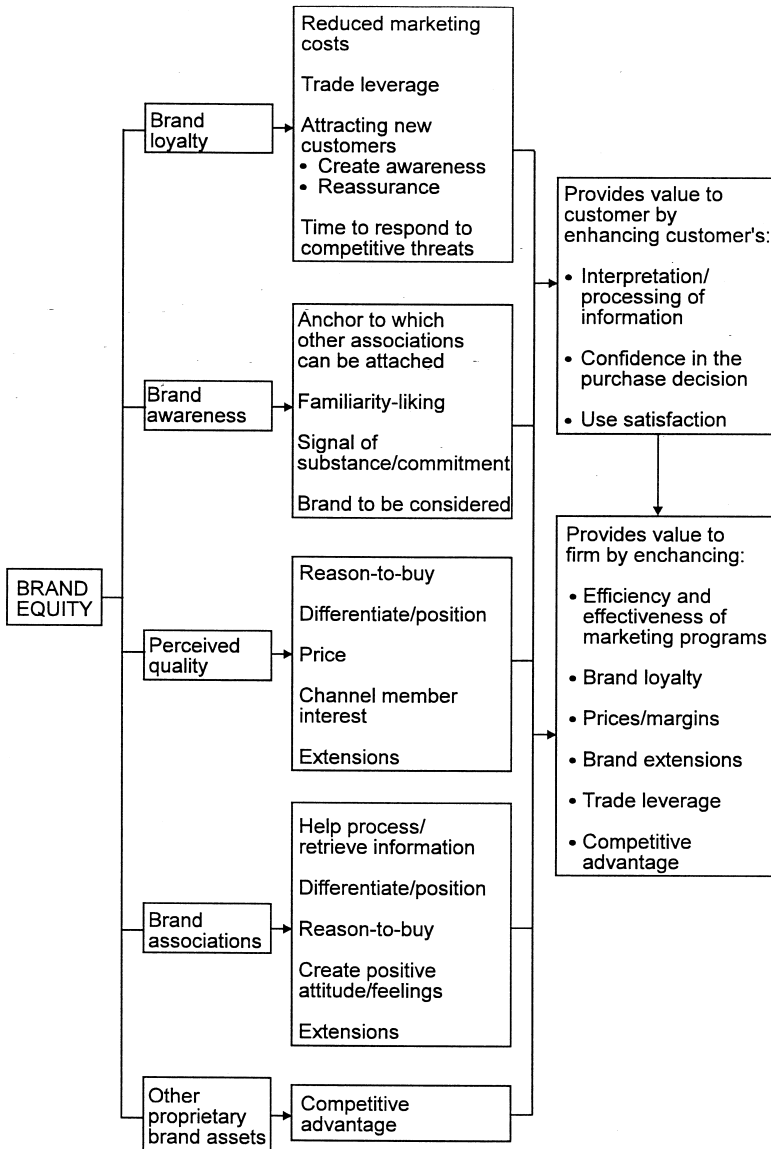


FIGURE 4. A five assets model of brand equity.

Fourth, brand equity can provide a platform for growth by brand extensions.

Fifth, brand equity can provide leverage in the distribution channel as well. Like customers, channel members have less uncertainty dealing with a proven brand name that has already achieved recognition and has established strong associations. Further, by having a strong

brand, companies have the potential to gain efficiencies and synergies by the use of the product's visual impact on the store shelf and in promotion.

Finally, brand equity assets provide a firm with a significant advantage: a barrier that may prevent customers from switching to a competitor.

4. LEVERAGING AND MEASURING BRAND EQUITY

4.1 Leveraging brand equity

There are three ways to leverage brand equity: firstly building it, secondly borrowing it, or thirdly buying it. Increasingly, "building" brand equity is not easy – given the proliferation of brands and the intense competition that is prevalent in many industries. Within a given industry, there typically exist many high quality products and high levels of advertising, making it difficult to introduce superior quality brand and shape perceptions through advertising. Thus, the alternative to building brand equity is by borrowing or buying it. (Farquhar 1990, RC10–RC11)

4.1.1 *Building brand equity*

Brand equity is built firstly, by creating positive brand evaluations with a quality product, secondly, by fostering accessible brand attitudes to have the most impact on consumer purchase behaviour, and thirdly, by developing a consistent brand image to form a relationship with the consumer. (Farquhar 1990, RC8–RC10) Of these three elements, positive brand evaluation may be considered the most important, and it is based on a quality product that delivers superior performance. (Barwise 1993, 96)

The first element in building a strong brand is a positive brand evaluation. Quality is the cornerstone of a strong brand. A firm must have a quality product that delivers superior performance to the consumer in order to achieve a positive evaluation of the brand in the consumer's memory.

Three types of evaluations can be stored in a consumer's memory: 1) affective responses, 2) cognitive evaluations and 3) behavioural intentions. Affective responses involve emotions or feelings toward the brand (e.g., the brand makes me feel good about myself, the brand is a familiar friend or the brand symbolises status, affiliation or uniqueness). Cognitive evaluations are inferences made from beliefs about the brand (e.g., the brand lowers the risk of something bad). Behavioural intentions are developed from habits or heuristic interest toward the brand (e.g., the brand is the only one my family uses or the brand is on sale this week). Efforts to create positive brand evaluations are usually aimed at one of these types. (Farquhar 1990, RC8–RC9)

The second element in building a strong brand is attitude accessibility. It refers to how

quickly an individual can retrieve something stored in memory. Stored evaluations can be retrieved from memory in two ways. Automatic activation occurs spontaneously from memory upon the mere observation of the attitude object. Controlled activation requires the active attention of the individual to retrieve a previously stored evaluation or to construct a summary evaluation of the attitude object.

The third element in building a strong brand is to have a consistent brand image. Consistency of the brand's image is a part of managing the relationship between the consumer and the brand. A relationship develops between the personality of the brand and the personality of the consumer with each purchase.

Building brand equity requires the creation of a familiar brand that has favourable, strong, and unique brand associations. This can be done both through the initial choice of the brand identities, such as the brand name, logo, or symbol, and through the integration of the brand identities into the supporting marketing program. The judicious choice of brand identities can contribute significantly to brand equity, but the primary input comes from supporting marketing activities for the brand. The product or service specifications themselves are the primary basis for the product-related attribute associations and determine a consumer's fundamental understanding of what the product or service means. Similarly, the pricing policy for the brand directly creates associations to the relevant price tier or level for the brand in the product category, as well as its corresponding price volatility or variance, e.g., in terms of the frequency and magnitude of discounts. The marketing communication efforts by the firm, in contrast, afford a flexible means of shaping consumer perceptions of the product or service. Marketing communication may also be helpful in increasing user and usage imagery attributes. Word-of-mouth and other social influences also play an important role, especially for user and usage imagery attributes. (Keller 1993, 9–10)

Investment to build or maintain strong brands can be difficult or impossible to justify when considering the short-term financial outlook. It is required a vision and a belief that such investments will pay off. A key to developing a vision and having faith in it is to understand the ways in which a brand can generate competitive advantage. With a vision established, it is necessary to be vigilant with brands. The temptation is put a priority in other areas, such as to correct a market-share problem or to pursue a cost reduction program. As a result, brand equity is temporarily put on hold. This temptation is particularly strong when the organisation's structure and reward systems do not protect brand equity. (Aaker 1992, 32)

4.1.2 Borrowing brand equity

Many firms borrow on the brand equity in their brand names by extending existing brand names to other products. Two types of extensions can be distinguished: a line and a category exten-

sion. The latter is frequently also called brand extension. A line extension is when a current brand name is used to enter new market segment in the existing product class. A category extension is when the current brand name is used to enter a different product class. (Aaker – Keller 1990, 27–28; Farquhar 1990, RC10; Farquhar – Herr – Fazio 1990, 856; Hankinson – Cowking 1993, 74–75; Keller 1998, 67)

A line extension occurs when a company introduces additional items in the same product category under the same brand name. A line extension often involves a different size, colour, flavour or ingredient, a different form or a different application for the brand. Products in line extensions are technically congruent, i.e., similar in many attributes. They belong to the same product category or subclass. The vast majority of new-product activity consists of line extensions. Excess manufacturing capacity often drives a company to introduce additional items. The company might want to meet the consumers' desire for variety. The company may recognise a latent consumer want and try to capitalise on it. The company may want to match a competitor's successful line extension. Many companies introduce line extensions primarily to command more shelf space from resellers. Line extensions involve risks. There is a chance that the brand name will lose its specific meaning. This is called the line-extension trap. The other risk is that many line extensions will not sell enough to cover their development and promotion costs. Furthermore, even when they sell enough, the sales may come at the expense of other items in the line. A line extension works best when it takes sales away from competing brands, not when it cannibalises the company's other products. (Keller 1998, 455–469; Kotler 1994, 452–454; van Raaij – Schoonderbeek 1993, 482)

A category extension occurs when a company decides to use an existing brand name to launch a product in a new product category. Category extensions capitalise on the brand image of the core product or service to efficiently inform consumers and retailers about a new product or service. The potential benefits of category extensions include immediate name recognition and the transference of benefits associated with a familiar brand. A well-regarded brand name gives the new product instant recognition and earlier acceptance. It enables the company to enter into new-product categories more easily. Moreover, category extensions eliminate the high costs of establishing a new brand and often reduce the costs of gaining distribution. Category extensions also involve risks. The new product might disappoint buyers and damage their respect for the company's other products. The brand name may lose its special positioning in the consumer's mind through over-extension. Brand dilution is said to occur when consumers no longer associate a brand with a specific product or highly similar products. Companies that are tempted to transfer their brand name must research how well the brand's associations fit the new product. The best result would occur when the brand name builds the sales of both the new product and the existing product. An acceptable result would

be when the new product sells well without affecting the sales of the existing product. The worst result would be when the new product fails and hurts the sales of the existing product. (Farquhar – Herr – Fazio 1990, 856; Hankinson – Cowking 1993, 74–82; Keller 1993, 15–16; Kotler 1994, 454–455; Loken – John 1993, 79–83)

The relationship between the core product and the extended product may be based on technical attributes, benefits, or values and lifestyles. First, products may be technically related, based on physical attributes. Extensions based on technical attributes are often successful, if the products have a large set of similar attributes. Second, the extension may be based on product benefits, if a brand offers clear and distinguishing benefits. These extensions may have dissimilar attributes, but they are similar for one or more benefits, e.g., quality. Third, well-known brand names with a good reputation may extend to new products based on their associated value and lifestyle. The precondition is that the brand is already associated with a clear set of values. These extensions may be completely dissimilar in a technical sense, but similar in values and lifestyle for the target group and for usage situations. The core of these extensions is the set of values and the lifestyle of the target group. These brand names often have a connotation of high class or luxury. The new product may be technically different from the core product. Brand extensions based on values and lifestyle may enrich the associations of the core product. These extensions may also keep the brand name in the evoked set of consumers. If the schema of the core product is high in the hierarchy, i.e., associated with values and lifestyle, one could extend it to completely dissimilar products. The new products should, however, fit in the schema of the core product and appeal to the same values and lifestyle of the target group. Cross selling is possible, because these products are often complementary for the same lifestyle. Brands should avoid, however, becoming only associated with values that are too far away from the original product benefits. (van Raaij – Schoonderbeek 1993, 482–483)

The relational model for category extensions includes three types of associations: brand to category, category to brand, and category to category. The strengths of these associations are called typicality, dominance, and relatedness, respectively. The possible asymmetry in the relationship between typicality and dominance is a distinguishing feature of the model. Typical brands in a product category are more easily extended to closely related target categories than to distant target categories. Furthermore, dominant brands are not easily extended to distant target categories, because of the exemplary nature of such brands in their original product categories. The relationship between typicality and dominance is of practical interest for exploring the limitations of category extensions. When the same brand has been extended to a wide variety of target categories, we do not expect the parent brand's dominance in the original category to diminish, but we would expect a dilution of typicality. Furthermore, some brands

are so typical in a particular target category that consumers mistakenly may believe that the brand extension exists when it does not. This spurious awareness of non-existent brand extensions might sound a blessing for marketers. To the extent that a strong association already exists, a firm might well consider a category extension to that target category. Less effort would be needed for creating awareness, and more could be spent on other activities. (Farquhar – Herr – Fazio 1990, 857–859; Roux – Lorange 1993, 495)

The association network of the core product indicates how far one could stretch the brand. If the network of the core product is low in the hierarchy, i.e., only associated with technical and functional product attributes, one should not go beyond line extensions. On the other hand, brands develop over time. The typical history of a brand is that it starts narrowly with a complete overlap with the product. Then, line extensions of, e.g., flavour and colour variants may be developed. The brand becomes broader and obtains connotations of quality, design and other psychosocial attributes and benefits. Then, the brand may transcend the physical reality and become associated with values. This case provides the richest opportunities for brand extensions. However, not all brands develop according to these lines. (Van Raaij – Schoonderbeek 1993, 483)

Consumers may hold four types of associations in long-term memory that bears on category extensions. These associations occur between a brand and the attributes of that brand; consumer attitudes toward that brand; the attributes of the product category; and consumer attitudes toward the product category. The presence and strength of these associations affect consumer judgements of the degree of fit between the existing brand and its potential extension to a new category. These intervening judgements are important in predicting the success of a given category extension. (Farquhar – Herr – Fazio 1990, 858)

Transferring an existing brand name to a new product category requires great care. Three factors are needed to extend a brand successfully to a new category: perceptual fit, competitive leverage, and benefit transfer. Perceptual fit means that the consumer must perceive the new item to be consistent with the parent brand. Competitive leverage means that the new item must be comparable or superior to other products in the category. Benefit transfer means that the benefit offered by the parent brand is desired by consumers of products in the new category. (Farquhar 1990, RC10; McWilliam 1993, 485; Roux – Lorange 1993, 492–496; Sattler – Zatloukal 1998, 97–104)

4.1.3 Buying brand equity

A final method to enhance brand equity is to buy it through acquisition or licensing. Given the potential difficulties associated with building brand equity, there is a trend toward acquiring well-established brands. Acquisition of a firm, its brands and products is obviously one way of

leveraging brand equity. A more common approach is licensing brands. However, licensing brands can be counter-productive, if the extended products have little or no association with the original product category. The same requirements of perceptual fit, competitive leverage and the benefit transfer apply to all category extensions, whether licensed or not. (Farquhar 1990, RC11; Keller 1998, 288–294)

4.2 Measuring brand equity

The concept of brand equity has gained much prominence both in academia and industry, especially due to the growing recognition of brands as valuable assets for the firm. Unlike the developments at a conceptual level, however, the existing literature does not provide a satisfactory measurement method for understanding the sources of brand equity. An understanding of where the equities of the firm's and competitors' brands come from is obviously essential for a brand manager to enhance his or her brand's equity relative to those of competitive brands. Some of the previously proposed measurement approaches take the firm's perspective and measure brand equity at the firm level. For example, brand equity has been estimated as the incremental cash flows that accrue to the firm due to its investment in brands. This method relies on data aggregated to the firm level, so the estimate of brand equity is not very useful to brand managers managing an individual brand in a multibrand firm operating in multiple product categories. (Park – Srinivasan 1994, 271)

Brand equity can be measured by the incremental cash flow from associating the brand with the product. Incremental cash flow also results from premium pricing and reduced expenses. Brand valuation is a relatively new phenomenon. Many different methods have been proposed because financial accounting standards for valuing intangible assets vary across countries. However, little consensus has emerged about how brand performance should be measured. (Birkin 1991, 186–193; Egan – Guilding 1994, 453–466; Farquhar 1990, RC7)

A classical method for estimating brand equity is to include the brand name as a factor in the full-profile method of conjoint analysis performed at the individual level. By estimating brand equity at the individual rather than aggregate or segment level, brand managers can aggregate the individual-level measures to quantify both the mean and standard deviation of brand equity for any segment of interest. In addition, starting with individual-level measures difficult aggregation problems encountered in estimating the market share premium and price premium attributable to brand equity can be avoided. A difficulty with the conjoint analysis method in the context of brand equity measurement is that the conjoint card-sort task can lead to unrealistic product profiles. Another important concern with conjoint analysis is that it does not provide an understanding of the sources of brand equity and suggested directions for enhancing it. (Park – Srinivasan 1994, 272)

A survey-based method for measuring and understanding brand equity at the individual consumer level in a specific product category offers brand managers an indication of the sources of brand equity. This method measures brand equity as the difference between an individual consumer's overall brand preference and his or her brand preference on the basis of objectively measured product attribute levels. To understand the sources of brand equity, the approach divides brand equity into attribute-based and nonattribute-based components, thus providing the brand manager with an indication of different plausible bases of brand equity. The attribute-based component of brand equity captures the impact of brand-building activities on the consumer's attribute perceptions. In other words, attribute-based equity incorporates the difference between subjectively perceived and objectively measured attribute levels. The nonattribute-based component of brand equity captures brand associations unrelated to product attributes. For example, the masculine image conveyed by the Marlboro man has nothing to do with product attributes, and yet, it may play a significant role in accounting for preferences for the brand. This two-component decomposition of brand equity provides valuable information because the two components often relate to different actions by brand management. For example, although image-oriented advertising can create the nonattribute-based component, attribute-specific advertising can create the attribute-based component of brand equity. (Park – Srinivasan 1994, 272)

The survey-based method for measuring and understanding brand equity at the individual consumer level in a specific product category also provides a method for assessing the impact of a brand's equity on its market share and profit margin. The market share premium due to brand equity tells the brand managers how much of a brand's current market share is attributable to the brand's equity in holding a price fixed. The price premium due to brand equity provides the additional price the firm is able to charge currently for the brand, while holding the market share fixed. The market share and price premiums constitute meaningful summary measures of brand equity because they closely relate to brand profitability. The survey-based method for measuring and understanding brand equity also provides brand managers with diagnostic information as to how a brand extension into a related product category builds on (or detracts from) the equity of an established brand. Brand managers who want to extend their established brands can use the model to select an extension product category from a set of candidate categories. (Park – Srinivasan 1994, 273)

5. SUMMARY AND MANAGERIAL IMPLICATIONS

Brands have gained renewed interest in recent years. Brand managers realise that after years of look-alike advertising and over-coping with me-too brands, they now live in a world of prod-

uct parity. Hard competition ensured through short-term price promotions reduces the profitability of brands leading manufactures to examine ways to enhance loyalty toward their brands. In addition, faced with the increasing power of retailers manufacturers of consumer products realise that having the strongest brands is vital to strengthening their presence with retailers. Furthermore, the escalation of new product development costs coupled with the high rate of new product failures has led firms to acquire licenses, and extend brand names to a degree unseen in previous decades.

The purpose of this study was to discuss and elaborate the main issues encountered in managing brand equity. In order to achieve this purpose, we first analysed the concept of brand equity; second, we provided a comprehensive framework for managing brand equity; and finally, we distinguished different ways to leverage and measure brand equity.

The concept of brand equity emerged in the early 1990s. Brand equity can be regarded as a managerial concept, as a financial intangible asset, as a relationship concept or as a customer-based concept from the perspective of the individual consumer.

In a general sense, brand equity is defined in terms of the marketing effects uniquely attributable to the brand. That is, brand equity relates to the fact that different outcomes result from the marketing of a product or service because of its brand element, as compared to outcomes if that same product or service did not have that brand identification. Although a number of different views of brand equity have been expressed, they all are generally consistent with the basic notion that brand equity represents the "added value" endowed to a product or a service as a result of past investments in the marketing for the brand.

The main asset dimensions of brand equity can be grouped into brand loyalty, brand awareness, perceived quality and brand associations.

Brand loyalty represents a favourable attitude toward a brand resulting in consistent purchase of the brand over time. It is the result of consumers' learning that only the particular brand can satisfy their needs. Brand awareness is the ability of a potential buyer to recognise or recall that a brand is a member of a certain product category. Brand awareness involves a continuum ranging from an uncertain feeling that the brand is recognised to a belief that it is the only one in the product category. Perceived quality can be defined as the customer's perception of the overall quality or superiority of a product or service relative to alternatives. Perceived quality cannot necessarily be objectively determined, because perceived quality itself is a summary construct. Brand associations may include, e.g., product attributes, customer benefits, uses, life-styles, product classes, competitors and countries of origins. Brand associations can affect the processing and recall of information, provide a point of differentiation, provide a reason to buy, create positive attitudes and feelings and serve as the basis of brand extensions.

There are three alternative ways to leverage brand equity: firstly building it, secondly borrowing it, or thirdly buying it.

Brand equity can be built by creating positive brand evaluations with a quality product, by fostering accessible brand attitudes to have the most impact on consumer purchase behaviour, and by developing a consistent brand image to form a relationship with the consumer. Many firms borrow on the brand equity in their brand names by extending existing brand names to other products. Two types of extensions can be distinguished: a line and a category extension. The later is frequently also called brand extension. The third way to leverage brand equity is to buy it through acquisition or licensing. Given the potential difficulties associated with building brand equity, there is a trend toward acquiring well-established brands.

Brand equity can be measured by the incremental cash flow from associating the brand with the product. Incremental cash flow also results from premium pricing and reduced expenses. Brand valuation is a relatively new phenomenon. Many different methods have been proposed because financial accounting standards for valuing intangible assets vary across countries. However, little consensus has emerged about how brand performance should be measured.

Brand equity can create advantages and benefits for the firm, the trade or the consumer.

From the firm's perspective brand equity imparts competitive advantages to the firm. These aspects of brand equity typically involve uncertainties that are difficult to quantify in brand valuation studies. First, a strong brand provides a platform for new products and for licensing. A strong brand can serve as an umbrella under which to launch new products or to license existing ones. The strategic potential of a brand platform should be a part of measuring brand equity. Second, a strong brand has a resiliency to endure crisis situations, periods of reduced corporate support or shifts in consumer tastes. Thus, another important component of brand equity is brand resiliency to survive difficult times. Third, strong brands provide resistance from competitive attacks. A dominant brand name can be a barrier to entry into some markets. Thus, brand dominance is the third strategic component of brand equity.

Strong brands in a product category have obvious value to the trade, as well as to the firm. Brand equity from the trade's perspective is measurable in brand leverage over other products in the market. This source of added value comes from easier acceptance and wider distribution of a strong brand. Well-known consumer brands pay lower slotting fees and are given more shelf facings for new products than weaker brands. Brand leverage also protects against private labels. Less leverage means that market shares are eroded and less expensive generic brands become dominant. There is evidence that distributors want brand names as a means of making the product easier to manage in a number of respects: easier to handle, easier to identify suppliers, easier to maintain quality standards, and easier to increase buyer preference.

Brand equity from an individual consumer's perspective is reflected by the increase in the strength of associations an individual has for a product by using the brand. Successful branding means lower uncertainty in purchasing. There is also less need for an extensive decision making process on the part of the customer. Brands carry with them certain assurances of product quality and reliability in use. Product identification in large, cluttered supermarkets, department stores or mass merchandising outlets is facilitated. There are also psychological benefits to the customer using brands. ■

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