“When a business favors short-term over long-term, it tends to engage in policies that are often self-destructive, attempting to build current sales up at the expense of long-term customer loyalty and re-purchase.”—Don Peppers of Peppers and Rogers Group

A BALANCING ACT FOR MARKETERS / Brand building—as opposed to lead-generating business building—is a long-term endeavor. Despite all the brand banter in recent years, the definition of your “brand” may still be elusive. That’s because your brand exists in your customers’ minds—it’s how they perceive your company, product or services as a result of myriad touch points. It’s what they think of when they hear your company name. There are as many perceptions of your brand as there are people perceiving it. And marketers have less and less control over what customers perceive. Unfortunately, marketers will need to get used to that lack of control, as bloggers and I-Hate-Your-Company-dot-Com web sites proliferate.

Because the brand is subjected to so many outside influences, marketers must do as much as they can to preserve and increase the value of the brand. It is especially important in B2B marketing when short-term measures necessarily take precedence under the pressure to prove ROI. Brand building over the long term does not lend itself to ROI measures. But it’s important to understand a brand’s value. The bromide “you can’t manage what you can’t measure” comes to mind here. Marketers must maintain, manage and grow the brand just as they would any asset. A strong brand can allow your company to charge premium prices, gain and maintain market share, help you borrow cheaper money, shorten your sales cycle, and truly differentiate your product or service, even in a commoditized marketplace.
I have been told that B2B purchase decisions are all about price or maybe price and performance. While that’s important, I have seen too many purchase decisions based on brand to believe that price is the only criterion. If your job or your reputation is on the line, you are much more likely to rely on a known brand than to go out on a limb. That way, it’s hard to find fault if something should go awry. There’s a maxim from back in the heyday of IBM that “nobody ever got fired for buying IBM.”

**STRONG BRANDS BREED SUCCESS** / Strong brands can be leveraged in many ways to make a sale. I’ve seen leaders at GE use their renowned management prowess to assist customers with management issues as long as they’re willing to lease a railcar in the bargain. Their brand carries so much cache that customers might even sign on the dotted line just for the privilege of working with the smart guys at GE. They found ways to create extra value for customers who trusted their brand to deliver.

Finally, a strong brand makes selling your product or service more efficient. In the B2B world, that brand is always the company, not a product like Tide or Cheerios. B2B purchases are made by people who trust other people in a company, and that trust is key. It reduces customers’ risk of doing business. They know what to expect because they understand what your brand promise is and they expect you to keep it.

When your prospect is at least aware of your company, you’re more likely to get your foot in the door. (If a prospect has never heard of you, how can you be on their short list for RFPs?) When your marketplace already knows who you are and what you stand for, your brand becomes shorthand for the unique value your customer expects to receive. That’s the brand promise that differentiates you from your competitors. Your reputation precedes you, so it’s critical to nurture and protect your brand. And if you want to grow the business you must grow the brand.

**MANAGE YOUR BRAND** / A study of European companies by management consulting firm Booz Allen Hamilton and brand consulting firm Wolff Olins (Harter, Koster, Peterson & Stomberg, 2005) uncovered even more compelling reasons to pay attention to branding. Strategic brand management can dramatically increase corporate success: European companies managed with a strong brand focus have, on average, operating profits almost twice as high as the industry standard. These companies are referred to in the study as “brand-guided” (p. 1).

According to the report, “Managing Brands for Value Creation,” (Harter, Koster, Peterson & Stomberg, 2005) brand-guided companies actively use the brand to drive
business decisions and manage the company. These companies “have clearly-defined brand values that are understood throughout the entire organization. They establish well-defined ownership for management of the brand at the top management level. This enables the brand to provide the cohesive force that guides key activities—such as product development, customer service, sales and operations—and supports the strategic management process” (p. 1).

Not surprisingly, brand-guided companies have employees who are fully engaged and who support the brand’s ethos. Communicators often describe this as branding from the inside out. Employees in brand-guided companies have more enthusiasm for their work, and they communicate this enthusiasm to customers. This is particularly important in B2B companies, where all types of employees—customer service, sales, accounting, finance and engineering—may have direct contact with customers. Employees in brand-guided companies know what the corporate goals are and what they need to do to deliver on the brand promise. Often, the best people are attracted to companies with strong brands.

When it comes to determining ROI, brand-guided companies are more willing than others to use disciplined ROI techniques. According to the study, “This willingness to focus on harder metrics leads to success.” The study found that brand-guided companies regularly collect such customer related data as customer satisfaction, customer loyalty and share of wallet (their share of sold products as a percentage of the customers’ total expenses). They also collect operational data such as incremental sales, product availability and price comparison/margin. Even better, they use this data to reassess business decisions and change accordingly.

Brand-guided companies have the confidence to monitor the data, see what’s not working and fix it. They reassess brand strategy, reallocate media budget on different communication channels and reassess price positioning. Their strong brand typically allows them to enjoy an above-average price margin. In short, they get the most value out of their brand by making it central to their company’s strategy and integrating it throughout their operation. According to the study (Harter, Koster, Peterson & Stomberg, 2005), “If CMOs utilize ROI marketing techniques to direct budgets and other resources, in combination with incentive systems for employees, the resulting improved financial performance significantly underpins the value of marketing” (p. 6).

It is a much better idea to manage your brand like the asset it really is rather than letting fate—or your competitors—build a concept of your company within your customers’ minds.
MEASURING BRAND EQUITY / Although brand-guided companies are more willing to measure ROI, that metric won’t work for measuring the brand itself. As we’ve said, ROI is a metric that applies to short-term payback, not long-term brand building. Marketers have to separate those marketing activities designed to generate short-term results from those designed to create long-term brand value. It’s always more difficult to measure the latter.

According to IMC gurus Don Schultz and Jeffrey Walters (1997), the basic reason for separating business-building from brand-building investment is to provide a measurement system that has a sound economic base. Accounting systems, at least in the U.S., are based on the premise that the only assets of an organization are of tangible value, like a plant, property or equipment. Business-building communication generates leads that turn into tangible sales, and accountants hope these tangible results will occur within the fiscal year. In B2B marketing, sales cycles can be a year or two long, which is one reason why tracking and database management are musts. But with enough patience, good business-building communications will yield tangible results that can be tied to the investment.
On the other hand, brand-building communication is not designed to bring immediate returns. It’s designed to create long-term value, sometimes many years after the initial investment is made. And its value is often intangible. Strong brands allow companies to reduce their marketing costs, enjoy leverage in the marketplace, attract new customers inexpensively and enjoy a competitive advantage. A well known brand may also help shore up public opinion during times when companies need community or government support. The challenge is to determine how you will assign brand value in your organization.

According to James Leskold (2003),

While some forms of mass advertising are intended to generate immediate sales, a level of brand advertising can create emotional connections and brand preferences that last over a very long period of time and may even have implications on how the stock market values the company. *It is not realistic to force investment decisions for this type of branding into a standard marketing ROI equation* [emphasis added], since the incremental value will be impossible to identify for each investment. For purposes of managing other investments using marketing ROI…, this form of advertising would be considered an overhead expense. From there, it can be managed using brand equity calculations, which are better geared for this form of investment measure. (p. 63)

You first have to know what brand equity is in order to measure it. In his book, *Managing Brand Equity*, David Aaker (1991) defines brand equity as “a set of assets, such as name awareness, loyal customers, perceived quality and associations that are linked to the brand (its name and symbol) and add (or subtract) to the value of the product or service being offered” (p. 4). A simpler definition of brand equity is the value a brand adds to a company’s products and services.

Searching for a simple answer, many latch onto the theory du jour. The problem is that there are many theories and many measures. How’s a marketer to know what’s best? Is there a single metric for brand equity that works? Many are still using brand awareness as the operative metric. Credible companies, like the marketing information company ACNielsen, include awareness as one of the components of brand equity measurement. In fact, it seems every consultant out there has a different formula.

**EXISTING MEASUREMENT MODELS /** Some sophisticated models already exist. One, Equity Engine [sm] developed by Research International, expresses brand equity as a combination of brand performance—what product and service benefits are delivered to the customer—and affinity—how close customers feel to the brand, what sta-
The beauty of the Equity Engine[sm] model is that it provides a construct for understanding the reasons behind high or low brand equity, giving the marketer insight into what needs to be corrected. It also establishes the price premium a brand can support, which is valuable information in and of itself.

Other models focus more on the emotional component of brand equity and measure things like differentiation, relevance, popularity, quality and familiarity. Some also determine the degree of customer involvement and finally, how brand equity translates into perceived value and price. The combination of brand equity, brand involvement and price/value gives an overall picture of brand health.

Young and Rubicam, one of the world’s leading marketing communication agencies, has something called the BrandAsset® Valuator. It rates 2,500 brands on the same 48 attributes and four macro constructs of differentiation, relevance, esteem and knowledge. While it’s interesting to note what constructs they consider important, this model is only useful if you’re included in the 2,500 brands being measured. Chances are your B2B company is not.

The problem with most models is that they depend on measuring attitudes, not actual outcomes of customer behavior. This was also the problem with the Lavidge-Steiner model, the Hierarchy of Effects (see Chapter One). The crux of the matter is that you are required to make a leap of faith from attitudes to presumed action. This leap is often not justifiable.

In contrast, ACNielsen’s Winning Brands™ approach turns the tables. ACNielsen begins with measuring customers’ behaviors in terms of frequency of purchase and price premium paid. Once market researchers observe favorable behavior, they analyze the attitudinal characteristics of those customers (Knowles, 25th para.).

But the trouble with all these approaches is that they are fairly complex and likely to be too pricey for the average B2B budget. So what’s a marketer to do?

PRACTICAL APPROACHES FOR B2B COMPANIES / According to Aaker’s (1991) definition of brand equity, you should measure name awareness, loyal customers, perceived quality and how associations linked to the brand add (or subtract) value. He scores brands against 10 measures that include those in his definition:
Loyalty measures:
1. Price premium
2. Satisfaction/loyalty

Perceived quality/leadership measures:
3. Perceived quality
4. Leadership/popularity

Associations/differentiation measures:
5. Perceived value
6. Brand personality
7. Organizational associations

Awareness measures:
8. Brand awareness

Market behavior measures:
9. Market share
10. Market price/distribution coverage (p. 16–17)

Now let’s push Aaker’s definition even further to define brand equity as a financial asset that represents a source of incremental cash flow over time. As Tim Ambler of the London Business School so aptly put it, brand equity is “a reservoir of cash flow, earned but not yet released to the income statement” (Knowles, 26th para.). This takes marketing out of the realm of short-term tactics and into the boardroom as an important component of strategic asset management. Marketers must quantify their brand equity and determine how much value it will generate over time.

YOUR CUSTOMERS ARE YOUR FUTURE / This is where people like Peppers and Rogers come in. They advocate measuring return on customer (ROC). According to Peppers and Rogers, in “ROC and Roll,” an editorial in CMO Magazine (2004):

To tally traditional ROI for a portfolio of stocks and bonds, you would calculate the dividend and interest payment received, and then add any change in the value of the various stocks and bonds in the portfolio. The result, when compared to the amount you began the year with, would give you this year’s ROI. But what if
you simply ignored any changes in the underlying value of your securities and limited your analysis solely to dividends and interest? Surely you would not accept this as a legitimate picture of your “return” for the year.

Yet this is exactly the way most companies assess and report their own financial results.

Just as a portfolio of securities is made up of individual stocks and bonds that not only produce dividends and interest, but also fluctuate in value during the course of a year, a company is nothing more than a portfolio of customers, who not only buy things from the organization, but also fluctuate in value during the course of their patronage. Most companies, however, ignore any increase (or decrease) in principal, simply counting up the dividends and reporting them as profit.

**KNOW YOUR CUSTOMER** / The ROC metric is equal to the sum of the current-period profit from each customer plus any changes in the customer’s lifetime value (LTV), divided by the customer’s LTV at the beginning of the period.

\[
\text{ROC} = \frac{\text{Profit} + \text{Changes in LTV}}{\text{LTV (at beginning of period)}}
\]

Lifetime value is the net profit each customer contributes to the business over his or her entire time as a customer. There are many ways to calculate LTV, but the simplest is to calculate the total revenue received from the customer while he or she is a customer, minus the cost of providing him or her with products and services.

\[
\text{Total Revenue Received from Customer A} - \text{Cost of Providing Products & Services to Customer A} \quad \text{Lifetime Value of Customer}
\]

If you want to optimize the value of every customer, you have to be careful not to irritate them in the short term with an overly aggressive marketing campaign, by locking them into a contract or by embedding stuff in your software to make it really difficult for them to switch to another supplier.

Customer loyalty expert Fred Reichheld (2006) agrees. He calls “bad profits” those which are earned at the expense of the customer. Everyone has had these experiences: the credit card company that charges exorbitant fees when you’re a day late with your payment or the mobile phone service that gouges you when you go over your minutes. These are bad profits that don’t engender loyalty.
Reichheld (2006) has a single metric he submits as the best way to measure brand equity. It’s the Net Promoter Score that he introduces in his book, *The Ultimate Question: Driving Good Profits and True Growth*. He proposes that companies that make bad profits undermine their future growth and that good profits—those that are earned with customers’ enthusiastic cooperation—are the key to loyalty. And loyalty is the key to profitable growth. The difference between Reichheld’s theory and the others mentioned above is that the others measure attitudinal loyalty, while Reichheld measures “willingness to recommend to a friend” (p. 28). He then subtracts the folks on the opposite end of the scale—the detractors—from the promoters, which results in the Net Promoter Score (NPS).

**THE ANSWER STILL ELUDES MARKETERS** / While tantalizingly simple, the NPS may not be the best measure in a B2B world. First, you’d have to change the question to “willingness to recommend to a colleague,” not a friend, for B2B, and that may not have quite the same compelling result. You’d have to establish a link between that and actual behavior, or at least an accurate predictor of your company’s growth prospects. One wonders if it might be better to change the question to “willingness to pay a price premium,” or to actually test what that premium would be, as in the Equity Engine [sm] model.

Second, I’m not sure that any B2B product or service inspires the kind of emotion that the NPS implies. B2B marketers started out measuring awareness, then satisfaction, then loyalty and now, fierce loyalty. It’s a far cry from the emotionless profile of the customer who supposedly buys on price alone.

But Reichheld, Peppers and Rogers have an important point. A brand is worth nothing unless people will pay for it. Future revenue comes from customers, and your company is a portfolio of customers. So the brand-value equation has to include the customer.

A single metric like ROC or NPS, while appealing in its simplicity, is not enough to give a complete picture of the equity a brand has in the marketplace and what you can do to improve it. Every company must identify what drives their brand value and use those drivers to measure value. I suspect most companies will have some of the following metrics:

- Market share
- Customer retention
- Price premium customers are willing to pay
- Perception of quality
Building Long-term Shareholder Value

- Share of wallet
- Rate of growth compared to competitors
- Rate of new customer acquisition
- Relevant differentiation (a unique value proposition)
- ROC or customer asset value
- Customer loyalty or NPS

The point is, you need to determine what metrics make sense in your B2B arena.

Maybe a better question for B2B marketers is: How are we engaging our customers to maximize long-term shareholder value? If customers are all we have to predict and ensure the future value of our company, it would behoove us to look at metrics associated with customer centricity.

Depending on your business, some customer metrics for consideration include (Patterson, 2006):

- Customer retention
- Buying frequency
- Contact frequency
- Churn rate
- Average revenue per user
- Customer lifetime value
- Share of customer’s wallet, and
- A customer’s EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)

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So the problems with determining brand equity remain. There is no one answer. We need to determine which metrics are important to our company. We should use those metrics that will be useful in helping us increase brand equity, if that is our goal. Further, if there are too many metrics, we will not be able to act on all of them, so we should limit ourselves to developing 10 or 12. Simple is good, but not so simple that we can’t learn enough to make improvements.
THE BIG QUESTION: ARE BRANDS ASSETS THAT WILL CREATE FUTURE CASH FLOW? / Throughout this book, we have made the assumption that a brand has value, that the value can be measured, and the more value a brand has, the better. Although this value is seldom on the balance sheet, at least in the U.S., marketers still consider the brand to contribute to shareholder value, especially in a knowledge economy. The brand is often thought of as an intangible asset, like patents or customer lists. But since we can measure brand value, perhaps it shouldn’t be lumped together with other intangible assets on the balance sheet. Maybe brand equity should take its rightful place on the balance sheet as an asset—one that must be measured and managed.

We have previously discussed numerous models for measuring brand equity, many of which are difficult for the average B2B firm to execute due to their complexity and cost. We have also said that any one metric lacks the usefulness of a diagnostic tool. This is where Reichheld’s Net Promoter Score and Peppers and Rogers’ Return on Customer come in. The emphasis on customers as critical to the value of the brand is right on the money. And the value of the brand can only be created by changes in customer behavior—not attitudes.

If your company brand is an asset, then it must generate future cash flow, and it must be measured in those terms. According to Jonathan Knowles of Wolff Olins, a viable approach is to measure “equity in terms of the scale and nature of the utility the brand delivers to customers.” He measures something he calls “relevant differentiation,” which is defined as:

- The maximization of the perceived fit between your brand and your customer’s needs.
- The maximization of the perceived differentiation of your brand versus its competitors.

A high relevant differentiation score provides insight into why a certain brand is perceived to be uniquely capable of meeting customer needs.

So, if your customer needs, say, a custom solution to a circuit board problem, and he perceives your company to be better than your competitors at solving it, then you’ve achieved “relevant differentiation.” To find out how much, you’d have to survey your customers and ask them to quantify how much better, perhaps on a scale of one to 10. The greater the differentiation gap between you and your competitors, the higher your score. There may be thousands of other companies that build custom circuit boards, but if your brand promise of excellent engineering surpasses your competition by X percent, then you’ve built equity in your brand.
There are seemingly endless constructs that show the financial value of the brand, measure its relative strength or show the financial contribution marketing has made to the company. Reputation is often a variable, as are innovation, quality, credibility, leadership in the marketplace and more. Companies that wish to assign value to brands should measure the attributes that they believe are important to them and their success. The value of any measure is that it works as a diagnostic tool, giving marketers a picture of what needs to take place to correct weaknesses and build on strengths. If CEOs believe that brands are assets, then they should manage them as such, leveraging them to increase shareholder value in the long term.

A MANUFACTURING FIRM'S MEMORABLE BRAND: HOW MARKETING CAN ADD VALUE TO A PRODUCT OR SERVICE

When two cargo security seal companies merged to form TydenBrammall, the new name lacked recognition. In a marketplace crowded with ever increasing newcomers, the newly formed company was beginning to get lost in the shuffle. Although TydenBrammall was comprised of two of the oldest and largest seal companies, a big competitor, E. J. Brooks, was stealing the scene as the established expert in the field.

TydenBrammall and Brooks competed in a field in which there was very little barrier to entry. It was easy to set up a seal manufacturing business in a garage, and many did. The marketplace was cluttered with mom-and-pop outfits as well as formidable competitors with manufacturing plants worldwide. TydenBrammall had just merged, and the newly combined company's identity was indistinctive. According to the sales force, customers were unclear as to what products the company offered (a full line of seals, thanks to the merger). And many customers and prospects had no idea at all that TydenBrammall was a seal company, requiring salespeople to spend precious time during a call to explain the company behind the name.

TydenBrammall needed to establish a stronger identity and break through the clutter in a memorable way. The company's agency developed Cargo Guy, a cargo security expert, who quite literally gave a face to the name TydenBrammall. Cargo Guy had his own web site, linked to the main TydenBrammall web site, which was a forum for cargo security issues. And although Cargo Guy answered questions about the full range of TydenBrammall seals, the site was designed to provide information important to the company's customers and prospects—to help them on the job—and not to sell seals. It became a forum for the industry, with TydenBrammall's Cargo Guy as host.

Because the web site became an industry resource, the company was able to leverage that into substantial publicity. The buzz continued with Cargo Guy appearances at trade shows and an ad campaign featuring Cargo Guy. The first ad in the series, “Ask Cargo Guy,” introduced Cargo Guy and his web site. In the ad he answered an industry question about the importance of security seals, and how easy it is to get security for only the price of a cup of coffee.
Cargo Guy also invited readers to ask questions online, thus driving customers and prospects to the website and encouraging interaction. Of course, anyone asking a question became part of an important database, as did anyone responding to the ad via conventional means. Meanwhile, TydenBrammall’s Cargo Guy was becoming the go-to guy for answering questions about cargo security; thus positioning the company as the expert in the field.

Cargo Guy increased the company’s brand equity by adding value to the security product TydenBrammall offered—important advice about cargo security issues. The Internet makes it easy to track visitors to Cargo Guy’s site who then migrate to the TydenBrammall site and become customers.