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Unlocking brand value

The concept of brand is not new and brands have become business assets. Unplanned brand management can lay waste to decades of work, says Sunil Shetty, Planning Services Director at Draftfcb Ulka.One of the first questions which every aspiring marketer is

By **Guest** | August 16, 2013

> WordPress post #4879

The concept of brand is not new and brands have become business assets. Unplanned brand management can lay waste to decades of work, says Sunil Shetty, Planning Services Director at Draftfcb Ulka.

One of the first questions which every aspiring marketer is asked is how would you define a brand? The answer can vary from respondent to respondent and yet be correct.

If I was to venture a definition, I believe at its core a brand is a visual or an auditory symbol, in which we have invested meaning, either by design or by default and hence has a set of values and promises attached to it.

The concept of a brand is not new. It is widely believed to have originated in the practice of producers to burn their mark, often also called the maker’s mark, on products of their make, whether it was weapons in the early days to flags and arms of kings and rulers of days gone by, being a visual symbol of allegiance or identity.

However, the real value of brands was unlocked only in the age of industrialisation when mass production and consequently mass marketing actually drove the advent of modern branding.

John Stuart, a former Chairman of Quaker, said "If this business was split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks and I would fare better than you.”

History has proven him right. Brand Finance’s Global Intangible Finance Tracker which covers over 37,000 companies globally estimates that today brands add up to a third of the wealth of these companies.

Brands have become business assets more than communication assets. The Wall Street Journal in an interesting analysis undertaken in 2012, estimated brand value for Nike & Coke at over 30% of its market capitalisation and in case of McDonald’s at 100%.

Today, we live in a world of brands and they perform different functions in our day-to-day life. At their simplest they are a mark of trust for the consumer and move upwards the value ladder from there and are also used as markers of social status or even as expressions of personality.

However, while the concept of brands is old, the concept of active brand management is relatively new and according to David Aaker dates back to a memo circulated by a junior marketing manager from Procter & Gamble in May 1931 proposing a brand focused management system.

Managing brands in today’s markets, where choice is limited only by your budget, has become vital not only for managers but also for consumers.

Imagine a situation, when you decide to buy a shirt, without the benefit of a brand name to guide you, how will you arrive at the decision?

You will probably need to evaluate the quality of fabric, the detail and quality of the stitching,

estimate the durability of the shirt and then estimate whether the price of the shirt quoted to you is reasonable in comparison with another shirt, where you will make a similar set of evaluations, excluding subjective criteria like colour. More often than not, you will not have the requisite knowledge and expertise to arrive at an answer even for something as simple as a shirt.

Now imagine doing this for a television. The task becomes exponentially more difficult in this case.

Brands play a critical role in simplifying purchase decisions for consumers as signals of information and setting clear expectations and becoming a part of heuristics, i.e. rules used by consumers as shortcuts, which guide consumer decision making.

A brand name on the shirt not only assures the consumer of a certain level of quality but also effectively signals the price range. He would have prior experience of the brand through advertising or through observing others wearing the same brand of shirts among his circle of acquaintances, overall considerably reducing the complexity of his purchase decision.

For corporations the role of brands is far more complex and they perform a variety of functions which deliver financial value for an organisation.

Achieve competitive advantage

Brands enable companies to achieve a strong competitive advantage in its domain. Strong brands develop a higher level of brand advocates who in turn deliver a high proportion of sales by infusing a perceived quality advantage in its products.
Apple demonstrates this point with its legions of fans enabling Apple to account for almost 60% of the smart phone industry profits despite a market share of just 18%.

Insulates against price competition

As Tom Peters said – In an increasingly crowded marketplace, fools compete on price, winners will find a way to create lasting value in the consumers' mind – Brands are often the only way to achieve this objective.
In any competitive industry, price leadership is often the first attack by new entrants, though this effort may not always be successful but it definitely lowers the profit potential for existing brands. In the airline industry e.g. Singapore Airlines and Emirates continue to attract a loyal base, even as discount carriers are eating into the share of legacy airlines all over the world.

Insulate against mis-steps

Strong brands help defend corporate against mis-steps or crisis which could take down a relatively weak brand. Toyota's brand halo helped insulate it from a PR crisis instigated by recalls of over 8 million vehicles globally. In fact, an independent study post the crisis, showed that Toyota brand owners continued to rate the brand significantly above competition even after the recalls, a significant part of this could be due to the brand insulation effect. We have seen the impact even in India where Cadbury India rebounded from the worm crisis in a matter of months and Coca Cola also largely rebounded from the pesticide related controversy.

Drive loyalty

Brands drive loyalty among consumers through different avenues. Contracts induce a contractual loyalty of the type we have with telecom operators and other service providers. Transactional loyalty which is inertial and habit driven, but does not let a brand charge a premium for the fear of breaking transactional loyalty.
Functional loyalty which infuses superiority with product attributes like Gillette does in shaving or emotional loyalty where we have a true bond with the products.

Research at different stages has proven that emotionally loyal consumers spend a significantly higher proportion of their category expenditure on their brands. These consumers not only help

deliver higher lifetime value but are also strong brand advocates who drive brand growth.

Strong brands not only help build emotional loyalty but also enhance the functional loyalty connect with consumers allowing brands to derive greater value.
Nike has built itself by building functional loyalty through its product while building emotional loyalty through communication and associating with sports events.

Delivers consistently returns on investment

Strong brands consistently deliver high value growth. A recent analysis from Millward Brown shows that the portfolio of the top 100 most valuable global brands outperformed the S&P 500 seven times. The most visible financial benefit was seen recently when Warren Buffet bought out H J Heinz & Co and Brand Finance estimates the value of the brand portfolio as 42% of the total acquisition price.

In the Indian context too, we have seen the rise of successful brands which have delivered consistently. E.g. The Amul story which started out as a grassroots co-operative and has today become an enterprise valued at over $2.5 billion and enriching the lives of over 3 million milk producer members.

Builds sustainable assets for long term growth

As market complexities mature and new segments emerge, brand leaders are often best poised to address emerging need segments and gaps in the market, leveraging existing brands through brand extensions.
A recent study in 2011 showed that failure rate of sub-brands is half that of new brands entering the segment. This revealing statistic itself makes a strong case for investing in brands,

since every product innovation or alteration has associated research costs and overheads which an organisation needs to recover.

As the Indian market matures, we are bound to see the emergence of new addressable segments and niches in the market. A case in point has been Zodiac which has successfully extended its core equity into new segments by launching extensions like Z3 and Zod! into casual office wear and club wear respectively.

While each and every one of the benefits listed above is critical, the most important benefit of strong brands is that it helps companies attract high talent quality which in itself is critical to derive long term business and strategic success.

In conclusion, brands are not only necessary but vital to surviving in the competitive market place today. It is imperative to invest and build strong brands to build a sustainable future and deliver consistent returns in the marketplace.

But even as brands develop into a significant asset, this asset needs to be nurtured over time. Unplanned brand management and extensions can lay waste to decades of work and effort. Just like a financial investment, a brand investment also needs to be managed cautiously to deliver long term growth for the organisation.

In the next column, we take a look at the opportunities and pitfalls of brand extensions.

(Disclaimer: The views expressed here are solely those of the author in his private capacity).

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Read online: https://nuffoodsspectrum.in/views/24/10005/unlocking-brand-value.html

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