July **2016**

Brand Equity

An extract from the
Ipsos Encyclopedia

GAME CHANGERS Ipsos

Introducing the Ipsos Encyclopedia

Our Encyclopedia is one of the first projects of the new Ipsos Knowledge Centre, whose mission is to define, organise, and share the knowledge that Ipsos has built up through many years of working with its clients. The Encyclopedia aims to set down the best of what Ipsos knows in a form that is accessible to all.

The definitions it contains have been written by our most knowledgeable people, and have been through a process of peer review to ensure they represent the most current views from within Ipsos. We want the Encyclopedia to make a real contribution to our work, and to the wider industry.

SO WHAT AM I READING HERE?

You are about to read a definition from the first edition of the Encyclopedia. The full resource contains several hundreds of definitions - each one explaining a particular term that is relevant to the business of market research.

Many of these definitions also contain references to other resources, from both within and beyond Ipsos. As we developed our approach, it became clear that some of the terms are of a more strategic importance to the industry, and therefore deserve deeper exploration.

In these cases, our definition also includes a specific Ipsos 'Point of View' which says more about our own opinions and perspectives on the topic, based on our own experience and the views of our Experts. The definition you are about to read is one of these.

WHAT AND WHO IS THIS FOR?

The Encyclopedia is designed to support our researchers and our clients. It is intended to help them better understand how Ipsos does what it does, contribute to the professional development of our people, and raise standards even further.

HOW TO USE IT

You are about to read one of a series of printable extracts from the Encyclopedia. The whole Encyclopedia is available in a digital form to everyone within Ipsos, together with more details about the people who wrote it. That version is currently only available as an internal Ipsos resource, but if you would like to learn more, just get in touch:
ikc@ipsos.com

THE FUTURE

Just like any written body of knowledge, our Encyclopedia will never be finished, and will continue to develop and grow over time. So, we're continuously reviewing the definitions and adding new ones, as well as refreshing the stock of contributors. We've also built in feedback processes so that our readers can tell us what they think, and ask questions directly of the experts who wrote it.

The same principle applies to this series of print extracts – we'd love to know what you think about the concept of the Encyclopedia generally, and – more specifically - about the content of this particular definition. For example, do you find it easy to use and understand? Do you think there are important gaps that need to be filled? Can you see how you might be able to apply it in your own work? Get in touch:
ikc@ipsos.com

Brand Equity

DEFINITION

The many definitions for Brand Equity cover similar ground. At its simplest, Brand Equity is a measure of a brand's current health, strength or ability to generate sales, or usage, among its target audience. A more complex and financially-based definition of Brand Equity, is the "net present value of the profit stream management expects the brand to generate through time."

IPSOS POV

Our approach to measuring brand equity incorporates all the latest thinking in neuroscience and behavioural psychology with a validated market approach and clear actions that lead to brand growth.

Introduction

Brands exist in a constantly changing world. But the role brands play in people's lives has not changed and people themselves change more slowly.

There is ample evidence to show that, even when conditions are in constant flux, the way humans gather and process information and make choices is fairly constant. For businesses, understanding people provides a relatively stable strategic anchor. There are also significant new approaches based on neuroscience and behavioural psychology that mean we know more about human decision processes than ever before.

Businesses want to know how well their brands are doing and how they can improve. These are simple questions with complex answers, answers that start with people – how they choose and, most importantly, how we can influence them to choose us more. Put quite simply, brands that are successful are chosen by more people, more often, more easily.

How much do people think about brands?

When people choose brands, they are primed to maximise outcomes (or at least to avoid poor outcomes), to minimise effort and to avoid negative emotion. The processes they use to achieve these outcomes can be thoughtful, cognitive etc. **(System 2)** if needed, but are often fast or intuitive **(System 1)**.

Our brain will automatically engage in shortcuts or more reflective processes to achieve rational (i.e. reasonable or coherent with preferences) outcomes. In many consumer situations, our brain will engage in both types of processes because the effort of reflective thinking is still low.

The actions brands take to influence choices can use either or both processes, depending on the brand's objective: for instance, to disrupt the status quo or to reinforce emotional connections.

How do people think about brands?

Brands exist in people's minds as a network. A unique memory structure of thoughts, feelings, images, stories, associations, colours, sounds, symbols and memories.

Branding acts as a heuristic, a kind of mental shortcut that enables people to make decisions quickly or intuitively. Given the over-stimulation we are confronted with on a daily basis (family, advertising, social media, work, etc.), quick, automatic thought processes are necessary in order to manage this over-stimulation, to function effectively and to make decisions fast, rather than using precious cognitive resources for every brand choice.

The greater the quality and quantity of prominent mental cues, the greater the likelihood that a consumer will build associative memory structures around the brand so that they will notice, recognise or think of a brand when making choices.

So how do we choose a brand?

A brand must come positively to mind at the moment of choice.

At these moments brands are retrieved based on the strength of the brand's mental network, combined with any stimulus that catches attention at the point of choice.

Based on the underlying needs and motivations, some options will be rejected and other, salient brands will be considered as choice options.

At that point the "best" option is selected. (This is a deterministic process, even if entirely unconscious).

This will be the preferred brand, or, all else being equal, the one requiring the least effort. Even within a brand repertoire, only one brand will usually be chosen on a single purchase occasion.

Following choice, mental networks may be reinforced or challenged based on various types, experiences, cues or stimulus at any touchpoint with the brand e.g. communications, conversations.

- Salient brands come readily to mind in the moments that matter. They have strong brand networks or associative memory structures, so they are naturally retrieved in a fast-processing, automatic decision environment.
- Brands must fulfil the key motivational criteria for selection, which include meeting functional and emotional needs and creating connections.
- And they must have the highest perceived value at the moment of choice, compared with alternatives.
- This includes being perceived as the easiest choice. One of the basic shortcuts (or heuristics) people use in choosing brands is the availability heuristic. The more easily people perceive that they can obtain one option vs. another similar option, the more likely it is to be selected.

Salience is vital

At all points in the process, people are influenced by memory and attention salience. Memory salience consists of all the aspects of the brand's mental network that have been developed in the past and attention salience consists of all the cues or stimulus that capture our attention in the moment. This could be in the form of communications, a comment, an offer at the point of sale, a new pack etc.

In a typical decision cycle, routine decisions based on mental networks are disrupted occasionally by cues or stimulus demanding our attention. Brands need to act at both levels, reinforcing positive memory structures and capturing attention through more dissonant or disruptive approaches designed to challenge people and force them towards a more cognitive level of processing.

Creating, managing or leveraging these opportunities enables brands to influence people's choices and hence deliver higher brand equity, and hence brand growth.

In summary, successful brands are chosen by more people, more often, more easily:
The Ipsos approach to measuring brand equity incorporates these key principles

Brand Desire is about building strong mental networks for the brand and measures the core aspects of choice: brand saliency and brand relationships that ensure the brand ranks first in as many choice situations as possible. This applies even within a repertoire on any single purchase occasion.

It is important for brands to be perceived to be easy to choose. Market Effects are the actions taken by a company that result in increasing or decreasing the likelihood of being perceived as the easiest choice.

Measuring Brand Desire

To grow, a brand must first be considered.

People seldom make deliberative choices amongst an infinite set of options. They consider a shortlist of salient brands that are instinctively retrieved as relevant. The group of brands that pass this threshold for any given choice are the consideration set.

We measure the number and which brands come to mind for consideration. We do this for the category overall but can also apply the measure to different occasions, needs or situations. We can also measure the reasons why other brands do not enter the consideration set, be that because they are not distinctive and don't capture attention or because they are rejected and the reasons for this.

The brand relationship consists of two measures, meeting needs (performance) and closeness. These summarise the typical, often unconscious criteria on which brands are chosen. These two measures represent the comparative measures against which people determine their preference or highest ranked choice. We do not ask rank but infer it from the ratings of each of these measures for each brand in the consideration set. This reflects the often unconscious processes engaged in these decisions.

Linking this with Brand Outcomes

When we combine the number of brands considered and their ranking, we can show a direct relationship with overall market share.

This demonstrates the importance of influencing brand choice through improvements in consideration, brand relationships and being the most preferred or ranked first in the moments that matter.

Taking into account Market Effects, or the ease of getting hold of a desired brand, the link with market share becomes even stronger.

In summary

- Our approach incorporates all the latest thinking in neuroscience and behavioural psychology with a validated market approach and clear actions that lead to brand growth.

- The metrics we deliver provide the information you need to take the right actions for brand growth. We diagnose in detail how well brands perform on each of the key aspects of Brand Desire and Market Effects. These can be analysed against the market average or wave-on-wave in order to understand which actions would have the greatest brand impact.

Our approach is called Brand Value Creator (BVC).

RECOMMENDED READING

The Ipsos Brand Growth narrative co-developed between Ipsos Marketing and Ipsos Connect in 2015 research.

J. Hofmeyr, V. Goodall, M. Bongers and P. Holtzmann (2008) **A new measure of brand attitudinal equity** ((Interrnational Journal of Market Research Volume 50 Issue 2)

Ipsos Laboratories **Ipsos Brand & Communications**

Various Research Notes from Ipsos Laboratories

Ipsos Labs has also written a paper called "Applying ranked based algorithms to social phenomena" which explores how rank-based methods – which are commonly used in conventional brand research to establish a share of desire related to purchase behaviour –can be applied to unconventional situations.