

Brands and brand equity: definition and management

Lisa Wood

Sheffield Hallam University, Sheffield, UK

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Abstract

This article assumes that brands should be managed as valuable, long-term corporate assets. It is proposed that for a true brand asset mindset to be achieved, the relationship between brand loyalty and brand value needs to be recognised within the management accounting system. It is also suggested that strategic brand management is achieved by having a multi-disciplinary focus, which is facilitated by a common vocabulary. This article seeks to establish the relationships between the constructs and concepts of branding, and to provide a framework and vocabulary that aids effective communication between the functions of accounting and marketing. Performance measures for brand management are also considered, and a model for the management of brand equity is provided.

Brand management

In consumer marketing, brands often provide the primary points of differentiation between competitive offerings, and as such they can be critical to the success of companies. Hence, it is important that the management of brands is approached strategically. However, the lack of an effective dialogue between functions that are disparate in philosophy and do not have a common and compatible use of terminology may be a barrier to strategic management within organisations. No more is this evident than between the functions of marketing and accounting. This article seeks to establish the relationships between the constructs and concepts of branding, and to provide a framework and vocabulary that aids effective communication between the functions of accounting and marketing. The assumption in the article is that good communication between functions within organisations aids strategic management. A model for the management of brand equity is also offered.

The following discussion focuses on the concepts of brand equity and added value as they relate to the brand construct itself.

Brand equity

An attempt to define the relationship between customers and brands produced the term “brand equity” in the marketing literature. The concept of brand equity has been debated both in the accounting and marketing literatures, and has highlighted the importance of having a long-term focus within brand management. Although there have been significant moves by companies to be strategic in the way that brands are managed, a lack of common terminology and philosophy within and between disciplines persists and may hinder communication.

Brand equity, like the concepts of brand and added value (discussed in the section headed “The brand construct”) has proliferated into multiple meanings. Accountants tend to define brand equity differently from marketers, with the concept being defined both in terms of the relationship between customer and brand (consumer-oriented definitions), or as something that accrues to the brand owner (company-oriented definitions). Feldwick (1996) simplifies the variety of approaches, by providing a classification of the different meanings of brand equity as:

- the total value of a brand as a separable asset – when it is sold, or included on a balance sheet;
- a measure of the strength of consumers’ attachment to a brand;
- a description of the associations and beliefs the consumer has about the brand.

The first of these is often called brand valuation or brand value, and is the meaning generally adopted by financial accountants. The concept of measuring the consumers’ level of attachment to a brand can be called brand strength (synonymous with brand loyalty). The third could be called brand image, though Feldwick (1996) used the term brand description. When marketers use the term “brand equity” they tend to mean brand description or brand strength. Brand strength and brand description are sometimes referred to as “consumer brand equity” to distinguish them from the asset valuation meaning.

Brand description is distinct because it would not be expected to be quantified, whereas brand strength and brand value are considered quantifiable (though the methods of quantification are not covered by this article). Brand value may be thought to be distinct as it refers to an actual, or notional business transaction, while the other two focus on the consumer.

There is an assumed relationship between the interpretations of brand equity. This relationship implies the causal chain shown in Figure 1.



Figure 1
The brand equity chain

brand description→brand strength→brand value

Very simply, brand description (or identity or image) is tailored to the needs and wants of a target market using the marketing mix of product, price, place, and promotion. The success or otherwise of this process determines brand strength or the degree of brand loyalty. A brand's value is determined by the degree of brand loyalty, as this implies a guarantee of future cash flows.

Feldwick considered that using the term brand equity creates the illusion that an operational relationship exists between brand description, brand strength and brand value that cannot be demonstrated to operate in practice. This is not surprising, given that brand description and brand strength are, broadly speaking, within the remit of marketers and brand value has been considered largely an accounting issue. However, for brands to be managed strategically as long-term assets, the relationship outlined in Figure 1 needs to be operational within the management accounting system. The efforts of managers of brands could be reviewed and assessed by the measurement of brand strength and brand value, and brand strategy modified accordingly. Whilst not a simple process, the measurement of outcomes is useful as part of a range of diagnostic tools for management. This is further explored in the summary discussion.

Whilst there remains a diversity of opinion on the definition and basis of brand equity, most approaches consider brand equity to be a strategic issue, albeit often implicitly. The following discussion explores the range of interpretations of brand equity, showing how they relate to Feldwick's (1996) classification.

Ambler and Styles (1996) suggest that managers of brands choose between taking profits today or storing them for the future, with brand equity being the "... store of profits to be realised at a later date." Their definition follows Srivastava and Shocker (1991) with brand equity suggested as;
... the aggregation of all accumulated attitudes and behavior patterns in the extended minds of consumers, distribution channels and influence agents, which will enhance future profits and long term cash flow.

This definition of brand equity distinguishes the brand asset from its valuation, and falls into Feldwick's (1996) brand strength category of brand equity. This approach is intrinsically strategic in nature, with the emphasis away from short-term profits. Davis (1995) also

emphasises the strategic importance of brand equity when he defines brand value (one form of brand equity) as "... the potential strategic contributions and benefits that a brand can make to a company." In this definition, brand value is the resultant form of brand equity in Figure 1, or the outcome of consumer-based brand equity.

Keller (1993) also takes the consumer-based brand strength approach to brand equity, suggesting that brand equity represents a condition in which the consumer is familiar with the brand and recalls some favourable, strong and unique brand associations. Hence, there is a differential effect of brand knowledge on consumer response to the marketing of a brand. This approach is aligned to the relationship described in Figure 1, where brand strength is a function of brand description.

Winters (1991) relates brand equity to added value by suggesting that brand equity involves the value added to a product by consumers' associations and perceptions of a particular brand name. It is unclear in what way added value is being used, but brand equity fits the categories of brand description and brand strength as outlined above.

Leuthesser (1988) offers a broad definition of brand equity as:
the set of associations and behaviour on the part of a brand's customers, channel members and parent corporation that permits the brand to earn greater volume or greater margins than it could without the brand name.

This definition covers Feldwick's classifications of brand description and brand strength implying a similar relationship to that outlined in Figure 1. The key difference to Figure 1 is that the outcome of brand strength is not specified as brand value, but implies market share, and profit as outcomes.

Marketers tend to describe, rather than ascribe a figure to, the outcomes of brand strength. Pitta and Katsanis (1995) suggest that brand equity increases the probability of brand choice, leads to brand loyalty and "insulates the brand from a measure of competitive threats." Aaker (1991) suggests that strong brands will usually provide higher profit margins and better access to distribution channels, as well as providing a broad platform for product line extensions.

Brand extension[1] is a commonly cited advantage of high brand equity, with Dacin and Smith (1994) and Keller and Aaker (1992) suggesting that successful brand extensions can also build brand equity. Loken and John (1993) and Aaker (1993) advise caution in that poor brand extensions can erode brand equity.

Farquhar (1989) suggests a relationship between high brand equity and market power asserting that:

The competitive advantage of firms that have brands with high equity includes the opportunity for successful extensions, resilience against competitors' promotional pressures, and creation of barriers to competitive entry.

This relationship is summarised in Figure 2.

Figure 2 indicates that there can be more than one outcome determined by brand strength apart from brand value. It should be noted that it is argued by Wood (1999) that brand value measurements could be used as an indicator of market power.

Achieving a high degree of brand strength may be considered an important objective for managers of brands. If we accept that the relationships highlighted in Figures 1 and 2 are something that we should be aiming for, then it is logical to focus our attention on optimising brand description. This requires a rich understanding of the brand construct itself. Yet, despite an abundance of literature, the definitive brand construct has yet to be produced. Subsequent discussion explores the brand construct itself, and highlights the specific relationship between brands and added value. This relationship is considered to be key to the variety of approaches to brand definition within marketing, and is currently an area of incompatibility between marketing and accounting.

The brand construct

The different approaches to defining the brand construct partly stem from differing philosophies (such as product-plus and holistic branding outlined below) and stakeholder perspective, i.e. a brand may be defined from the consumers' perspective and/or from the brand owner's perspective. In addition, brands are sometimes defined in terms of their purpose, and sometimes described by their characteristics. The following examines the diverse approaches to brand definition. From this diversity an integrated definition is drawn.

The American Marketing Association (1960) proposed the following company-oriented definition of a brand as:

A name, term, sign, symbol, or design, or a combination of them, intended to identify the

goods or services of one seller or group of sellers and to differentiate them from those of competitors.

This definition has been criticised for being too product-oriented, with emphasis on visual features as differentiating mechanisms (Arnold, 1992; Crainer, 1995). Despite these criticisms, the definition has endured to contemporary literature, albeit in modified form. Watkins (1986), Aaker (1991), Stanton *et al.* (1991), Doyle (1994) and Kotler *et al.* (1996) adopt this definition. Dibb *et al.* (1997) use the Bennett (1988) variant of the definition which is:

A brand is a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers.

The key change to the original definition are the words "any other feature" as this allows for intangibles, such as image, to be the point of differentiation. The particular value of this definition is that it focuses on a fundamental brand purpose, which is differentiation. It should not be forgotten that brands operate in a market environment where differentiation is crucially important. Even where monopolies exist, companies may choose to position their brand(s) with a view to future competition. The other key feature of this definition is that it takes the corporate perspective rather than emphasising consumer benefits.

Ambler (1992) takes a consumer-oriented approach in defining a brand as:

the promise of the bundles of attributes that someone buys and provide satisfaction . . . The attributes that make up a brand may be real or illusory, rational or emotional, tangible or invisible.

These attributes emanate from all elements of the marketing mix and all the brand's product lines. The attributes of a brand are created using the marketing mix, and are subject to interpretation by the consumer. They are highly subjective. Brand attributes are essentially what is created through brand description (one interpretation of brand equity) mentioned previously.

Many other brand definitions and descriptions focus on the methods used to achieve differentiation and/or emphasise the benefits the consumer derives from purchasing brands. These include (*inter alia*) definitions and descriptions that emphasise brands as an image in the consumers' minds (Boulding, 1956; Martineau, 1959; Keller, 1993) brand personality (Alt and Griggs, 1988; Goodyear, 1993; Aaker, 1996), brands as value systems (Sheth *et al.*, 1991), and brands as added value (Levitt, 1962, de Chernatony and

Figure 2

The relationship between brand equity and market power

brand description→brand strength→market power

McDonald, 1992; Murphy, 1992; Wolfe, 1993; Doyle, 1994). Brown (1992) takes a broad approach to these concepts in defining a brand as:

... nothing more or less than the sum of all the mental connections people have around it.

The boundaries between these definitions are not distinct, with each merely focusing on different aspects of what Ambler (1992) refers to as “bundles of attributes ...” A key contribution of this approach is not one of definition, but of understanding the characteristics of brands. Unfortunately there has been a proliferation of brand “definitions”, when perhaps subsets of brands or brand characteristics are being described. It is nonetheless important to be able to describe the characteristics of brands, as this may provide a level of understanding useful for strategic decision making. Aaker (1996) highlights the strategic importance of understanding brand “personality” which he suggests:

... can help brand strategists by enriching their understanding of people’s perceptions of and attitude toward the brand, contributing to a differentiating brand identity, guiding the communication effort and creating brand equity.

Styles and Ambler (1995) identified two broad philosophical approaches to defining a brand. The first is the product-plus approach which views branding as an addition to the product. The brand is essentially viewed as an identifier. In this context, branding would be one of the final processes in new product development, i.e. it is additional to the product. The second approach is the holistic perspective in which the focus is the brand itself. Using the marketing mix, the brand is tailored to the needs and wants of a specified target group. The elements of the marketing mix are unified by the brand such that the individual elements of the mix (for instance price), are managed in a way which supports the brand message. Holism is considered important for the creation of high brand equity as it rejects practices such as discounting a premium brand for short-term gain.

It is down to interpretation as to which brand definitions fit into which category, with some seeming to fit both the product-plus and holistic approaches. de Chernatony and McDonald (1992) seem to take the “product-plus” approach when they say that: The difference between a brand and a commodity can be summed up in the phrase “added values”.

That is, a brand is something additional to a commodity product. More importantly, they suggest that brands and added value are synonymous. In marketing, the link between

brands and added value is common though not consistent.

It is recognised that marketing, as a discipline, sometimes uses and adapts concepts derived from other disciplines. The concept of added value most notably can be found in economics, accounting and marketing literature, and there is a distinct integration of ideas among the three disciplines. As far as marketing is concerned, the greatest degree of alignment is with the accounting literature. The concept of added value has evolved over time in the marketing literature such that there is much variation in the interpretation of the term. This variation in usage within marketing can be confusing, and the way that added value is used in marketing is incompatible with the accounting vocabulary. Wood (1996) explores the various approaches to the concept of added value and examines the fundamental differences in the accounting and marketing approaches. These are very briefly outlined next.

In accounting, added value is quantifiable and something that accrues to the organisation. The accounting approach is typified by Lucey (1985), who defines added value as:

... the difference between sales income and bought in goods and services ... Value added is the wealth that a firm creates by its own efforts.

In marketing, added value is not quantifiable and is translated as a consumer benefit. The marketing approach is indicated by Kinnear and Bernhardt (1986) when they suggest that: ... many companies make their product more convenient to use, thus adding value for the consumer.

Wood (1996) suggested that what marketers call added value would better be termed added value agents. Added value agents are the factors that create and help realise added value. Much marketing activity is based around managing added value agents, the outcomes of which are represented by added value itself. Added value agents are many and various, but branding is of major importance, and gets significant coverage in the marketing literature. Clearly there is a relationship between what marketers and accountants call added value. By managing added value agents, marketers can significantly increase added value that accrues to the organisation. Compatibility between accounting and marketing can be achieved by a simple change in use of terminology. If added value is not used as synonymous with added value agents then confusion is avoided, and consistency and compatibility between disciplines is achieved. Added value agents such as brands

provide benefits for the consumers that are sufficient to create purchases.

Having acknowledged that added value is quantifiable, it is also acknowledged that added value is difficult to quantify where a sales transaction has not taken place. From a marketing perspective, it is recognised that products that have yet to be sold have potential added value (Ecroyd and Lyons, 1979) which marketing activity can help to realise. Although added value can be attributed to products and services, both core and surround[2], increasingly added value agents, such as brand image, are derived from the less tangible aspects. Added value tends to be greater when emphasis is placed on the less tangible, more subjective aspects of products and services. This may be why marketing authors such as de Chernatony and McDonald (1992) suggest synonymy between brands and added value.

Table I summarises the breadth of definitions discussed above. A common feature of the definitions summarised in Table I is that they either address the role of brands for the seller, or they focus on the role of brands for the consumer. None of the authors in Table I explicitly addresses in their definitions how brands benefit both the buyer and seller, though some (e.g. Doyle, 1994) discuss or describe both buyer and seller benefits.

It is possible to draw together many of the approaches to brand definition. An integrated definition can be achieved that highlights a brand's purpose to its owner, and considers how this is achieved through consumer benefits. Added value is implicit to this definition. That is:

A brand is a mechanism for achieving competitive advantage for firms, through differentiation (purpose). The attributes that differentiate a brand provide the customer with satisfaction and benefits for which they are willing to pay (mechanism).

Competitive advantage for firms may be determined in terms of revenue, profit, added value or market share. Benefits the consumer purchases may be real or illusory, rational or emotional, tangible or intangible. In whatever way the benefits or attributes of brands are described, it is important they are distinguished from the added value (and other advantages) the firm gains, as this has been the source of much confusion.

The following summarises the interrelationship of brand concepts and provides a foundation upon which the management of brands can be addressed.

Summary discussion and conclusions

It has been suggested that brand management should be strategic and holistic, as this is conducive to longevity. As discussed earlier, the marketing mix should function in a way that supports the brand message. This approach rejects, for example, discounting as a short-term sales promotion for a premium brand. That is, the decision to reposition a premium brand as a value brand should be a strategic one, rather than as the outcome of tactical marketing mix decisions.

The suggestion that brands should be managed as long-term assets is not new (see Dean, 1966), but getting stronger and more widespread. Davis (1995) indicated that brand management should take a long-term perspective and suggested that:

... management wants to change its ways and start managing its brands much more like assets – increasing their value over time.

Wood (1995) suggested that the management of brands should be a higher level function than currently exists in many companies. This is an argument supported by Uncles *et*

Table I
 Summary of brand definitions and descriptions

Emphasis on brand benefits to the company	Emphasis on brand benefits to the consumer
Aaker (1991)	Aaker (1996)
American Marketing Association (1960)	Alt and Griggs (1998)
Bennett (1988)	Ambler (1992)
Dibb <i>et al.</i> (1997)	Boulding (1956)
Doyle (1994)	Brown (1992)
Kotler <i>et al.</i> (1996)	de Chernatony and McDonald (1992)
Stanton <i>et al.</i> (1991)	Doyle (1994)
Watkins (1986)	Goodyear (1993)
	Keller (1993)
	Levitt (1962)
	Martineau (1959)
	Murphy (1992)
	Sheth <i>et al.</i> (1991)
	Wolfe (1993)

al. (1995) who suggest that:
If brands do have value then the way a company uses its portfolio of brands is a top management decision.

The restructuring of brand management to multi-discipline teams is also gaining momentum. de Chernatony (1997) indicates that brand management is:

... becoming more of a team-based activity, managed at more senior levels by people who adopt a more strategic perspective.

Clearly, it is important that everyone involved in brand management is working towards a common goal. A starting point in achieving goal congruence is a common vocabulary, which this article has sought in part to provide.

The integrated definition of a brand as:
... a mechanism for achieving competitive advantage for firms, through differentiation
...

adopts the holistic approach to branding, and assumes relationship R1 below:

R1: marketing mix → brand
→ competitive advantage

In relationship R1, brands are created using the marketing mix in a way that is synergistic. Brands are strategically positioned in the market by offering benefits that are distinct from competition and that are desired by consumers. Hence, competitive advantage is achieved.

The process of this relationship is outlined in R2:

R2: marketing mix → brand description
→ brand strength
→ competitive advantage

Managers of brands are essentially involved in the creation of brand description and therefore the degree of brand strength or brand loyalty achieved. It is assumed that the higher the degree of brand strength achieved, the greater the competitive advantage.

Competitive advantage, and the outcome of brand activity can be measured in a number of ways. Some are suggested in Figure 3. It should be noted that the bulleted (and other) performance measures could replace

Figure 3

Measures of competitive advantage

R2: marketing mix → brand description → brand strength → competitive advantage

- market power^a
- brand value
- added value
- profit

Note: Indicated by market concentration

the term “competitive advantage” as the outcome in R2. The performance measures adopted in brand management are crucially important, as they can influence the objectives and strategies chosen by managers. Quantification itself is considered to be important as it provides hard data that can be compared year on year, as well as providing marketers (or other functions) with well-defined targets.

Brand value is suggested as one of the performance measures that can replace the term “competitive advantage” in R2. This is in essence the relationship previously outlined in Figure 1.

Figure 1 suggested a relationship between the various concepts of brand equity (i.e. brand value is a function of brand strength which is, in turn, a function of brand description) which Feldwick (1996) asserted cannot be demonstrated to exist in an operational context. It is suggested in this paper that strategic management of brands would be facilitated by making this relationship explicit, monitored and measured. However, the structure and culture of organisations may not always facilitate the strategic approach.

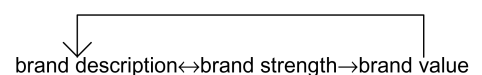
Multi-discipline teams and other emergent characteristics of brand management, together with the balance sheet capitalisation of brand value may imply making operational the relationship outlined in Figure 1. However, this has yet to become explicit, which it would need to be for effective asset management. Figure 4 indicates the relationships that would exist if brand equity were to be managed both strategically and operationally.

Whereas Figure 1 suggested that brand description determines brand strength, which in turn determines brand value, Figure 4 recognises that the measurement of brand strength and brand value provides information that may determine how brand description is managed. In this model, the measurement of brand value is of managerial significance rather than purely a financial accounting exercise.

Whereas added value, profit and revenue are historically focused measures, brand value looks to the future. Brand value is an index-based measure that seeks to represent the net present value of the future earnings stream of a brand. The job of managers of

Figure 4

The management of brand equity



brands therefore, is to maximise the long-term value of that earnings stream. This will require expenditure on the marketing mix to support brands, and may lead to short-term sub-optimisation (even to profit and loss account losses) to ensure the long-term brand building. Brand value has an additional advantage over other measures, in that it addresses the health of the market, as well as the health of the brand within a market.

Performance measures that encourage decisions that promote the long-term health of the brand, are considered to be better than measures that do not encourage strategic decision making. A key benefit of adopting brand value as a performance measure is that it creates a long-term focus for management. If brand strength is the degree of attachment to a brand, and brand value is based on the future earnings of a brand then the higher the brand strength the higher the brand value. Managers of brands (not necessarily marketers alone) should therefore manage, and seek to maximise, both brand strength and brand value. The natural long-term outcome of this should be increased profitability.

Notes

- 1 A brand extension means using a brand name successfully established for one segment or channel to enter another one in the same broad market. Brand stretching means transferring the successful brand name to quite a different market.
- 2 Products are viewed as having a core and surround. The core identifies the basic features of the product such as functional performance. This is said to be responsible for about 20 percent of the impact of a product (in consumer marketing). The surround focuses those features/benefits that are less tangible, and more subjective, such as image. These features are said to be responsible for about 80 percent of the impact of the product.
- 3 Indicated by market concentration.

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Application questions

- 1 Should brands always be managed by marketers?
- 2 How is brand performance measured in your organisation?