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Chasing Brand Value: Fully Leveraging Brand Equity to Maximize Brand Value

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Abstract

Both researchers and practitioners seek to understand how to leverage brand equity to create value. Adopting "the theoretical separation of brand equity and brand value" framework originally proposed in the *Journal of Brand Management* by Raggio and Leone[1], this conceptual article looks more closely at the brand value construct and the implications of the proposed theoretical separation. The authors argue that firms are continually attempting to "chase" the *appropriable value* of their brands – defined as the theoretical maximum value that a brand could achieve if all brand equity were fully leveraged. Implications for developing measures of brand value are discussed.

> "Brand equity is often equated with **brand valuation** but that is like confusing your house (asset) with its financial worth (price)[2]"

INTRODUCTION

The purpose of this conceptual article is to investigate the implications of "the theoretical separation of brand equity and brand value" proposed by Raggio and Leone[3], on the brand value construct. The framework can be used to understand past managerial decisions related to brands and their value, and to analyze future valuation scenarios. The framework also will help managers and researchers understand the drivers of brand value as they attempt to evaluate current valuation methodologies and to develop new ones. Finally, it will relate the brand value construct to a similar construct, customer equity. The article relies on insights that can be gained from applying the framework to well-known historical and current brand case studies. Such insights will demonstrate the power of the framework in-use.

In an earlier article that appeared in *JBM*, Raggio and Leone distinguished between brand equity, conceived of as an intrapersonal construct that moderates the impact of marketing activities, and brand value, which is the sale or replacement price of a brand. They argued that it is inappropriate to confuse brand equity – one potential *driver* of a brand's value – with its financial value. Such a distinction is emphasized in the opening quote from Ambler, and is important because both researchers and practitioners seek to understand how to leverage brand equity to create brand value that then can be captured by the firm.

The remainder of the paper is organized as follows. To motivate the paper, we first discuss the concepts of creating and appropriating value and describe two levels of brand value – current brand value and appropriable brand value. We then offer a well-known case example to demonstrate the concepts of interest in-use. Next we review the differences between brand equity and brand value, and discuss the concept of appropriable value in more depth. We then describe the process of "chasing" brand value and discuss how firms create brand value that can be chased. We finish the paper with a discussion of how brand value relates to a conceptually similar construct, customer equity, how the framework informs attempts to develop measures of brand value, and suggest directions for future research.

CREATING AND APPROPRIATING VALUE

Mizik and Jacobson[4] state, "Firms need to simultaneously develop or acquire value creation capabilities and capabilities that facilitate value appropriation." But due to resource constraints, firms are forced to emphasize either value creation or value appropriation based on strategic priorities. They define *strategic emphasis* as the relative emphasis a firm places on value appropriation relative to value creation. Their research shows that the stock market rewards increased emphasis on value appropriation over value creation, but it is obvious that value must be created before it can be appropriated. This article is not concerned with a firm's strategic emphasis, but rather with the processes involved in both creating and appropriating value. As brands constitute the largest asset for many firms[5,6,7], and brand valuations positively impact financial market performance[8,9,10,11], it is critical that managers understand clearly what brand value is, and how they can create and capture as much of that value as possible.

LEVELS OF BRAND VALUE

Brand value must be considered from a firm's perspective, and generally can be thought of as the sale or replacement price of a brand. This value will vary depending on the owner (or potential owner) of the brand, as different owners may be able to capture more or less of the potential value of the brand, based on their ability to leverage brand equity. For a specific firm, Figure 1 identifies the two important levels of brand value, "current" and "appropriable," identified by Raggio and Leone[12]. Both measures of brand value are subjective and dependent upon the resources and capabilities of a focal firm. For a particular firm, at a particular point in time, and all other things being equal, a firm will recognize a "current" value. This current value is based on projected profits that will accrue to the current owner with its existing strategies, capabilities, and resources. However, there may exist a higher "appropriable" value[13] that the firm could capture if it were better able to more effectively leverage existing brand equity. At a fixed point in time, both values would represent the net present value of all future brand profits.

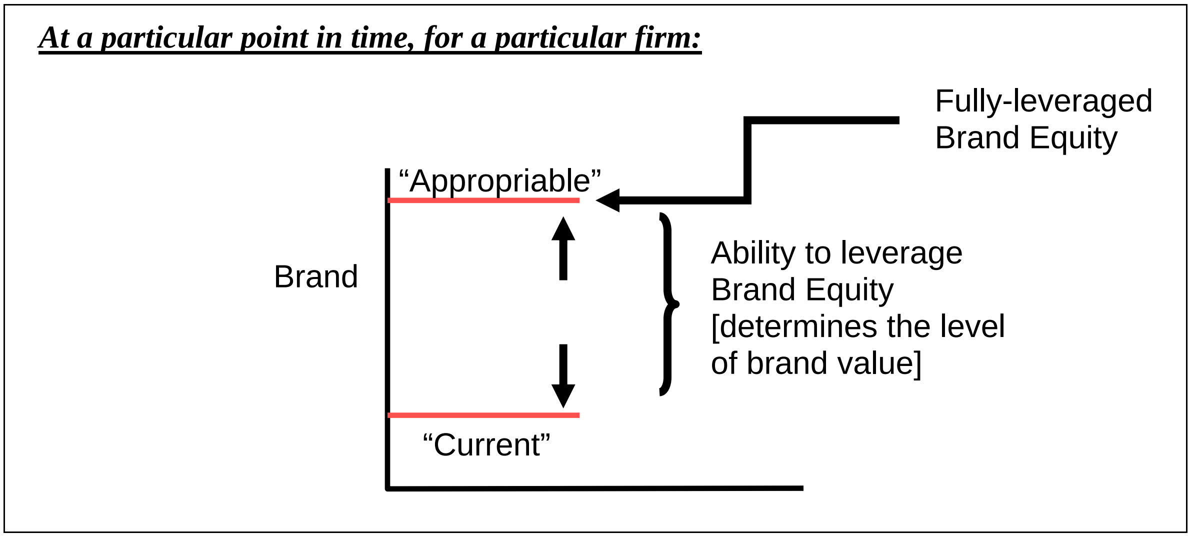

Figure 1: Levels of Brand Value[14]

All else equal, the difference between the current and appropriable value of a brand is based on the firm's ability to leverage the brand equity of that brand. Appropriable brand value represents the theoretical point at which all existing brand equity is optimally leveraged (i.e., all existing brand equity is leveraged). The "current" measure of brand value defines "what is" for a *particular* firm, while unleveraged brand equity helps define "what can be," i.e., the appropriable value, for a firm. We now consider a well-known case that will demonstrate the concepts of current value and appropriable value in-use, and will introduce the new concept of *chasing strategies*.

Quaker Oats purchased the beverage brand Snapple in 1994 for $1.7 billion and sold it three years later to Triarc for $300 million. Commenting on the quick loss of the brand's value, *The New York Times* noted that "Quaker Oats' distribution strength rested in supermarkets and drug stores, not the smaller convenience stores and gas stations that constituted more than half of Snapple's sales at the time of purchase[15]". We can assume that Quaker Oats believed that the price it paid for Snapple was below the value that it could generate either through the combined supermarket, drug, convenience and gas station channels or through its marketing strategies. That is, Quaker Oats' estimate of Snapple's potential value (what we call *appropriable value*) must have been above its purchase price. Similarly, Snapple managers must have considered both the value they expected to generate by continuing to own and manage the brand under current leadership, capabilities, resources and strategies (what we call *current value*), and the higher appropriable value that they could capture if they continued to invest in the brand and/or in additional capabilities and resources. Simple economics suggests that Snapple must have found Quaker Oats' bid to be above its estimated current value and sufficiently close enough to its estimate of appropriable value that it was more attractive to sell the brand than to continue to own and manage the brand in hopes of *chasing* (attempting to capture some of) the higher appropriable value. That is, the purchase price paid by Quaker Oats must have been greater than Snapple's NPV calculation of its expected appropriable value at some given time period in the future.

The case offers a few interesting theoretical possibilities to consider. Quaker Oats may have lacked the ability to effectively manage the brand in the new channels; it may have overestimated the acceptance of the quirky brand in more mainstream channels; and/or, the beverage market may have changed after the acquisition in a way that disadvantaged Snapple *vis a vis* other brands in the beverage category. We will develop these possibilities more fully in a subsequent section, but note that regardless of the actual circumstances, it is clear that Quaker Oats did not realize the value from the Snapple brand it had expected.

We argue here that firms are continually attempting to increase the appropriable value of their brands by building brand equity, and then chase that appropriable value, or position a brand to sell it to another firm that has a higher estimate of appropriable value or greater chasing ability. We suggest that the concepts of current brand value, appropriable brand value, and "chasing" strategies have not been addressed previously due to the prior lack of a clear distinction between the constructs of brand equity and brand value. The next section will review the distinction between these two constructs before we continue with our investigation of brand value.

BRAND EQUITY VS. BRAND VALUE

As early as 1991, Srivastava and Shocker[16] proposed that brand equity is a multidimensional construct composed of *brand strength* and *brand value*. Brand strength addressed the consumer effects associated with brands and is consistent with Keller's[17] customer-based brand equity. Brand value addresses the financial valuation of a brand, which can be thought of as the sale or replacement price of a brand. Despite the fact that Srivastava and Shocker suggested this distinction more than 15 years ago, researchers continue to use the two terms (brand equity, brand value) interchangeably[18,19,20,21,22].

Raggio and Leone[23] established a theoretical separation between the constructs of brand equity and brand value. The simplest way to show the difference between the constructs is to consider brands suggested in the literature as "zero equity[24]", e.g., private label, store, or own brands. We assert that even these brands have value since, given that the brand is available in the market, one would assume the firm selling the branded product realizes some value from those sales, and that its actions indicate that it would be more expensive for it to create a new brand from scratch than to continue selling products under the existing brand name. Likewise, it would be *less* expensive for another firm to enter the market with one of these existing brand names than to create a new one.

The need to establish the distinction between brand equity and brand value is clearly evident in the introduction to the award-winning paper "Revenue Premium as an Outcome Measure of Brand Equity[25]." The authors cite five well-known and respected scholars to demonstrate that "there is agreement among researchers on the general definition of the concept. *Brand equity* is defined as the marketing effects or outcomes that accrue to a product with its brand name compared with those that would accrue if the same product did not have the brand name[26]." The authors state that these outcomes can be related to consumers (e.g., attitudes, awareness, image, and knowledge) or at a firm level (e.g., price, market share, revenue, and cash flow). The different levels of outcomes reflect Srivastava and Shocker's[27] original dimensions and Raggio and Leone's distinction between brand equity and brand value, but an important question must be asked: if brand equity is defined as the *outcomes* or *results* of some unnamed and unmeasured construct, what is that construct and why are researchers not concerned with *it*? Revenue premium is offered as an outcome measure of an outcome measure of some mysterious force. Similarly, Faircloth, Capell and Alford[28] define brand equity as "the biased behavior a consumer has for a branded product versus an unbranded equivalent." Consistent with researchers' investigations of other marketing constructs (e.g., commitment, attitudinal loyalty), we suggest that researchers should focus on the *source* or driver of such biased behaviors.

Based on a conception of "brand" as a promise of benefits,[29,30] Raggio and Leone[31] defined brand equity as the perception or desire that a brand will meet its promise of benefits. This definition positions brand equity as an intrapersonal construct – that mysterious biasing force alluded to by previous researchers – that has the ability to produce the outcomes listed above. Outcomes of brand equity should be classified as *potential* outcomes, due to the fact that even when brand equity exists, some or all of these outcomes may not occur. For example, if a person holds a large amount of brand equity for a brand of scotch but is a teetotaler, then such equity should not produce any of the positive firm-level outcomes (those related to purchase or consumption).

Raggio and Leone demonstrated how a consumer's brand knowledge, which is gained from various sources such as brand-related marketing efforts, experience, wordof-mouth, etc., *contributes to* brand equity,[32] as opposed to being brand equity itself, or an outcome of brand equity. They also showed that brand equity moderates the impact and effectiveness of future marketplace activities such as advertising or pricing (e.g., price promotions), ultimately impacting not only intrapersonal outcomes such as consideration, attitudes, and commitment, but also downstream market-level outcomes such as purchase, price premium, and behavioural loyalty. Jones has demonstrated that "other equities" besides those directly associated with consumers (such as channel and employee equity) can be considered a part of a brand's equity and as such can also positively impact brand performance[33]. Ultimately, downstream market-level outcomes (caused by a variety of factors, but all related to the brand and its equity) contribute most directly to a brand's value.

APPROPRIABLE VALUE

An estimate of the appropriable value of a brand could be based on sources that include the superior resources of competitors or the "vision" of an individual. This framework suggests that Borden, which sold its Cracker Jack brand to Frito Lay in October, 1997, did so because it believed that it would be able to capture more of the gap between Borden's current value and the larger appropriable value of the brand by selling it to Frito Lay rather than by owning it and increasing its investment in the brand. This belief may have been based on the assumption that Cracker Jack would benefit greatly from Frito Lay's core strengths of distribution and marketing: Frito-Lay owned a 15,000-truck direct-to-store delivery system, which one industry consultant estimated "would add 10 to 15 market share points [for Cracker Jack] in the category"[34]. In fact, after acquiring Cracker Jack, Frito-Lay was able to double Cracker Jack sales, posting doubledigit sales increases each year, for the next two years[35]. The decision by Borden executives to sell Cracker Jack made good business sense since they knew that the Cracker Jack brand would be more valuable within the Frito Lay system than it could ever be in its own system, and therefore Frito Lay would pay more for the brand than Borden could ever extract on its own. Therefore, by selling Cracker Jack Borden was able to capture more of the appropriable value (from Frito Lay) that Borden could not have captured had it continued to own the brand.

There are companies that recognize and capitalize on the concept of appropriable value. Private equity firms like KKR represent the "visionaries" that attempt to identify brands (or companies) that have a large gap between current value and appropriable value. After acquiring a brand, their objective is to build the brand equity for that brand up to the point where other companies recognize the potential to chase a higher appropriable value, at which point KKR sells the brand at a price that captures a part of the buying firm's appropriable value for itself. This leaves the acquiring company in a position to "chase" the remaining value between the purchase price (becoming current value for the acquiring firm) and the perceived appropriable value of the brand. This framework could also be applied to P&G's recent acquisition of Gillette by arguing that Gillette built its brands to the point that P&G recognized the high appropriable value that P&G could chase if Gillette's brands were managed from within P&G's system.

If a firm acquires a brand, but subsequently misses its financial projections (such was the case with Quaker Oats and Snapple), it could be attributed to (1) a lack of ability to leverage existing brand equity, (2) an initial mismeasurement of brand equity that lead to an overly optimistic assessment of appropriable value[36], or (3) changes in the marketplace that reduce appropriable value (e.g., greater attention on environmentally-friendly products may have reduced the appropriable value of the Hummer brand after it was purchased by General Motors). Of course, it should also be possible to exceed projections if (1) a company's initial estimate of brand equity were lower than what actually existed, (2) the company was better able to leverage the existing brand equity than projected, (3) the company was able to build *and* leverage additional brand equity beyond what was projected prior to purchase, or (4) advantageous changes in the environment increase appropriable value. In this sense, the purchase of brands is somewhat analogous to the purchase of oil leases, except that in the oil lease scenario, the acquiring firm is not able to increase the actual amount of reserves (we demonstrate below that it is possible to increase a brand's appropriable value). At the time of purchase, the true amount of reserve is unknown - only an estimate exists. The failure to extract as much oil as projected could be due to either an inaccurate estimate of true reserves, or an inability to extract those that are there.

CHASING BRAND VALUE

It is important to consider a brand over time, since over time, both current and appropriable value can change. In Figure 2a., the vertical line represents the sale of a brand from one firm to another. Before the sale, the seller has a current value (V_c) and has been able to capture only a certain amount of the appropriable value (V_a) of the brand. If the buyer believes it possesses superior resources or capabilities, it will be able to "chase" the appropriable value and close the gap between current and appropriable value through application of its marketing resources and capabilities that leverage brand equity. Such a scenario would play out when a particular selling firm realizes that it lacks the resources to close the gap through owning and managing the brand, or faces high opportunity costs associated with keeping its resources tied up in the brand, and decides to capture more of the brand's appropriable value by selling the brand in the factor market (e.g., Borden and Cracker Jack). Obviously, such a sale would occur when the selling price is above the value the current owner believes it could generate by managing and investing in the brand (including opportunity costs), and below the acquiring firm's perception of its appropriable value[37].

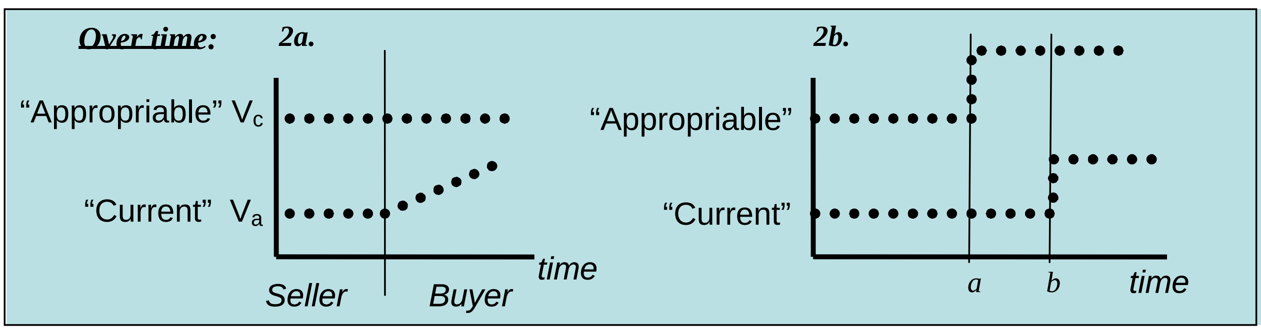

Figure 2: Chasing Brand Value Over Time

It is interesting to recognize that if an acquiring firm already possesses resources and capabilities that are at least equivalent to anything the current owner *could* develop, and all other things being equal (such as discount rate and brand equity), that the prospective owner's estimate of appropriable value should not be less than that of the current owner. This is due to the fact that if the current owner must invest in additional resources or capabilities in order to leverage brand equity and capture more of the appropriable value, then this investment would be subtracted from the realized value of the brand, making it more profitable to sell the brand than to invest more in it and continue to own it. The same would be true in the case of high opportunity costs that make it difficult to justify holding on to the brand.

There are several factors that will impact both current and appropriable brand value. For example, R&D activities can increase the appropriable value of a brand if the activities generate patentable or hard-to-copy technologies or help secure the endorsements of experts. These assets have the potential to increase brand equity which can then be leveraged in order to chase appropriable value. Consider when Crest toothpaste first acquired approval by the American Dental Association (ADA). In Figure 2b, time *a* represents the acquisition of the approval. If P&G (Crest's owner) does nothing to promote the fact until time *b*, current value would not change, appropriable value would increase, and the gap between current and appropriable value (for the current owner, P&G) would increase during this time period. If P&G did not take advantage of this approval, then it would not be fully leveraging the brand equity that existed in the brand, and therefore its current value (to P&G) would not be increased by the approval.

If at time *b* P&G decides to place the ADA logo on Crest packaging, P&G's current value at time b would increase. It would increase to even a higher level if P&G were to place the logo on the packaging *and* incorporate the new ADA approval in its advertising and collateral material. Such activities represent attempts by the current owner to increase and then chase the appropriable value of its brands. This is exactly what P&G did and Figure 3 shows how over time Crest was able to grow and ultimately switch places with the previous market leader, Colgate.

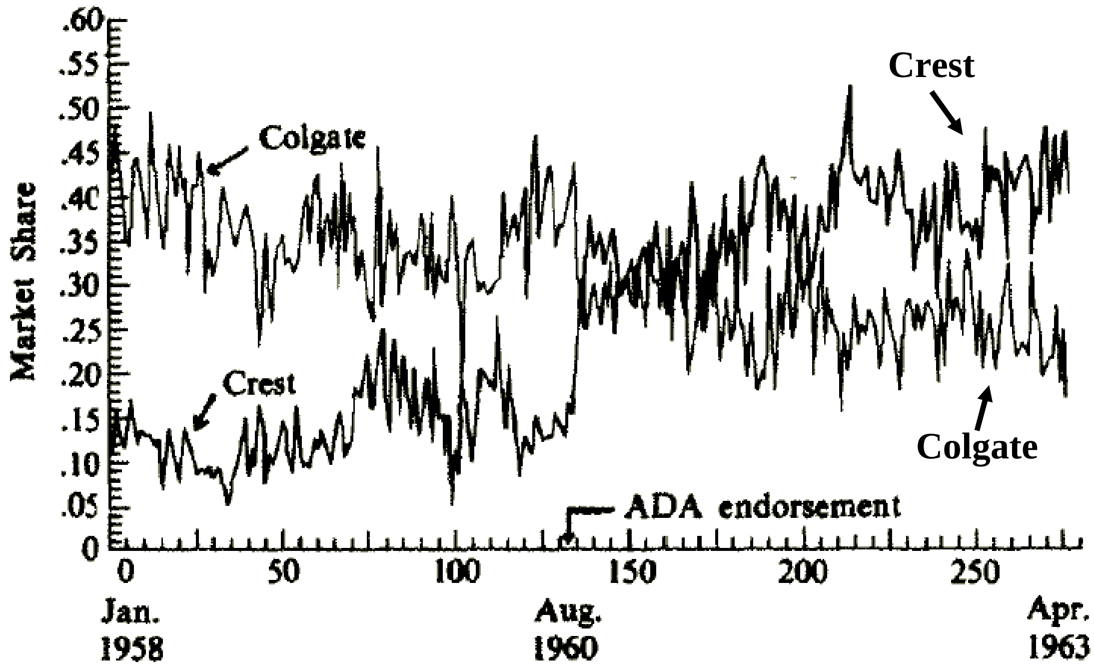

Figure 3: The Impact of ADA Approval on Crest's Market Share[38]

We note that any brand equity-building activity – whether done for an existing or new brand – if successful, will by definition increase appropriable value due to the fact that appropriable value is driven by brand equity. Thus, the company that creates a new brand must first focus on developing the brand equity of the brand, and then the company can chase the associated appropriable value.

Our framework also helps to inform the determination of selling price (or purchase price) by indicating the range of prices at which a firm might sell a brand. Theoretically, the lower limit is the owner's estimate of *current value,* and the upper limit is the acquiring firm's estimate of the brand's *appropriable value*. However, the selling firm wants more than its current value since it believes it will increase this value over some time horizon and the buying firm wants to pay less than its estimate of the brand's appropriable value in order to realize a gain. In negotiation terms, these two values demarcate the so-called "zone of possible agreement". Figure 4 provides a stylized example of how our proposed framework can be applied to the Snapple case presented at the beginning of the paper.

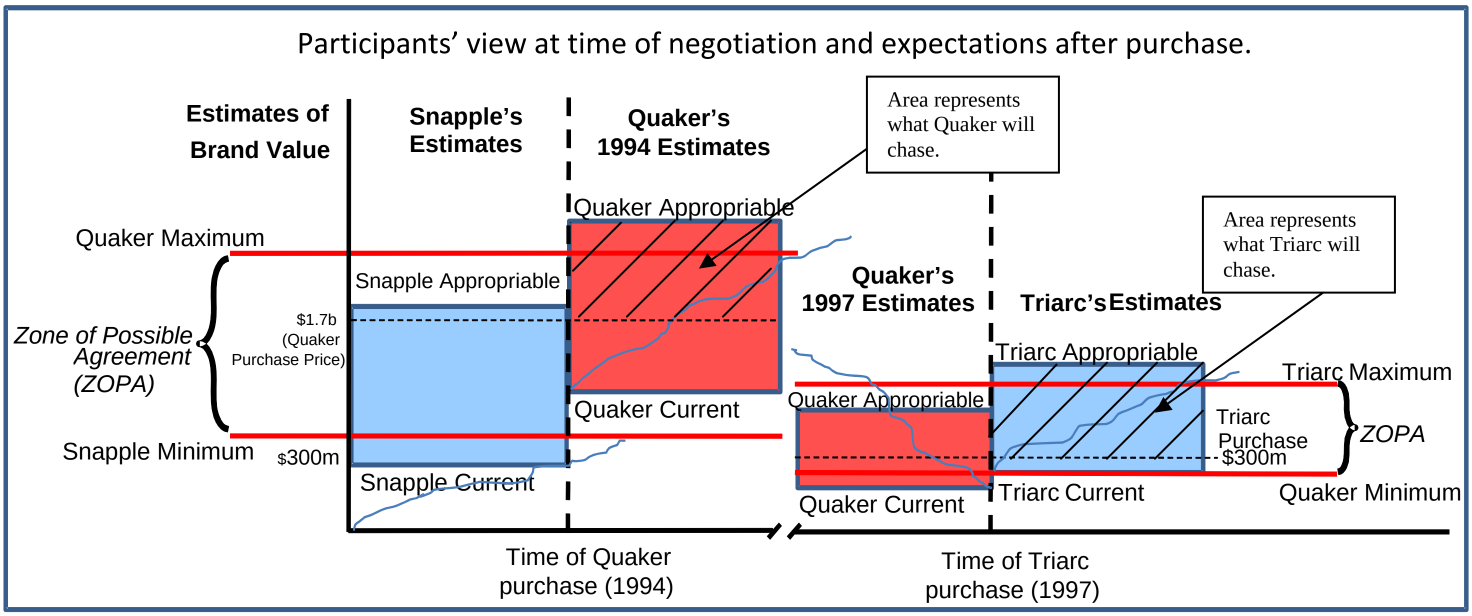

Figure 4: Positioning Selling Price Within of Zone of Possible Agreement Based On Proposed Brand Value Framework.

In 1994, when Quaker purchased Snapple (see the left side of Figure 4), the purchase price of $1.7 billion would have been somewhere between Snapple's estimate of current value (lower limit) and Quaker's estimate of appropriable value (upper limit). Quaker believed it would be able to chase the higher estimated appropriable value (represented by hashed area) and realize a significant gain in value. The thin upward-sloping freeform line under “Snapple’s Estimates” represents the *actual* increase in Snapple’s brand value as Snapple (the company) chased the brand’s appropriable value. At the time when the sale was being contemplated, this line represented Snapple’s estimate of the brand’s current value. The continuation of the line past the date of purchase indicates that Snapple may have assumed that it could successfully chase additional appropriable value if it were to continue to own and invest in the brand. The thin upward-sloping freeform line under “Quaker’s 1994 Estimates” represents the *projected* increase in Snapple’s brand value as a result of Quaker’s plans to chase the brand’s appropriable value after purchase.

Over the three years that Quaker owned Snapple, Quaker’s estimates of Snapple’s current and appropriable value must have dropped precipitously (see the right side of Figure 4), in order to justify a sale price of only $300 million. The thin downward-sloping freeform line under “Quaker’s 1997 Estimates” represents the *actual* decrease in Snapple’s current brand value under Quaker’s ownership, while the thin upward-sloping freeform line under “Triarc’s Estimates” represents the *projected* increase in Snapple’s brand value as a result of Triarc’s plans to chase the brand’s appropriable value after purchase (hashed area between Triarc’s purchase price of $300m and its estimated appropriable value).

CREATING BRAND VALUE THAT CAN BE CHASED

The ability to leverage brand equity is dependent upon company resources (i.e., what companies currently *have*) and/or capabilities (i.e., what they *can do* with brands - the ability to grow brand equity). These assets can be thought of as “multipliers.” A "have" multiplier relates to physical resources such as a strong company name, relationships with the channel, access to new markets (e.g., international), capital markets, etc. When considering the value of an existing brand within a focal company's portfolio, the existence of multipliers is commonly called "fit." Fit can apply to existing brands, channel, marketing resources, capital markets, media, strategies/objectives, etc.

Frito Lay's distribution system is a good example of a channel multiplier. Its system and channel relationships were projected to immediately increase the value of the Cracker Jack brand when it was acquired, which it did[39].

P&G's purchase of Gillette had the potential to take advantage of several multipliers. For example, Gillette's portfolio contained brands that were sold in the same categories as those sold by P&G, but were targeted to men (e.g., deodorant, shaving), whereas P&G's strength was with women. Gillette's Duracell brand also gave it entrance into new markets (batteries). In 2006 P&G boasted 50 "megabrands," on which it spent more than $10 million in the U.S. alone, four of them coming from the 2005 Gillette acquisition[40]. That $40 + million bump in advertising from the new Gillette brands increases its media-buying power. Another example would be Henkel's 1997 purchase of Loctite that gained it a listing on the NYSE. Simply being listed on the NYSE could have added value to the Loctite brand through additional credibility with capital markets.

The ability to build brands and brand equity can be viewed as a "can do" multiplier (i.e., what a firm can do with a brand). Some firms invest considerable resources to develop the capabilities necessary to build strong brands and to grow brand equity. For example, Kimberly Clark and P&G have brand management systems that allow them to increase the appropriable value of their brands through constantly growing the brand equity of their brands. This helps them manage brands they develop within the company, as well as any brands they acquire by developing new strategies to chase the higher appropriable value. Consider P&G's purchase of Olay and Old Spice. Both of these brands were laden with "old" associations, but the company was able to leverage key positive associations and build each of the brands' equity[41].

Because of the existence of multipliers, a brand can be more valuable to an acquiring company than it would be to a company without the associated multiplier. This suggests that brand valuation methods that attempt to derive a general value may *under*estimate the value to firms that possess a large number of multipliers and *over*estimate the value to firms that do not possess those same multipliers. We believe that even when brand equity is not changing over time, it is a company's ability to leverage that equity that determines the value of the brand to that company and this ability clearly varies across companies.

In addition to moderating the firm's ability to leverage brand equity, managerial capabilities influence the success of strategic and tactical decisions such as market definition, which affects the scope of the brand (i.e., mass vs. niche), and myriad other tactics and strategies (e.g., pricing, promotions, positioning, advertising, research spending, etc.) that impact brand profitability and thus brand value. For example, choice of branding strategy (corporate branding vs. house of brands vs. mixed branding) has been found to impact values of Tobin's Q[42], a measure of a firm's intangible assets, of which brands are the major component. Poor strategies, tactics or execution may leave a brand with poor profits even though it has a high appropriable value. If a potential acquirer believes it can better leverage unexploited equity it should be able to improve the profitability of the brand. In such a case, the potential acquirer would believe it could achieve a higher appropriable value for the brand than the current value produced by the existing owner of the brand. In other cases, prior managerial decisions or actions, or market factors (in the case of fads) may have depleted the brand's equity and left a new owner very little to leverage.

Brands also are valuable in ways not directly related to customers, or consumers in general. Del Vecchio, et al.[43] demonstrate that strong brands make it easier for companies to hire better people cheaper. HR costs are lower as a result. This research provides evidence that brands contribute value in ways that are not measured by contribution, but should be considered in the sale or replacement price of the brands. Because employees need not be prospects for the company's products, it follows that value added through reduced HR costs (or other overhead items) may not be directly impacted by customers, or consumers in general, but they do affect the company's profitability and thus the value of its brands. Failure to consider such sources of brand value underestimates their true value, and highlights the distinction between equity and value discussed in an earlier section.

Del Vecchio, et al.[44] also suggest that brands may contribute value through relationships with capital markets (e.g., more attractive credit terms), relationships with governmental or regulatory agencies (e.g., more attractive tax incentives), and channel relationships (e.g., easier access to shelf space). As defined above, these relationships would represent assets that could be considered "multipliers."

Gupta, Lehmann and Stuart[45] proposed that customer lifetime value can be used to estimate firm value. Since customer lifetime value (CLV) is a contribution-based approach, the previous discussion indicates that CLV-based valuation methods will systematically underestimate firm value to the extent to which strong brands impact firms' overhead costs as well as revenues, providing a potential explanation for cases in which Gupta et al.'s[46] valuation did not match a company's stock price-based valuation.

To summarize this section, we argue that brands generate value for their owners through two general mechanisms: (1) a mechanism that generates value directly via impacted sales volume and profitability enabled by firm resources and capabilities, and (2) a mechanism that indirectly generates value for the company, by lowering costs in areas such as allowing a company to hire better people cheaper[47].

RELATIONSHIP OF BRAND VALUE TO CUSTOMER EQUITY

Customer equity is defined as the net present value of the future stream of contribution from all of a firm's current and future customers[48,49]. Customer equity is focused on the financial outcomes that are generated by a firm's customers. Its focus on outcomes is similar to the focus of the brand value construct, but brand value has two features that distinguish it from customer equity. First, brand value considers *profit* from all sources, whether or not they are directly related to customers (i.e., licensing, patents, tax incentives, ability to attract employees, attractive loan rates etc.), and not only contribution. Secondly, both current and appropriable brand values are considered. *Current value* is based on projected profits that would accrue to the current owners assuming existing strategy, capabilities and resources. *Appropriable value* is based on projected profits that would accrue to a firm that fully leveraged the existing brand equity.

We suggest that customer equity is a part of overall brand value, but it does not include the overhead cost-reducing benefits of strong brands, nor does it consider the option value of brands (i.e., appropriable value). This distinction makes the brand value construct more comprehensive and applicable to the firm as a whole. However, since marketing managers only may be able to control the direct variable costs of their brands, this may render the customer equity construct (which considers only contribution) a more actionable one at operational levels of the organization.

We suggest that customer equity is actually a company-based concept, not a customer-focused concept as suggested by Rust, Lemon and Zeithaml[50], as it is an outcome measure focused on how much contribution a company can collect from its customers. We are in agreement with their statement that successful brands reflect the identities of their customers and not the identities of their owners, but we suggest that this is merely consistent with the marketing concept and not a unique outcome of applying the customer equity concept. Finally, we suggest that the company-based perspective of customer equity supports our assertion that customer equity should be considered a component of brand value.

ESTIMATING BRAND VALUE

If companies did not know how to value brands, then brands could never be sold. Since brands frequently are sold, this problem must not be intractable. While owners may have difficulty *justifying* their valuations to prospective suitors (or vice versa), this has not kept managers on either side from estimating a value for a brand. The "problem" of brand valuation has mostly to do with how to reliably value brands so that they may be included on financial statements, or be measured for taxation or managerial control purposes[51]. We will not attempt to review all the relevant literature or the current standards which apply, but will instead attempt to position the issue of valuation within the context of our brand value framework.

It should be clear from our previous discussion that *in a perfectly stylized world* where a company owns a single brand, the most convenient measure of brand value would be current value. This is an estimate of the financial impact of the brand on the firm given its current strategies, capabilities and resources. In such a world, the firm would devote all its resources to maximizing the value of the brand, estimate a reliable measure of current value, and clearly understand what would be necessary to chase the appropriable value of the brand. In fact, the gap between current and appropriable value would reflect a "capabilities," rather than an "attention," gap. All multipliers would be at unity as there would be no marginal benefit of any "other." Also, issues related to the separation of brand name from company name[52] would be irrelevant since the two names would, at worst, exist in a one-to-one relationship (e.g., a company with only one brand) with no "carryover" to or from other brands; at best, they would be identical (e.g., IBM, Philips, Hyundai).

But even in such a stylized world, it is not clear that current value is the value that analysts, managers or tax collectors would want to be reported. Remember that current value is sensitive to managerial actions, which are not always optimal, and therefore could produce values that are too low. It is also sensitive to the impact of resources or capabilities that may be inimitable or non-substitutable[53], producing values that could not be attained by another firm in the industry. Imagine a scenario in which a brand is excised from its owner and transplanted into an average (or representative) firm in the industry. It should be clear from the prior discussion that the transplanted brand may be more or less valuable to the new host firm than it was to the original owner due to differences in resources and/or capabilities. Thus, the reliability of current value as a "pure" (i.e., objective) measure is in question.

Furthermore, such a stylized world rarely exists in practice. In the real world, firms own multiple brands and seek to maximize overall firm value as opposed to the value of any particular brand. They may stop using brands, yet retain rights to them, and then reintroduce them at a later time (e.g, Black & Decker's DeWalt; Coca Cola's Tab). P&G relinquished its rights to the White Cloud brand name even though the brand clearly retained brand equity and hence, value. This is clear given that Wal-Mart was subsequently able to capture that value by acquiring the brand name and selling White Cloud as an own brand through its stores.

It should be clear that a measure of brand value that is included in financial statements must contain more than financial performance or outcome measures. It must also include estimates of brand potential. For example, it must be able to generate a positive valuation even when a brand is producing no revenue. We argue that this potential is captured through the equity that a brand has built. Thus, the desired measure is some combination of current and appropriable value that also segregates "system" multipliers from brand value. That is, it must recognize the potential to leverage a certain amount of existing equity, but it should not consider value that is derived from non-brand sources.

To cite a few examples of how the above considerations are factored into valuation methodologies, we note that Young & Rubicam's Brand Asset Valuator looks beyond current profitability or high awareness in its assessment of brand potential. And Interbrand's valuation methodology recognizes the impact of multipliers by subtracting non-brand factors such as distribution systems[54]. We would argue that each of these approaches recognizes the difficulties with brand valuation and attempts to overcome them, yet questions of subjectivity and relevance remain[55].

Cravens and Guilding[56] demonstrate that marketing managers identified greater managerial implications of brand valuation than accounting managers did. They note that marketing managers are more comfortable working with "less objectively verifiable data and have not been conditioned by conventional accounting practice that discourages capitalization of intangibles"[57]. They also find that brand managers regard brand valuation as useful for evaluating marketing's performance, acquiring corporate resources, improving long-term performance, and strategic planning. It is in such a capacity that our framework is particularly helpful.

For managerial purposes, a firm would want to estimate both current and appropriable value and reward managers for increasing both. Programs aimed at capturing value (e.g., advertising) have the potential to increase current value. Programs aimed at increasing brand equity (e.g., R&D activities, partnerships) have the potential to increase appropriable value (e.g., P&G's Crest). Our framework will help managers better understand how the capabilities and resources of a firm contribute to either current and/or appropriable brand value. It may be the case that a firm is good at creating appropriable value, but lacks chasing ability (e.g., Borden and Cracker Jack). Likewise, many inventors are able to come up with concepts that have huge potential (appropriable value), but they have little (or no) ability to chase that value (commercialization) since they may have strong technical skills, but little or no business background. In other cases, a firm may be good at chasing, while not increasing the potential of the brand as measured in appropriable value. In any case, firms must clearly understand the capabilities and resources necessary to become better at either creating or chasing appropriable value, or be capable of evaluating other options for the brand (i.e., sale).

CONCLUSION AND FUTURE RESEARCH OPPORTUNITIES

One need only read current headlines to see how the concepts addressed in this article critically impact managerial thinking regarding the management and ownership of brands. At this writing, Ford Motor Company is debating whether to sell all of the remaining European brands—Volvo, Jaguar, Land Rover—it acquired over the last 20 years (Ford sold Aston Martin in March 2007 to a British group for $848 million)[58]. Jaguar, Volvo, and Land Rover make up the Premier Automotive Group which cost Ford $11.68 billion to acquire, but lost $2.32 billion in 2006. A venture capitalist is reportedly preparing a $5.9 billion bid for the group – significantly less than what Ford paid. Ford clearly miscalculated its ability to chase the appropriable value of those brands or the level of the appropriable value, or both. At this point, Ford must consider the current value of each of the brands in its Premier group (including any opportunity costs of continuing to own the brands), their respective appropriable values, and the likely offers of prospective bidders. As long as Ford can receive a price that is above its current value, then it can guarantee a higher return than it could have otherwise generated, and at the same time remove the risk of having to continue to invest heavily in the brands to chase appropriable value, which are important considerations to a company that "desperately needs focus in terms of preserving its capital and concentrating its management resources," according to John Casesa, managing partner of Casesa Strategic Advisors LLC in New York[59]. What will actually happen is unknown, but it is clear that Ford and prospective suitors will focus on these concepts as deliberations and negotiations proceed.

From a managerial standpoint, brand managers' primary task is to maximize and leverage brand equity in order to increase brand value. Our framework provides brand managers with a more comprehensive understanding of all the component parts than ever has been presented in the literature. It introduces the concept of appropriable value, which, all other things being equal, is the value that could be realized if all existing brand equity were fully leveraged. Our framework is consistent with both the literature on mergers and acquisitions[60] and with current managerial practice (e.g., P&G's purchase of Gillette). The two levels of brand value help us understand the components of a valuation that would be required on a financial statement, but are most valuable to brand and marketing managers for managerial purposes.

The current debate over the relationship between brand equity and customer equity is addressed by positioning customer equity within the domain of brand value. In this light, we agree with Rust, Lemon and Zeithaml's[61] model that positions brand equity as a contributor to brand value (of which we suggest customer equity is a part). While customer equity is a managerially useful construct, especially at operational levels, our perspective represents a more comprehensive view of the relationship between brand equity, customer equity and brand value. In summary, we have demonstrated that *customer* equity is actually a partial measure of brand value, and should not be considered an "equity" construct.

Delvecchio, et al.[62] have offered the only research to-date that specifically addresses potential sources of brand value beyond customers or consumers in general. We suggest that a more thorough understanding of non-consumer-based sources of brand value is needed. It is provocative to consider that brands may represent inefficiencies in capital markets or points of leverage with governmental or regulatory agencies. Such new knowledge will assist in understanding the degree to which CLV-based models will systematically underestimate firm value. Though not the main focus of this article, it will assist researchers in their efforts to include the value of intangible assets on the balance sheet. Barth, Clement, Foster and Kasznik state, "A major reason precluding accounting recognition is concern about whether brand values are reliably estimable"[63]. We suggest that the proposed framework contributes to understanding the reliability of brand valuations by offering a means by which all the potential contributors to brand value may be identified.

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