

Uncovering the value of brands

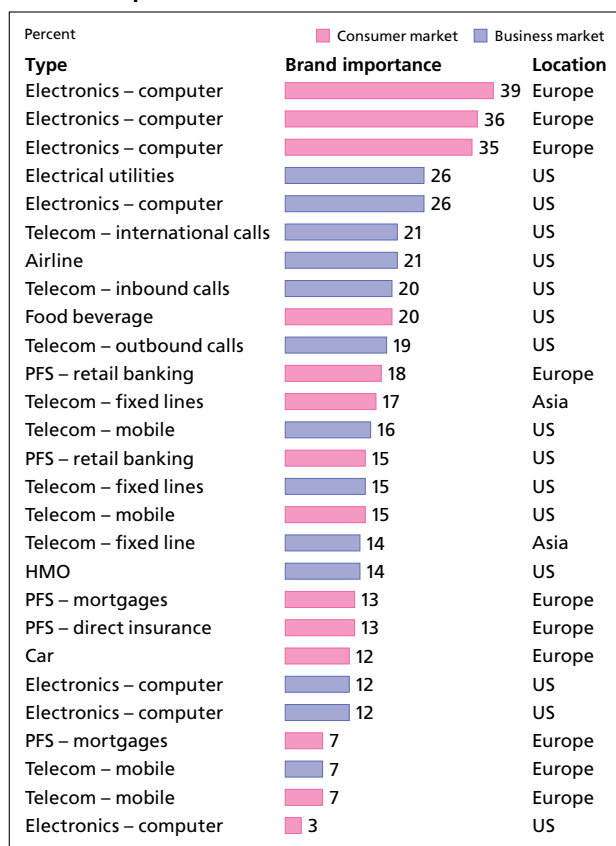
David Court,
Anthony Freeling,
Mark Leiter, and
Andrew J. Parsons

Many marketers believe brands are important because they shape customer decisions and, ultimately, create economic value. Few however, would be able to back up their beliefs with facts and figures, as little attempt has been made to measure the actual value of brands.

To begin to gauge just how important brands are to customers during the purchase process, we examined 27 case studies, based on over 5,000 customer interviews in the US, Europe, and Asia. These studies revealed that in both consumer and business-to-business markets, brand was a key factor behind the decision to purchase. On average, the brand was responsible for 18 percent of the total purchase decision. The lowest brand importance measured was 3 percent, the highest 39 percent (Exhibit 1). Moreover, two-thirds of the case studies revealed a “brand loyal segment” – a segment of customers for whom brand was the major factor behind the decision

Exhibit 1

Relative importance of brand



David Court is a director in McKinsey's Toronto office and Anthony Freeling is a principal in the London office. Mark Leiter is a consultant and Andrew Parsons is a director in the New York office. Copyright © 1996 McKinsey & Company. All rights reserved.

ABOUT THE RESEARCH

The studies were based on research generally known as trade-off analysis, an umbrella term for various approaches that quantify how customers make decisions by asking them to consider a number of different purchase trade-offs.

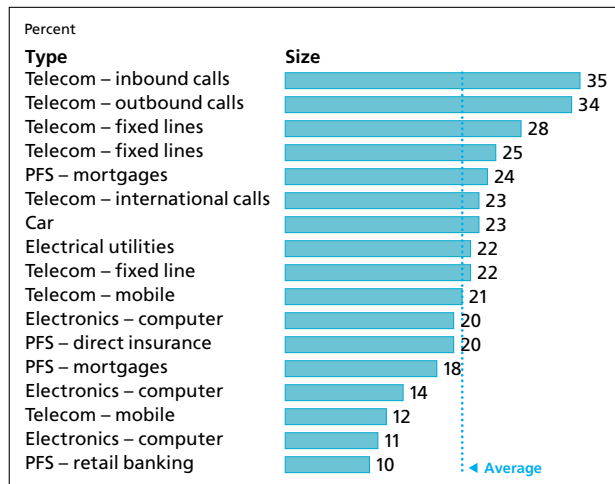
These analyses are based on a simulation of the actual purchase process. For instance, an analysis of the luxury automobile market might ask customers to indicate a purchase preference across many different specific car configurations, taking into account the brand (BMW, Cadillac, Infiniti, Lexus, Mercedes, for instance), engine, transmission, braking system, seating,

accessories, service contract, warranty, and pricing. In this way, the research captures not only the relative importance to customers of tangible product benefits such as engine performance and warranty protection, but also of intangible benefits embodied in the brand (such as prestige or reliability).

The real power of the technique is that it provides a foundation for estimating the extent to which market share and profits can be won or lost as configurations are changed, for instance by introducing a new car brand to the market, improving the engine performance, or dropping the price.

Exhibit 2

Brand loyal segments



to buy. When present, this segment comprised an average 21 percent of the market (Exhibit 2).

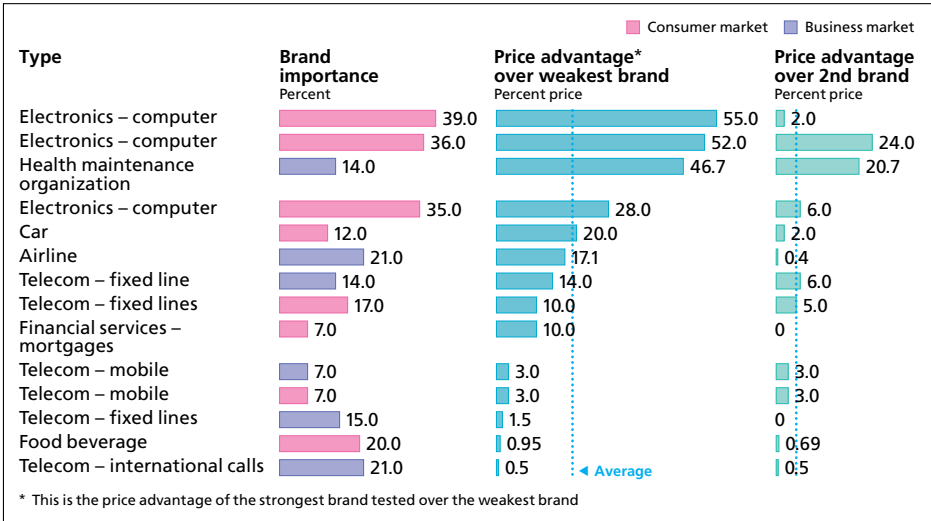
The research therefore suggests that brands have real power to persuade customers to purchase one product rather than another. In an environment where meaningful product and service differentiation is becoming increasingly difficult to achieve and sustain, that also means power to shift market shares.

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But strong brands have another measurable advantage: they can command significant price premiums (Exhibit 3).

Exhibit 3

Price advantages of strongest brands



On average, prices of the strongest brands (in terms of the brand's importance behind the decision to buy) were 19 percent higher than those of the weakest brands. Relative to second tier brands, the leading brands commanded an average price premium of 5 percent. Given the rising apprehension that marketers will increasingly be forced to lower prices to remain competitive, the research thus suggests that strong brands may be the backbone that sustain attractive price positions in the market.