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Postscript: Preserving (and Growing) Brand Value in a Downturn

Randle D. Raggio and Robert P. Leone

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We have taken the opportunity provided by the current worldwide recession to further explore the implications of the relationship between brand equity and brand value that we proposed previously,[1,2] and our analysis reveals that companies have one of two strategic options for surviving. The "Just Good Enough" strategy maximizes current value, *potentially* hurting brand equity and appropriable value (or potential future value) in the process, while the "Altered Amortization" strategy offers an opportunity to chase current value while maintaining brand equity with current prospects and activating latent equity with potential prospects, which may increase appropriable value. Anything between these two is a non-viable long-term strategy and companies hoping to ride it out "in the middle" may not make it. We explain both of these strategies below and offer a framework for analyzing which one is right for your brand.

Aggregate corporate revenues are down as consumers adjust to new economic realities, reflected in the nearly $13 trillion of wealth lost in the recession.[3] Unfortunately for many firms the "new reality" may not be a short-term phenomenon. The *Wall Street Journal* reports that U.S. consumers plan to save more in the future and that consumer spending may be impacted for decades, as was the spending of those who survived the Great Depression.[4] This will have an impact not only on the U.S. economy, but on the economies of countries that in the past have catered to Americans' appetites for consumption.

Just Good Enough

Interestingly, U.S. retailer brands like Wal-Mart and Family Dollar and fast food brands like KFC and McDonalds have experienced sales growth as consumers seek value.[5] The important question is whether this is a recession-driven, short-term phenomenon, or if it reflects a deeper change in consumer behavior and suggests a viable strategy for other brands.

The Hyundai Genesis sedan debuted in the U.S. in July 2008. One of the authors described this event on the final exam for his core MBA marketing course in December 2008 as a "profound bit of bad luck". Turns out, the downturn has actually been positive for Hyundai and its $33,000 Genesis, as 40% of Genesis buyers trade in other luxury vehicles like Lexus, BMW, Mercedes and Porsche, according to Joel Ewanick, Hyundai Motor America's Vice President of Marketing.[6]

We would argue that each of these brands has benefitted from consumers' desires in certain situations to acquire brands that are "just good enough," that is, brands that surpass consumers' performance threshold requirements at a value price. Recognize that the examples cited above suggest that this is a viable strategy for products in categories ranging from staples and necessities bought through discount retailers to luxury automobiles. In fact, the recession only enhances the image of these brands because "price" is a specific component of their promise of benefits and thus the value that consumers see in those brands.[7] Thus, we suggest that if your brand's promise of benefits includes low price, then you have an opportunity in a down economy to enhance your brand's equity and build its future value. Budget brands that may have been seen as *not* good enough in prior economic times may get a

second look when consumers are forced to economize. But beware: not all brands can or should move to a "just good enough" position.

Altered Amortization

Former prestige brands that have lost their cache' with new economizing consumers may boost their short-term revenues and profitability in an attempt to maximize current value by cutting prices to maintain volumes. U.S. retailer Saks Fifth Avenue attempted this strategy with early holiday discounting (up to 70% off in some cases) and "fill(ing) its floors with racks of clothes, creating a discount, guerilla-shopping environment that contradicted its high-touch image," with the impact that "the steep markdowns changed customers' perception of the value its wares offer".[8] As Quelch and Jocz note, "Marketers that drift away from their established base may attract some new customers in the near term but find themselves in a weaker position when the recession ends."[9] In terms of our brand equity and brand value framework, by maximizing their short-term revenues, these brands damage their brand equity and as a result reduce their appropriable value.

On the other hand, some brands such as De Beers and Land Rover have chosen a different approach. They recognize that the faltering economy has changed consumer buying behavior, but not all consumers will gravitate to JGEs in all categories. Some consumers choose to adjust their amortization schedules to justify their purchases. For holiday 2008, De Beers encouraged consumers to purchase "fewer, better things," such as diamonds, which, as everyone knows, "are forever". Finbar McFall, Land Rover's vice president of marketing for North America was quoted in *The Washington*

Post: "In the mature and troubled U.S. market, people nowadays aren't coming into showrooms in search of motorized baubles, cars and trucks that provide little more than illusions of prestige".[10] Land Rover is being recast as a value, an "intelligent choice," based on the fact that, while it may cost more now, it will last, if not forever, a lot longer than other brands, require less maintenance and have a higher resale value in the future. Thus, consumers may figure that they can purchase one Land Rover now and postpone another new car purchase for a few of their normal buying cycles, in effect justifying the purchase by amortizing the price over a longer useful life. Lower maintenance expenses, higher resale value, and so on only sweeten the deal.

Applying the Framework

(Insert Figure 1 about here)

Figure 1 lays out our framework. The two axes represent the change in buying frequency for a brand (left axis) and the change in size of the ticket for the purchase (top axis) as a result of the move. To illustrate, a move from the bottom right to top right doesn't change the size of ticket, but frequency of purchase would increase. Likewise, a move from top left to top right would not change the frequency of purchase, but would lower the ticket price.

Budget brands on the lower right (including some store and private label brands) can increase future value by positioning their brands as JGEs. We distinguish between "budget" and JGE by focusing the brand's positioning and imagery. A budget brand is one that consumers feel in some way forced to purchase and is positioned purely on low price. Brand imagery is of necessity, not choice. Current value may increase

during an economic downturn as consumers trade down to save money, but a budget brand will be quickly abandoned with consumers' higher income or reduced economic anxiety. JGEs, on the other hand, are brands that consumers choose because they believe that it is not worth the difference in price to pay more for a substantially similar item, a perception that is likely to persist even when the economy improves.

The budget➔JGE move can enhance equity since low price should be an important promise of brand benefits for these brands that is enhanced through the JGE positioning. Appropriable value increases because consumers that in the past may have switched back to their normal brands when the economy revives may stick with these brands and use the savings for other life enhancements. Walmart's "Save money Live better" positioning fits perfectly with this strategy as consumers may recognize that spending more in the future on items they could get at Walmart only reduces the quality of other aspects of their lives. This strategy is most effective when the budget brand has reasonable levels of awareness and needs only to demonstrate its acceptable quality. Importantly, shifting position implies that increasing ad and promotional spending may be required.

The local theme park or zoo, for example, may adopt the JGE strategy by positioning its experience against a more expensive out-of-town vacation. The local attractions become JGE when consumers realize that what previously may not have seemed like a good choice for the family is now an acceptable and much more affordable option. But many consumers may have expected that they would have to forego family fun altogether, so it is important that the local attractions spend

advertising and promotional dollars reminding consumers that affordable local options exist.

Former prestige brands, or brands that may have been purchased simply to show off, on the upper left, have two potential moves, one value enhancing, the other value reducing. Prestige brands become JGE when they lower price to encourage short-term buying by current and expanded (e.g., more price-conscious) consumer segments. While this move may sustain sales *volume* during a downturn, it can substantially reduce brand equity and appropriable value as consumers in the brand's current target segment react to the new consumers brought into the brand that otherwise would not have been able to afford it. In the long run, the brand can either remain more of a value brand (at lower price and lower equity), or revert to premium pricing (which is sometimes hard to do if the lower price persists for too long) and lose those who bought only on deal, as well as a portion of those who formerly paid premium prices but now abandon the brand due to its damaged equity.

A move to extend consumers' amortization schedules, on the other hand, can potentially save prestige brands' equity and increase appropriable value by giving current targets a reason to continue to purchase even in a downturn, and it may draw in new customers that held high equity for the brand, but did not purchase because they could not justify the price. Cruise lines, resorts and electronics manufacturers, among others, may adopt this strategy. Each has the opportunity to suggest that the purchase is one that is more sensible than a series of smaller more frequent purchases. Disney can promote the fact that the memories from one of its resort vacations last a lifetime – and kids are always getting older. Perhaps families will decide to take one big

vacation instead of several small ones and will want to make the most of the opportunity. Cruise lines can promote the value of their all-inclusiveness, and even add additional amenities and services temporarily to heighten the value. This increased attention on all the benefits that are included in the single price may cause consumers to decide that they would prefer to know the entire cost up front and then amortize it over all the various activities provided. The leading manufacturers of premium large-format televisions may be able to convince consumers that they should not risk their money on a lesser brand, or compare the price of a television to the cost of attending several games in person. They might also consider offering longer warranties rather than cutting the price as a way of signaling long term savings. Hyundai's 10-year warranty and "Assurance" program and GM's "Total Confidence" program (which offers payment and retail value protection) would be examples of Altered Amortization tactics as they attempt to lengthen the perceived useful life of the product and provide protection against loss (e.g., loss of income, depreciation).

In a similar move, a premium coffee producer could position its ground coffee packaged for home use against in-store consumption. While it may cost seven or eight dollars for a bag of premium coffee from the grocery store (which may be two to three times the price of a cup in-store), the per-cup price of the bagged coffee, even for a premium blend, is less expensive than purchasing several single servings over a period of time from a coffee shop. Thus, while the cost of the bag purchase is larger at the start, it may be seen as a much smarter choice since it can be amortized over many more cups of coffee.

Attempts to pursue the Altered Amortization strategy may require additional investments in R&D to develop products that are worthy of extended warranties and protections against value depreciation. In addition, advertising and promotional expenditures may have to go up to announce these developments. As a result, the move to alter consumers' amortization schedules offers upside potential, but requires additional investment in the brand. Consistent with this recommendation is evidence that cutting advertising during a recession can have negative long-term implications.[11]

Implications for Brand Equity and Brand Value

It is important to highlight how short-term actions can impact long-term brand value. If we consider a brand to represent a promise of benefits and brand equity to be the perception that a brand meets an important promise of benefits,[12] then it is clear that what is happening during recessionary times is that consumers are more likely to consider whether "value" is part of the brand's promise or not. Brands that can demonstrate value through a JGE or altered amortization strategy are more likely to be chosen for reasons that may persist even after the current downturn is over. The outcome of efforts to reposition the brand is enhanced equity. In both the short- and long run, this enhanced equity increases the future potential of the brand, that is, its appropriable value. We suggest that the objective of brand managers during recessionary times is to clearly position their brands for value through one of the recommended strategies that have the potential to enhance brand equity, and then demonstrate and reinforce the value aspect of the brands' promise, which will help to capture a portion of the brands' increased appropriable value. Thus, once a brand is

properly positioned, the JGE or altered amortization strategies represent appropriate "chasing strategies."[13]

Although both strategies are viable, we suggest that more research attention should be devoted to the "just good enough" strategy, regardless of global economic conditions, because this represents a way that many brands may be able to achieve and chase a higher appropriable value. David Ogilvy suggests that you do not have to convince consumers that your brand is superior, just positively good.[14] For years, store brands and even some national brands such as Smucker's (*With a name like Smucker's it has to be good)*, Motel 6 (Clean, comfortable rooms) and Maxwell House (*Good to the last drop*) have taken this advice to much success. We believe this is a viable strategy that is quite distinct from a "stuck in the middle" position.

Being an undifferentiated medium-priced brand is different from being a brand that has strong, positive and unique associations based on value. For a store brand, the underlying product may not be highly differentiated; in fact, it may leverage the equity of the leading brand to establish its value claims (e.g., "Compare to XYZ brand"). We suggest that the real appeal of store brands and some private labels lie in their ability to portray an image of "just good enough." As brands seek ever more points of differentiation, it is inevitable that the differences become less extreme and not determinant. Gatorade and Powerade are now locked in a legal battle over electrolytes. Powerade contains four electrolytes and thus claims that Gatorade is an "incomplete" sports drink because it has only two. Pepsi, maker of Gatorade, says the "incomplete" claim is false because the "trace" amounts of the two additional electrolytes found in Powerade are so small as to be irrelevant, and is suing Coca Cola,

Powerade's owner. While the two leading brands battle over attributes at the margin, which is costly but important to their brands' positioning, we believe it is possible that a third brand could position itself as good enough at a great price and take share away from both of the leading brands.

Similarly, the just good enough positioning does not imply that the brand competes in a commodity category. Hyundai's Genesis luxury sedan and coupe are examples to the contrary. The very name of the strategy implies that consumers use some sort of threshold analysis, or screening rules, to determine which brands will enter the consideration set, implying that not all will make it in. When consumers use a just good enough decision rule, all brands that make the consideration set have passed the threshold, but then a different – value-based – rule is used to pick a winner. In such a scenario, a premium-priced brand is likely to lose out to a brand that has reduced features or benefits, but at a lower price. Long-term value is enhanced for such a brand because it may be able to avoid the heated battles for product supremacy in which, for example, Gatorade and Powerade are currently pitched. At the same time it may develop a loyal base of customers that look to the category leaders to help determine the threshold for "just good enough," but then look to other brands to place in their shopping baskets.

Conclusion

There have always been, and will always be, JGE and value *people*. We suggest the recession is forcing many consumers who were not previously in this category to re-evaluate brands they buy and select brands positioned either as JGE or value brands.

Further, if a budget or prestige brand doesn’t alter its positioning during the downturn, it may find itself alone in the middle with a shrinking customer base, a position not conducive to surviving until the recovery.

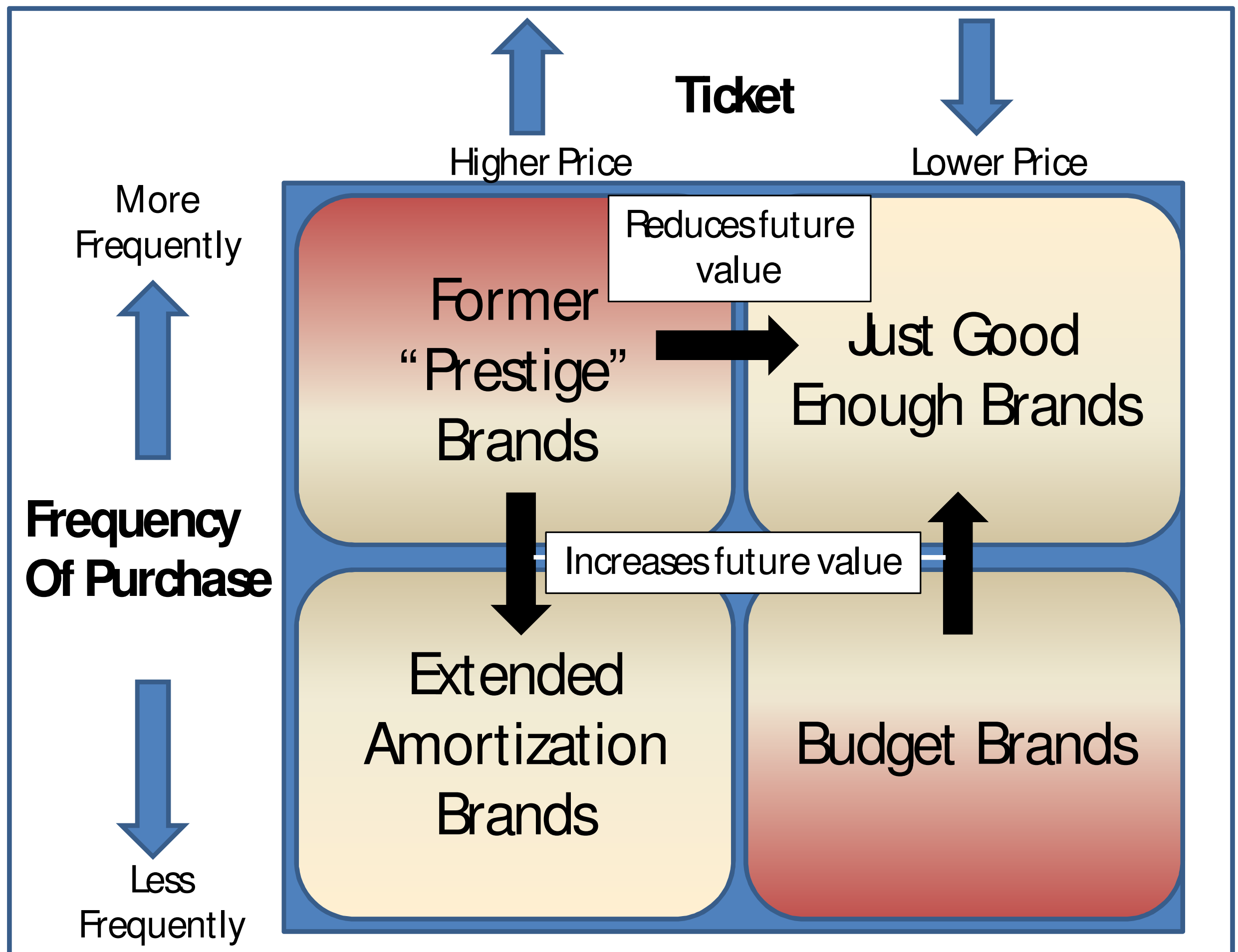

Figure 1: Brand Value-Enhancing strategies for the recession.

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