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Linking Brand Equity to Customer Equity

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Customer equity and brand equity are two of the most important topics to academic researchers and practitioners. As part of the 2005 Thought Leaders Conference held at the University of Connecticut, the authors were asked to review what was known and not known about the relationship between brand equity and customer equity. During their discussions, it became clear that whereas two distinct research streams have emerged and there are distinct differences, the concepts are also highly related. It also became clear that whereas the focus of both brand equity and customer equity research has been on the end consumer, there is a need for research to understand the intermediary's perspective (e.g., the value of the brand to the retailer and the value of a customer to a retailer) and the consumer's perspective (e.g., the value of the brand versus the value of the retailer). This article represents general conclusions from the authors' discussion and suggests a modeling approach that could be used to investigate linkages between brand equity and customer equity as well as a modeling approach to determine the value of the manufacturer to a retailer.

Keywords: *brand equity; customer equity*

Much interest in marketing has centered in recent years on the concepts of brand equity and customer equity. Despite that fact, there has been relatively little attention paid to reconciling the relationship between these concepts.¹ The purpose of this article is to provide some insight into how brand equity and customer equity can be linked. Specifically, we first review how brand equity and customer equity have been conceptualized. We then contrast some of the advantages and disadvantages of the two concepts and offer a formal model as to how those concepts can be linked, from the perspective of the manufacturer and from the perspective of the retailer.

THE RELATIONSHIP BETWEEN BRAND AND CUSTOMER EQUITY

Brand Equity

Although branding has a long history and brand management practices have existed for decades, brand equity as a central business concept for many organizations has only really emerged in the past 20 years. Much of that interest was initially driven by the mergers and acquisitions boom of the 1980s, where it became apparent that the purchase price paid for many firms largely reflected the value of their brands. The clear implication of these transactions was that brands were one of the most important intangible assets of a firm.

As a result of that realization, many different academic and industry models of branding and brand equity have been proposed in recent years. These models share certain basic premises about brand equity: The power of a brand lies in the minds of consumers and what they have experienced, learned, and felt about the brand over time; brand equity can be thought of as the “added value” endowed to a product in the thoughts, words, and actions of consumers; there are many different ways that this added value can be created for a brand; and there are also many different ways the value of a brand can be manifested or exploited to benefit the firm (i.e., in terms of greater revenue and/or lower costs). Some more notable models include the following.

ACADEMIC MODELS

Aaker (1995) defined brand equity as a set of five categories of brand assets and liabilities linked to a brand, its name, and symbol that add to or subtract from the value provided by a product or service to a firm or to that firm’s customers, or both. These categories of brand assets are (a) brand loyalty, (b) brand awareness, (c) perceived quality, (d) brand associations, and (e) other proprietary assets (e.g., patents, trademarks, and channel relationships).

These assets, in turn, provide various benefits and value to the firm.

Keller (2003) defined customer-based brand equity as the differential effect that customer knowledge about a brand has on their response to marketing activities and programs for that brand. According to this view, brand knowledge is not the facts about the brand—it is all the thoughts, feelings, perceptions,

¹ For an exception, see Ambler et al. (2002).

images, experiences, and so on that become linked to the brand in the minds of customers (actual or potential, individuals or organizations). All of these types of information can be thought of in terms of a set of associations to the brand in customer memory.

Two particularly important components of brand knowledge are brand awareness and brand image. Brand awareness is related to the strength of the brand node or trace in memory as reflected by customers' ability to recall or recognize the brand under different conditions. Brand image is defined as customer perceptions of and preferences for a brand, as reflected by the various types of brand associations held in customers' memory.

Strong, favorable, and unique brand associations are essential as sources of brand equity to drive customer behavior. The marketing advantages that result from the differential effects include improved perceptions of product performance; greater loyalty; less vulnerability to competitive marketing actions and crises; larger margins; more elastic (inelastic) customer responses to price decreases (increases); greater trade cooperation and support; and, ultimately, an ability to negotiate a lower cost of distribution, increased marketing communication effectiveness, and expanded growth opportunities from brand extensions and licenses. Whereas these benefits enhance short-run "cash flow" metrics, other factors such as brand longevity and reduced risk (both more persistent and less volatile cash flows) result in higher levels of brand value as determined by discounted cash flow methods. Moreover, as strong brands reduce risk, their long-term cash flows can be discounted at lower rates, resulting in higher valuations (Srivastava and Reibstein 2005).

Given the definition of customer-based brand equity, there are two basic, complementary approaches to measuring brand equity. An "indirect" approach would assess potential sources of customer-based brand equity by identifying and tracking customers' brand knowledge structures. A "direct" approach, on the other hand, would measure customer-based brand equity more directly by assessing the actual impact of brand knowledge on customer response to different elements of the marketing program. Illustrations of the direct approach include the financial or market outcome-based measures of brand equity such as revenue premium (Ailawadi, Lehmann, and Neslin 2003), brand equity as a price premium measure (Holbrook 1992; Randall, Ulrich, and Reibstein 1998), and brand equity as a measure of brand extendibility (Randall, Ulrich, and Reibstein 1998). Srinivasan, Park, and Chang (2005) presented additional discussion of measurement and analysis of brand equity (see Keller, 2003, for a review).

INDUSTRY MODELS

Young and Rubicam's Brand Asset Valuator (BAV) model profiles brands according to four key dimensions—differentiation, relevance, esteem, and knowledge. The first two dimensions are combined to form a measure of brand strength; the latter two measures are combined to form a measure of brand stature. Leadership brands, according to BAV, excel on both strength and stature. Annual surveys are conducted in 44 countries around the world to collect consumer perceptions on more than 20,000 brands.

Millward Brown's Brand Dynamics model adopts a hierarchical approach to determine the strength of relationship a customer has with a brand. The five levels of the model, in ascending order of an

increasingly intense relationship, are presence, relevance, performance, advantage, and bonding. Consumers are placed into one of the five levels depending on their brand responses.

Another marketing research supplier, Research International, has developed a comprehensive model of brand equity, equity engine. Their model delineates three key dimensions of brand affinity—the emotional and intangible benefits of a brand—as follows:

- *authority*—the reputation of a brand, whether as a long-standing leader or as a pioneer in innovation;
- *identification*—the closeness customers feel for a brand and how well they feel the brand matches their personal needs; and
- *approval*—the way a brand fits into the wider social matrix and the intangible status it holds for experts and friends.

The model combines the affinity measures with measures of a brand’s perceived functional performance to provide an assessment of overall equity. The equity measure is then combined with price to provide a closer marketplace approximation of how consumers combine brand associations to make decisions.

Finally, Interbrand has developed a model to formally estimate the dollar value of a brand. Their approach is consistent with the notion that brand equity is the discounted cash flow from the future earnings stream for the brand. Specifically, the process they use to estimate the model is as follows:

They first identify and forecast revenues and “earnings from intangibles” generated by the brand, where intangible earnings are defined as branded revenues less operating costs, applicable taxes, and a charge for the capital employed.

A specific brand discount rate that reflects the risk profile of its expected future earnings is then derived via a “brand strength score” (developed from extensive competitive benchmarking and a structured evaluation of the brand’s market, stability, leadership position, growth trend, support, geographic footprint, and legal protectability).

Next, the proportion of intangible earnings attributable to the brand is measured by the Role of Branding Index by identifying the various drivers of demand for the branded business and then determining the degree to which each driver is directly influenced by the brand. The brand earnings are derived by multiplying the role of branding by intangible earnings.

Finally, brand value is the net present value (NPV) of the forecasted brand earnings, discounted by the brand discount rate. The NPV calculation comprises both the forecast period and the period beyond, reflecting the ability of brands to continue generating future earnings.

Customer Equity

Many firms have introduced customer relationship marketing programs to optimize customer interactions. Some marketing observers encourage firms to formally define and manage the value of their customers. The concept of customer equity can be useful in that regard. Although customer equity can be calculated

in different ways, one definition of customer equity is in terms of “the sum of lifetime values of all customers” (Rust, Zeithaml, and Lemon 2004). Customer lifetime value (CLV) is affected by revenue and cost considerations related to customer acquisition, retention, and cross-selling. Several different concepts and approaches have been put forth that are relevant to the topic of customer equity.

BLATTBERG AND COLLEAGUES

Blattberg and Deighton (1996) have defined customer equity in terms of the optimal balance between what is spent on customer acquisition versus what is spent on customer retention (see also Blattberg, Getz, and Thomas 2001; Blattberg and Thomas 2001) They have calculated customer equity as follows:

We first measure each customer’s expected contribution toward offsetting the company’s fixed costs over the expected life of that customer. Then we discount the expected contributions to a net present value at the company’s target rate of return for marketing investments. Finally, we add together the discounted, expected contributions of all current contributions. (p. 137)

The authors offered the following observation:

Ultimately, we contend that the appropriate question for judging new products, new programs, and new customer-service initiatives should not be, Will it attract new customers? or, Will it increase our retention rates? but rather, Will it grow our customer equity? The goal of maximizing customer equity by balancing acquisition and retention efforts properly should serve as the star by which a company steers its entire marketing program. (p. 138)

Blattberg and Deighton offered eight guidelines as a means of maximizing customer equity:

1. Invest in highest-value customers first.
2. Transform product management into customer management.
3. Consider how add-on sales and cross-selling can increase customer equity.
4. Look for ways to reduce acquisition costs.
5. Track customer equity gains and losses against marketing programs.
6. Relate branding to customer equity.
7. Monitor the intrinsic retainability of your customers.
8. Consider writing separate marketing plans—or even building two marketing organizations—for acquisition and retention efforts (pp. 140-144).

RUST, ZEITHAML, AND LEMON

Rust, Zeithaml, and Lemon (2000, 2004) defined customer equity as the discounted lifetime values of a firm’s customer base. According to their view, customer equity is made up of three components and key drivers:

- *Value equity*: Customers’ objective assessment of the utility of a brand based on perceptions of what is given up for what is received. Three drivers of value equity are quality, price, and convenience.

- *Brand equity*: Customers' subjective and intangible assessment of the brand, above and beyond its objectively perceived value. Three key drivers of brand equity are customer brand awareness, customer brand attitudes, and customer perception of brand ethics.
- *Relationship equity*: Customers' tendency to stick with the brand, above and beyond objective and subjective assessments of the brand. Four key drivers of relationship equity are loyalty programs, special recognition and treatment programs, community-building programs, and knowledge building programs.

Note that this definition of brand equity is not consistent with the state of the art in branding theory and practice. It differs from the customer-based brand equity definition reviewed above that puts the focus on the beneficial differential response to all marketing activity that strong brands produce. The Rust, Zeithaml, and Lemon (2000, 2004) definition of brand equity also has a much more narrow view of brand equity drivers than espoused by brand theorists. For example, they included price premiums, customer retention and share-of-wallet effects, and cross-selling all under the umbrella of customer equity, failing to recognize that they are simply capturing value "created" by branding activities under the value "extracted" from customers. Much of this value is created by communication efforts, image-based advertising and brand positioning, product line strategies, convenience and availability, and the like. These go-to market brand programs, other than one-to-one direct marketing efforts, typically have to be created at some level of aggregation.

These authors proposed that the three components of customer equity vary in importance by company and industry. For example, they suggested that brand equity will matter more with low-involvement purchases involving simple decision processes (e.g., facial tissues), when the product is highly visible to others, when experiences associated with the product can be passed from one individual or generation to the next, or when it is difficult to evaluate the quality of a product or service prior to consumption. On the other hand, value equity will be more important in business-to-business settings, whereas retention equity will be more important for companies that sell a variety of products and services to the same customer.

They advocated customer-centered brand management to firms with the following directives, which they claimed run counter to "current management convention":

1. Make brand decisions subservient to decisions about customer relationships.
2. Build brands around customer segments, not the other way around.
3. Make your brands as narrow as possible.
4. Plan brand extensions based on customer needs, not component similarities.
5. Develop the capability and the mind-set to hand off customers to other brands in the company.
6. Take no heroic measures to try to save ineffective brands.
7. Change how you measure brand equity to make individual-level calculations.

KUMAR AND COLLEAGUES

A closely related concept to customer equity is customer relationship management. In a series of studies (Kumar, Ramani, and Bohling 2004; Kumar, Venkatesan, and Reinartz 2006; Reinartz and Kumar 2003; Reinartz, Thomas, and Kumar 2005; Thomas, Reinartz, and Kumar 2004; Venkatesan and Kumar 2004), Kumar and his colleagues have explored a number of questions concerning CLV and how firms should allocate their marketing spending to customer acquisition and retention efforts.

The authors showed that marketing contacts across various channels influence CLV nonlinearly. Customers who are selected on the basis of their lifetime value provide higher profits in future periods than do customers selected on the basis of several other customer-based metrics. Their formulations showed how each customer varies in his or her lifetime value to a firm and how CLV computations require different approaches depending on the business application that a firm is looking at. They also demonstrated how their framework that incorporates projected profitability of customer in the computation of lifetime duration can be superior to traditional methods such as the recency, frequency, and monetary value.

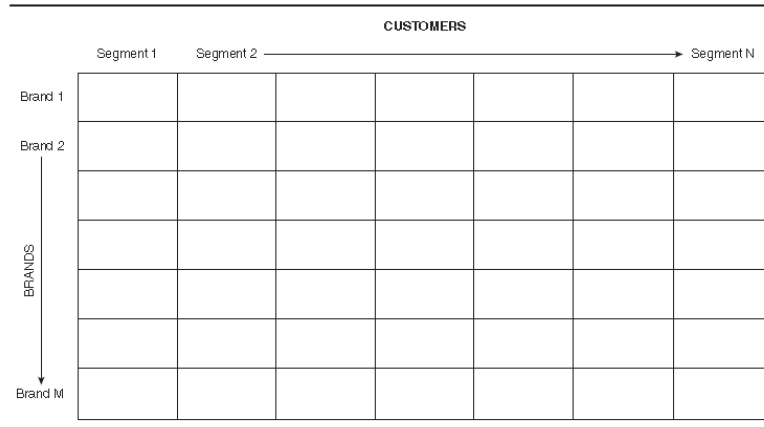
Kumar (2006) offered the following guidelines, maintaining that efficient customer management strategy is about:

1. Knowing your customers well enough to deliver superior value while maximizing profitability for the firm.
2. Adopting a forward-looking metric such as the CLV for superior decision making and customer management strategies. These strategies are aimed at maximizing customer lifetime value.
3. Selecting the high- and medium-CLV customers for future targeting.
4. Allocating the optimal marketing budget across different customers/distributors based on their “future” revenue potential.
5. Selling the right product to the right customer at the right time.
6. Balancing acquisition resources and retention resources and focusing on the optimal spend.
7. Minimizing churn of your high-value customers/ distributors.
8. Encouraging single channel customers to become multichannel customers.

Relationship of Customer Equity to Brand Equity

Based on the above review, brand equity management can be conceptually related to customer equity management in different ways. One way to think of reconciling the two points of view is to think of a matrix where all the brands and its sub-brands and variants that a company offers are rows and all the different customer segments or individual customers (consumers, business, or intermediaries) that purchase those brands are the columns (see Figure 1). Effective brand and customer management would necessarily take into account both the rows and the columns to arrive at optimal marketing solutions.

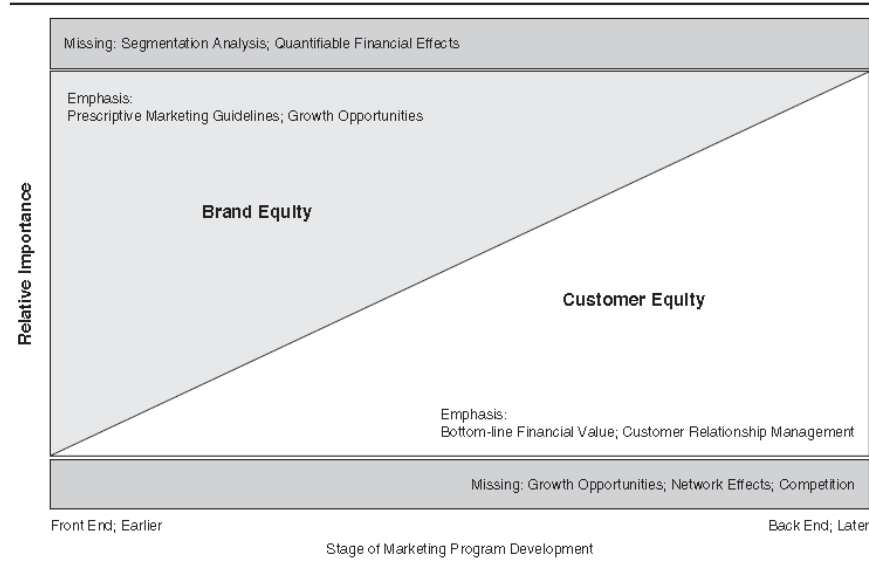
FIGURE 1
Brand and Customer Management



The brand equity and customer equity perspectives certainly share many common themes. Both brand equity and customer equity emphasize the importance of customer loyalty to a brand. Both concepts are also consistent with the notion that value is created by having as many customers as possible pay as high of a price as possible.

As they have been developed conceptually and put into practice, however, the two perspectives tend to emphasize different aspects (see Figure 2). The customer equity perspective puts much focus on the bottom-line financial value extracted from customers. Its clear benefit is the quantifiable measures of financial performance it provides. But as noted earlier, the customer equity perspective is limited in its guidance for go-to-market strategies. For example, whereas much has been said about one-to-one selling, it is hard to develop and maintain one-to-one (customized) programs related to product offerings, pricing, and so on. The ability to be entirely customer-focused depends, for example, on the nature of the distribution relationships. Thus, whereas Amazon (or Dell) can offer customers a value proposition based on conveniences afforded by online ordering, Barnes & Noble (or Hewlett-Packard) could combine these conveniences associated with online ordering to additional delivery options (e.g., pick up the order on the way home at a Barnes & Noble store).

FIGURE 2
Brand Equity Versus Customer Equity



In its calculations, however, the customer equity perspective largely ignores some of the important advantages of creating a strong brand, such as the ability of a strong brand to attract higher quality employees, elicit stronger support from channel and supply chain partners, create growth opportunities through line and category extensions and licensing, and so on. In particular, the customer equity perspective is somewhat weak in capturing the nature of marketing tasks that deal with managing the channel and managing competitors.

The channel relationship is especially important when we consider similarities and differences between customer equity and brand equity. Although we are beginning to see more and more disintermediation in many (especially service-based) offerings because of the direct marketing opportunities afforded by the Internet and other communication channels, most product offerings have to be marketed (and delivered) with at least some level of participation from an external channel. In such cases, the brand becomes an essential component in dealing with both channel partners and competitors. First, brand clout and corresponding cross-price elasticity asymmetries enable dominant brands to “manage” competitive relationships. This is true with both manufacturers and, increasingly, retailer brands who typically have more complementary positioning (midrange brands are the ones who often compete more directly with retail brands). Additionally, stronger brands are better able to negotiate favorable distribution costs because they are more effective “bait” for retailers to use as they craft strategies for drawing shoppers to their stores (more on this later). To the extent that companies tap both traditional and direct channels in their go-to-market strategies, customer equity and brand equity management perspectives provide complementary, not competitive, insights.

The customer equity perspective also tends to be less prescriptive about specific marketing activities beyond general recommendations toward customer acquisition, retention, and cross-selling. The customer equity perspective does not always fully account for competitive response and the resulting moves and countermoves; nor does it fully account for social network effects, word-of-mouth, and customer-to-customer recommendations.

Thus, customer equity approaches can overlook the “option value” of brands and their potential to impact revenues and costs beyond the current marketing environment. Brand equity, on the other hand, tends to put more emphasis on strategic issues in managing brands and how marketing programs can be designed to create and leverage brand awareness and image with customers. It provides much practical guidance for specific marketing activities.

With a focus on brands, however, managers do not always develop detailed customer analyses in terms of the brand equity they achieve with specific customers or groups of customers and the resulting long-term profitability that is created. Brand equity approaches could benefit from sharper segmentation schemes afforded by customer level analyses. For example, rather than relying on mass marketing approaches, more targeted offerings and communications could be focused on customer segments at risk or those that could be attracted from competitors.

There may also be less consideration of how to develop personalized, customized marketing programs for individual customers—be they individuals or organizations (e.g., intermediaries such as retailers). Customer equity approaches and the accompanying customer relationship management practices more easily relate to marketing philosophies such as one-to-one marketing, permission marketing, and so on. There are generally fewer financial considerations put into play with brand equity as compared to customer equity. We should add that just as customer equity can exist without brand equity, brand equity may also exist without customer equity. As an example, a consumer may have favorable attitudes toward Brands A and B but may only buy Brand A consistently. We also note that the hierarchical Bayesian analysis methods may provide a key tool for analyses of brand equity and customer equity as well as for implementing one-to-one marketing programs.

Summary

What is clear from the above discussion is that both brand equity and customer equity matter. There are no brands without customers, and there are no customers without brands. Brands serve as the “bait” that retailers and other channel intermediaries use to attract customers from whom they extract value. Customers serve as the tangible profit engine for brands to monetize their brand value. It is also clear that the concepts are highly related. The two concepts can have an interactive effect such that marketing actions to improve customer equity can also improve brand equity and vice versa (Keiningham et al. 2005). We next offer some thoughts as to how the two concepts can be linked more formally via modeling.

THOUGHTS ON MODELING—AN ANALYSIS OF THE ROLE OF BRAND EQUITY IN CUSTOMER EQUITY

Firms expend resources in acquiring customers, retaining them, and ensuring that their customers purchase other products offered by the firm. The choice processes of customers purchasing a firm’s products for the first time (acquisition), buying the firm’s products over time (retention), and purchasing the firm’s related/other products sold by the firm (cross-selling) involve several factors, not the least of which is the brand name of the products involved. A firm invests resources in building the reputation of its products (brand equity) through product design and product quality as well as advertising. As more customers acquire and repurchase a brand, the reputation of the brand tends to increase. Cross-selling is

also affected by the brand equity, as is the success (or failure) of brand extensions where the relationship

TABLE 1
Four Different Perspectives When Defining the Meaning of Quality

<i>Case</i>	<i>Whose Perspective?</i>	<i>Entities Considered for Equity Evaluation</i>	<i>Prototypical Marketing Situation</i>	<i>Focus Is Primary On:</i>
1	Manufacturer (or retailer) looking forward in the channel to the end consumer	Value of end users of the brand to the manufacturer of the brand	Business-to-consumer (B2C)	Value of the brand and value of the consumer or end users to the manufacturer
2	End users looking backward in the channel	Manufacturer or retailer	B2C	Value of the brand or the value of the retailer to the end consumer
3	Manufacturer looking forward in the channel to an intermediary or retailer	Intermediate customer or retailer	Business-to-business (B2B)	Value of the brand and the value of the customer to the manufacturer
4	Intermediary customer looking backward in the channel	Value of end users of the brand to the retailer who sells the brand	B2B	Value of the brand/manufacturer and value of the end users to the intermediary

is quite apparent.

Thus, there is an intricate relationship between a firm’s customer equity and the brand equity of the products it sells. For a single-product firm, it is relatively straightforward to see what customer equity is. But, for a multiproduct firm, measuring customer equity is more complicated; so is the measurement of total corporate equity arising when a firm sells several brands. It would be the sum total of all customer equities for each of the products/brands the firm sells after accounting for any duplications (e.g., within-firm/category brand-switching behavior. When these brands belong to different product categories, which is often the case, the level of brand equity of the brands a firm sells enables the firm to engage in cross-selling. We should point out that for a manufacturing firm, the extent of cross-selling is influenced by the type of branding strategy (house of brands, branded house or mixed) adopted by the manufacturer.² In fact, using a “house of brands” perspective, one can think of brands as “platforms” from which a manufacturer can launch new products into adjacent spaces (i.e., brand extensions into new categories). Microsoft leveraged the Windows brand platform to enter new markets such as consumer electronics (Windows CE) and 3G wireless applications (Windows Mobile). Such brand programs often involve simultaneous targeting of multiple “customer” groups (e.g., original equipment manufactures [OEMs], independent applications software developers, telecom service providers) or market-based assets (Srivastava, Shervani, and Fahey 1999).

First, we will broaden the concept of customer equity to incorporate some issues relating to distribution intermediaries. From the manufacturer’s perspective, the customer can either be an intermediary such as a retailer or the end consumer. In a business-to-business (B2B) situation, the “end consumer” would not be an individual but would be another firm. Therefore, the manufacturer can think about either the value of a consumer or the value of a retailer or another intermediary, but conceptually, evaluating the value of a retailer to a manufacturer is quite akin to evaluating customer equity to a manufacturer in the B2B context. Furthermore, we can posit the concept of retailer equity, which is also determined by consumers. End-

² A recent article shows how the branding strategy is linked to the intangible value of a corporation; see Rao, Agarwal, and Dahlhoff (2004).

consumers could view “the brand” as the manufacturer’s brand or “the store” as a brand. In the latter situation, the focus is the retail chain as a brand. This view will lead to the concept of the value of the manufacturer to the retailer. Additionally, the retailer can evaluate the benefits of each manufacturer it deals with; this notion can be viewed as the value (equity) of the manufacturer to the retailer. This may depend, in part, on the relative position of manufacturer brands to retailer brands. As noted earlier, retailers often conclude that lower priced, midrange brands are more competitive with their own retailer brands—and therefore less desirable—than brand leaders.

Thus, it is quite clear that the meaning of “equity” of an entity (brand, manufacturer, retailer, or a customer) depends on the perspective of the organization evaluating it. We have identified four different perspectives, which will encompass both the B2B context as well as that of the distribution intermediary (or retailer; see Table 1). These are described below.

TABLE 1: Four Different Perspectives When Defining the Meaning of Quality

Case	Whose Perspective?	Entities Considered for Equity Evaluation	Prototypical Marketing Situation	Focus Is Primary On:
1	Manufacturer (or retailer) looking forward in the channel to the end consumer	Value of end users of the brand to the manufacturer of the brand	Business-to-consumer (B2C)	Value of the brand and value of the consumer or end users to the manufacturer
2	End users looking backward in the channel	Manufacturer or retailer	B2C	Value of the brand or the value of the retailer to the end consumer
3	Manufacturer looking forward in the channel to an intermediary or retailer	Intermediate customer or retailer	Business-to-business (B2B)	Value of the brand and the value of the customer to the manufacturer
4	Intermediary customer looking backward in the channel	Value of end users of the brand to the retailer who sells the brand	B2B	Value of the brand/manufacturer and value of the end users to the intermediary

In Case 1, manufacturers or retailers manage the value of the brands and the customers to maximize their profitability. Both equities should be managed together, because it is the acknowledgement of the brand value by existing and potential customers that brings value to a firm. In Case 2, customers make the purchase decisions of “which to buy” and “where to buy” based on the brand preferences toward the manufacturer brands and the retailer brands. In Case 3, manufacturers evaluate intermediate customers or retailers so that the customer equity and brand equity of the manufacturers can be optimized. An ideal intermediary could not only provide a platform for the manufacturers to acquire new customers but also build positive brand knowledge in the minds of customers by being associated with the retailer. For example, Target’s “cheap chic” image allows famous designer brands such as Philippe Starck’s Starck Reality line to reach a broad customer base without diluting the brand value. In Case 4, the intermediary considers the value of a manufacturer by assessing the ability of the manufacturer’s brands to attract customers who are valuable to the retailer. Therefore, leading brands are likely to be more valuable to (and hence have more negotiation power with) the retailer than are weak brands, because the customers that a leading brand attracts are likely to be more valuable to a retailer than the customers attracted by a

weak brand. However, we note that this need not always be the case. OG Baby, an organic baby food brand, is probably more valuable to an “organic” retailer like Whole Foods than is Gerber, the leading baby food brand. That is, OG Baby probably attracts more valuable customers to Whole Foods than Gerber.

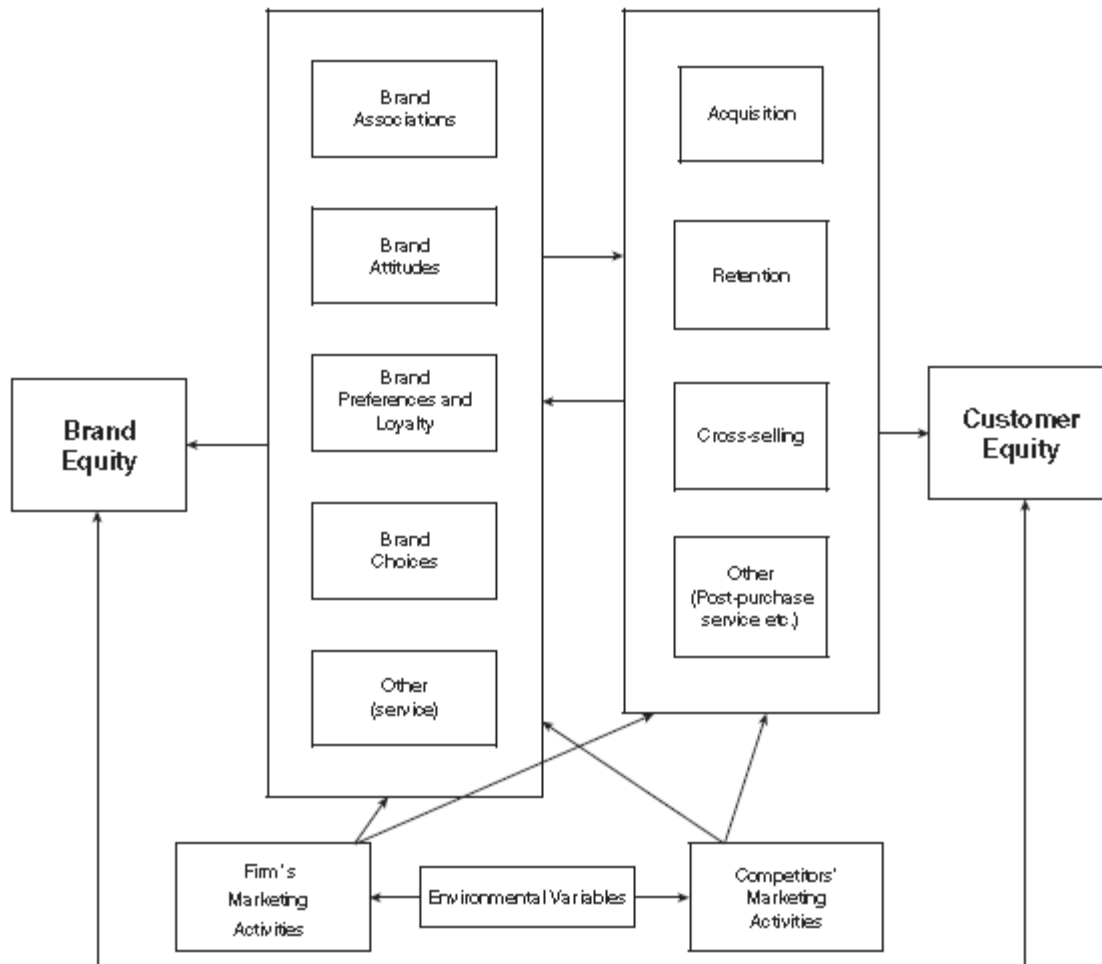
Against this background, we develop a framework that shows the relationship between the components of brand equity for the brands a firm sells and the customer equity of the customers who buy those brands. We suggest ways of modeling this relationship between brand equity in customer equity, focusing on two situations presented in Table 1. Situation 1, from the perspective of the manufacturer modeling this relationship; the first is that of a business-to-consumer (B2C) firm where we show the relationship between brand equity and customer equity, and the second is that of a retailer where we discuss both retailer equity and the value of a manufacturer to a retailer.

Situation 1: Relating Brand Equity (in Terms of the Brand’s Value to the Manufacturer) to Customer Equity (in Terms of the Customer’s Value to the Manufacturer)

We initially will consider the two factors of acquisition and retention and a horizon of two periods³ (or purchase intervals) in developing a model for relating brand equity into customer equity for a B2C firm. Also, we consider one customer and initially ignore heterogeneity among customers, but it can be easily extended to include individual heterogeneity (using the notion of latent class or by incorporating background variables). Also, we will consider one product category for the description of the model. A framework for this model is shown in Figure 3.

³ The length of these periods will depend on the product category.

FIGURE 3
A Preliminary Model for Relating Brand Equity to Customer Equity



NOTATION

n = number of competing brands in a category.

B_i = set of measures of brand equity for Brand i ; $i = 1, 2, \dots, n$.

P_i = price per unit of Brand i .

C_i = variable cost per unit for Brand i .

π_i = probability of the customer buying Brand i .

ϕ_i = retention probability of Brand i for the customer (or repeat probability of buying the Brand i at the next occasion).

K_i = rate of purchase (number of units bought by the i th consumer).

δ = discount rate for the purchase interval (can be assumed to be 1 for shorter intervals).

Model

With the above notation, we can write the customer equity for a customer for the Brand i (or Firm i) as

$$\text{Customer Equity} = (P_i - C_i) \cdot K_i \cdot (\pi_i + \delta\pi_i\varphi_i) - \text{Marketing Costs of Acquisition and Retention.}$$

Furthermore, we may develop relationships between π_i and φ_i as functions of the brand equity measures B_i and price of the brand. This may take the form of logit models based on discrete choice methodology. Brands may also influence the parameters in the equation above. Lower distribution costs for stronger brands will reduce C_i , stronger brands can be expected to have lower discount rates (δ) and potentially longer revenue streams (and therefore φ_i), especially in dynamic and turbulent product markets. These factors underscore the important role of brands in determining customer equity measurements. In general, it might be concluded that brand equity can be leveraged to enhance the productivity and effectiveness of customer relationship management efforts and therefore increase customer equity. This model can also be applied to potential customers as well as existing customers. If the customer is an existing customer, the probability of the customer buying Brand i in the first period (acquisition probability) is 1, and the probability of repeat purchases depends on the customer's purchase history and updated brand measures. However, if the customer is a potential customer, the acquisition probability is determined by factors such as the market potential at the time, the diffusion of brand knowledge, and profiling information of the customer if available. The acquisition probability and retention probability should incorporate the heterogeneity of the consumer and the stochastic nature of buying behavior. Therefore, both probabilities can be estimated in the framework of Bayesian analysis to address heterogeneity by proposing appropriate prior distributions. The merit of using Bayesian statistics also includes the possibility of obtaining better measurements through updating prior distributions with new information from data.

One of the objectives of such a model is to determine the impact of the B -variables on the customer equity measure for Brand i at the individual and aggregate level. The degree of variance explained in the customer equity measure by the brand equity measures (B -measures) can be used to determine the role played by brand equity in customer equity. It is possible that this role may not be very large. This model can be extended to include the cross-selling and other aspects of customer equity; this would naturally depend upon the availability of data.

This model can be empirically tested with purchase history data and data on brand equity measures using data for a panel of individuals for a number of product categories. Demographic data on individual consumers can be used to develop estimates of discount rates.

THOUGHTS ON BRAND EQUITY VERSUS RETAILER EQUITY

Consider a firm (brand) with a certain level of equity and a Retailer with a certain level of equity and the four following situations. The Brand A is in a product category (P) with other competing brands (denoted by B) and retailer (R) is competing in a geographic market with other retailers (denoted by S). The end

user (Consumer C) is in the situation of making a choice and visits R. The cells describe the behavior of the consumer when the Brand A is not available at the Retailer R (see Table 2).

TABLE 2: How Consumers Behave When Brand A Is Not Available in Retailer R: Trading Off Brand and Store Equity

Brand Equity for Brand A for Consumer C	Retailer Equity for Retailer R	
	High	Low
High	Postpone and purchase Brand A on the next occasion	Look for Brand A at a different retailer (among the set S)
Low	Purchase another brand (among the set B) in the product category at Location R	Buy any brand at any Retailer R (neither brand- or store-loyal) (this needs some modification)

We can introduce the segmentation of the end consumers, if needed. We probably can use the level of brand equity for Consumer C as a segmenting variable.

It is not always the case that a brand’s differentiated marketing response transfers to higher profit for retailers/ intermediaries. If the brand’s differentiated marketing response comes from a segment of consumers who do not patronize a particular intermediary, then that differentiated marketing response would not be of any use to the intermediary. Furthermore, if the brand’s differentiated marketing response comes from a segment of consumers who only patronize the intermediary to buy that brand, then the differentiated marketing response would not be of much use to the intermediary. It is only if the brand’s differentiated marketing response comes from those consumers who are most valuable to the intermediary (i.e., those consumers who buy a lot from the intermediary other than the target brand) that the brand becomes truly valuable to the intermediary. Again, these two potential sources of profit for the intermediary ignore the customer’s total value to the intermediary. It is that total value that makes a customer valuable to an intermediary. Intermediaries value most highly those brands that are bought by the intermediary’s most valuable customers.

Situation 2: Relating Brand Equity (in Terms of the Brand’s Value to the Retailer) to Customer Equity (in Terms of the Customer’s Value to the Retailer)

Most of the research considering the value of a brand has considered the question from the perspective of the manufacturer and a brand’s value is related to the associations that consumers have with the brand and the ability of the manufacturer to leverage those associations to capture a price or market share premium. In this section, we take an alternative perspective and ask what the value of a brand is to the retailer. We are not thinking about a retailer’s private label brand, which would be valued, by the retailer, in the same way a manufacturer would value its national brand. Instead we are concerned with the value of a national brand to a retailer. To a large extent, the price or market share premium that a manufacturer can obtain by leveraging consumers’ associations with the brand are not available to the retailer. Rather, the retailer uses consumers’ attraction to brands to draw consumers into its stores. That is, for the retailer, a national brand is “bait.”

Because the value of a national brand to a retailer is driven by the ability of that national brand to draw customers that are valuable to the retailer, it is natural to consider the relationship between customer value and brand value in this context. Many models have been put forth to define the value of a customer. Most take information about a customer's purchase history and use that information to project that customer's future value to the company. In this section, following Rust, Lemon, and Zeithaml (2004), we assume that the retailer has settled on a model to estimate a retail customer's future value, V_i , such that the value of the retailer is

$$\sum_{i \in \{\text{retailer's customers}\}} V_i .$$

We suggest that the value of a brand to the retailer is related to the value of the customers who buy the brand from the retailer. One way to assess the value of the brand to the retailer is to ask what the value of the retailer would be if it did not carry the brand. Our hypothesis is that the value of the brand to the retailer is proportional to the value of all of the customers who buy the brand:

$$\text{Value of brand } b \text{ to the retailer} < \sum_{i \in I_b = \{\text{retailer's customers who buy brand } b\}} V_i .$$

The assumption behind our hypothesis is that the value of the retailer that is at risk if the retailer doesn't carry Brand b is proportional to the value of all of the retailer's customers who buy Brand b . Evidence consistent with this hypothesis can be found in research that has considered the importance of a store's assortment in a consumer's choice of a store to shop. Fox, Montgomery, and Lodish (2004) and Briesch, Chintagunta, and Fox (2005) have shown that assortment is a more important predictor of store choice than is the store's pricing strategy or than is the distance to the store. Consistent with this, a 1999 National Association of Convenience Stores Study found that, for categories that are planned purchases, if a shopper finds an item out of stock two to three times, there is a high probability that that shopper will permanently switch stores (Gruen, Corsten, and Bharadwaj 2002).

The retailer can use this model to understand the relative value of different brands in a category. Letting $I_j = \{\text{retailer's customers who buy Brand } b_j\}$, the relative value of Brand b_j in a category with $j = 1, 2, \dots, J$ brands is

$$\frac{\sum_{i \in I_{j_0}} V_i}{\sum_{j=1}^J \sum_{i \in I_j} V_i} .$$

In a similar way, the retailer could calculate the relative value of different categories or departments. Importantly, this model can also be used to compare the relative values of collections of brands that come from different categories. To understand the relative value of manufacturers M_1, M_2, \dots, M_M to the retailer, we could calculate the value of all customers who buy any of the brands made by each of the manufacturers. Let B_m = the set of brands made by manufacturer m that the retailer sells, and let I_{B_m} be the set of all customers who buy at least one of the brands in B_m , then the relative value of manufacturer m_o to the retailer is

$$\frac{\sum_{i \in I_{B_{m_o}}} V_i}{\sum_{m=1}^M \sum_{i \in I_{B_m}} V_i}$$

CONCLUSIONS

There is no question that customer equity and brand equity are related. In theory, both approaches can be expanded to incorporate the other point of view, and they are clearly inextricably linked. We offered perspectives of these two constructs from different points of view. Customers drive the success of brands, but brands are the necessary touch point that firms have to connect with their customers. Customer-based brand equity maintains that brands create value by eliciting differential customer response to marketing activities. The higher price premiums and increased levels of loyalty engendered by brands generates incremental cash flows.

Many of the actions that will increase brand equity will increase customer equity and vice versa. In practice, customer equity and brand equity are complimentary notions in that they tend to emphasize different considerations. Brand equity tends to put more emphasis on the “front end” of marketing programs and intangible value potentially created by marketing programs; customer equity tends to put more emphasis on the “back end” of marketing programs and the realized value of marketing activities in terms of revenue.

But the two concepts, however, go hand in hand: Customers need and value brands, but a brand ultimately is only as good as the customers it attracts. As evidence of this duality, consider the role of the retailer as “middleman” between firms and consumers. Retailers clearly recognize the importance of both brands and customers. A retailer chooses to sell those brands that are the best “bait” for those customers they want to attract. Retailers essentially assemble brand portfolios to establish a profitable customer portfolio. Manufacturers make similar decisions, developing brand portfolios and hierarchies to maximize their customer franchises. These decisions become more complicated in the age of powerful retailers and shifting customer’s channel migration behavior (see Ansari, Mela, and Neslin [2005] for a study of the latter).

But effective brand management is critical, and it is a mistake to ignore its important role in developing long term profit streams for firms, whether they are manufacturers or retailers. Some marketing observers have perhaps minimized the challenge and value of strong brands to overly emphasize the customer equity perspective, maintaining that “our attitude should be that brands come and go—but customers . . . must remain” (Rust, Zeithamal, and Lemon 2004). Yet that statement can easily be taken to the logical,

but opposite, conclusion: “Through the years, customers may come and go, but strong brands will endure.” Perhaps the main point is that these are two sides of the same coin and both perspectives can help to improve the marketing success of a firm.

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