Product branding: The power and value of brands
Bridging the gap between marketing and finance

Focus of product branding
Product branding is intended to create differentiation.

Branding has been around for hundreds of years. The word “brand” is derived from the branding or burning of a mark into the hide of cattle to differentiate one from another. Bass & Company claims to have the world’s first trademark with its red triangle logo. Wine jars found at Pompeii have indications of product branding on them. Branding creates differentiation. When done effectively it creates positive awareness and, ultimately, value.

A product brand creates the image of a promise to perform in the way that is advertised, promoted, packaged and sold. It enhances the offering to a greater degree than a non-branded product and therefore creates the potential for a price premium over a generic brand. When managed properly, a product brand instills a unique sense of value with the consumer, which can grow over time. This positive dynamic can spawn parallel brands.

Product branding is focused on everything required to sell a single specific product to an individual consumer. If the sell is consummated and the consumer believes the promise was met or exceeded their expectations, then a bond of trust is created between the product and the customer — a foundation for repeat sales and recommendations to others.

Rationale — why product branding is important
Product branding should result in sustainable value.

Product brands are either created from scratch when the product is being developed for launch, or acquired from another organization that has already established the brand. In either case, there is internally created intangible value being created (or lost) from the day the product brand is launched (or acquired), until the day that it is sold or discontinued.

The value that brands create can be enormous. Think of Apple. Virtually every product brand they manufacture is priced higher than the competition. Yet their customers are thrilled with the company, to the point that Apple has a near cult following of enthusiasts. Apple customers can hardly wait for the next product to be launched so they can buy it.

Now, think about what Apple had to do to make that happen. It wasn’t that long ago that Apple was nearly bankrupt. Steve Jobs
was brought back to Apple to revive the company in 1997. He focused all efforts on creating the next big thing. That was the point of differentiation with the products and every new one was indeed the next big thing. After the iMac was launched, then came the iPod and iTunes, which revolutionized the purchasing of music. Apple quickly became known for delivering revolutionary high-quality products. This gave Apple the credibility to launch another revolution, the iPhone. Finally, the iPad took the world by storm and Apple tablets dominated the market for these devices.

This is the essence of a clear corporate strategy combined with a clear product branding strategy. When a corporate hierarchy dominated Apple, the company was dying. But when a clear brand strategy with a firm hand at the helm dominated, the company thrived. Not everyone is a Steve Jobs, but every company has an opportunity to nurture its product brands. The payoff is clear.

**Benefits of successful product branding**

Product branding drives revenue and profit.

First and foremost, the reason to create a product brand is to drive revenue. A revenue driver creates the potential for positive earnings and cash flow, which are building blocks for business and corporate financial strength. All of these drive intrinsic equity value (for a privately owned firm) and stock performance (for a public company) — the ultimate financial goal of a for-profit enterprise.

Growing a product brand also gives a company the ability to expand into new markets — either geographically or into adjacent product markets. Companies can benefit from line extensions if the product promise and target audience are consistently aligned. P&G, for example, has 12 toothpaste categories offering the consumer a broad array of Crest line extensions. These include toothpaste for whitening teeth, one for sensitive teeth, cavity protection, tartar protection, gels, etc. There is also a Crest toothpaste line for adults as well as children. Crest also has a whole line of related products including toothbrush, mouthwash and floss categories. The lines have extended well beyond the toothpaste category. Another good example of a product line extension is Jack Daniel’s, where the brand has moved from distilled liquor into other alcohol-based drinks and even to barbecue sauce and selected apparel.

Successful product brands can be licensed to create an income stream from the name alone. Harley-Davidson has done a masterful job of licensing their brand to manufacturers who will enhance the Harley-Davidson product positioning. High quality leather goods with the Harley-Davidson brand logo create value not only through the licensing arrangement but also by perpetuating the kind of image that is appropriate with the product positioning.

Successful product branding establishes the basis for business and corporate profit — a key goal for marketing. This relates to citations above, such as the ability to command and maintain a price advantage versus either lesser known brands or generic products. Profitability will be discussed in more depth under **Financial perspectives and criteria for product branding**, where we lay out a framework for evaluating how products brands contribute to overall profits.
Description and examples of product brands
Quick, name your favorite product.

It probably didn’t take you long to think of several. These are products that make your life a little better, a little easier; products that you’ve grown accustomed to. If you are similar to many consumers, you seek out one or more specific brands when you need the products.

Think about the things you buy and how you buy them. If you pick up a Wall Street Journal every day at the newsstand, or if you read it online, you are branded. If you have a favorite marking pen, like the Sharpie or Fine Point, you are connected to their brand! Cars? Do you have the same strong feeling for your car as we do for the Volvo S80 and Nissan Altima? Can you name your favorite fast food restaurant? Has Chipolte made your list? What about airlines? Do the names JetBlue, Virgin Atlantic or Southwest come to mind? What kind of feelings do these names invoke? We think it’s safe to say that different brands evoke different feelings from consumers.

Continuing on with our question and answer exercise, what about services? Yes, services are brands as well. Do you have a preference between AT&T and Verizon? Or Comcast Cable and Direct TV? Many people have preferences and exercise them every day. Anytime a call is dropped or a signal is lost someone is probably keeping score. Customers can be fickle. With some, trust needs to be earned with every single interaction.

Think about the product brand marketing effort behind the biggest and most successful brands. Companies such as The Coca-Cola Company make various product brands. The success of their individual products depends not only on being delicious tasting or refreshing, but also on tenacious and consistent marketing. The brand managers are ubiquitous in the markets they serve with advertising, signage, billboards, broadcast and sport sponsorships — anything to imbed the product in the minds of the consumers in the served market. They grow by understanding the culture of their customers in every market around the world. That is called positioning — a rigorous analytic process by which marketers are able to create a specific image in the minds of the targeted consumer — particularly as it effects the key motivating factors for making a purchase.

Strategic perspectives and criteria for product branding
In its most basic form, business and product strategy involves providing solutions for customers with needs — products/services that people are willing to pay for. Brands are an important part of these “solutions.”

A major strategic perspective for product branding is the role that the brand plays within the organization and how the brand is intended to help execute the business strategy. At one extreme, there may be multiple brands involved in a comprehensive business strategy, while at the other it could be a one product/one brand strategy. Whatever the situation, major components in any product brand oriented plan include: defining the served market, understanding unique marketplace dynamics, analyzing the brand’s influence on the purchase decision and evaluating key competitors in terms of their product/service offerings and brands.

Building on the above, effective brand strategy begins with an understanding...
of the served market. The greater the understanding of the relevant marketplace, the greater the prospect of developing an accurate simulation model to forecast the revenue (demand) for a brand. The important factors here include:

- Defining the total revenue available in the market (potential)
- Determining if the total market is growing, contracting or stable
- Identifying key outside economic indicators impacting the market

Since an important part of virtually all strategic action involves resource allocation, marketers should strive to have a program that measures the success of marketing efforts. Business people manage what is measured and a goal of brand management should be allocating business resources to value-creating activities. When developing this program, elements of the brand that are important now and will still be important in the future should be incorporated. While temporary initiatives can be customized to a program as needed, the unchanging core values of the brand should always be measured. This type of program will ensure that an accountability tool is in place for both senior managers and the team responsible for managing the brand.

Once it is determined how the brand is to be used and what its context is, key elements to be measured can be identified. These key elements are considered to be the brand drivers. Brand drivers are the levers that can be impacted by communications initiatives to drive market share and, thus, revenue. There are both common and some unique brand drivers that can vary from company to company. Some of the more common drivers include (but are not limited to):

**Brand awareness**
Do key audiences know that the brand exists?

**Consideration**
Do key audiences include the brand in their consideration set when making a purchase?

**Purchase intent**
Are key audiences inclined to choose this brand when making a purchase decision?

**Purchase behavior**
Do respondents actually follow through and choose this brand when making a purchase?

**Affinity**
Have respondents repeatedly chosen this brand historically when making purchases?

**Recommendation**
Have key audiences had a positive enough experience with the brand to recommend it to a friend or colleague?

The flow and interaction of brand drivers is illustrated above via “positioning” a product brand in the branding cycle. This type of understanding provides key diagnostic guidance for strategic branding decisions. The process to get to this understanding, which some call a marketing funnel, consists of a number of measurable stages, as follows:

**Brand awareness**
There must be awareness of the brand if there is to be a purchase.

**Consideration**
Is the brand in the purchase consideration step?
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**Purchase intent**
If the brand is being considered, does the customer favor it versus the competition?

**Purchase behavior**
Does the customer follow through with a purchase?

**Affinity**
Does the customer become a loyal one who prefers the brand and makes repeat purchases?

**Recommendation**
Does a loyal customer so like the brand that it is recommended to others?

Unique product and brand attributes, in conjunction with the above, can help to identify:

- Core strengths of the brand, especially versus the key competition, which should be emphasized in communication programs; and/or

- Product/brand deficiencies or weaknesses that need to be addressed or adjusted before communications can be effective.

These measures can be collected not only for the brand that is being measured, but also for key competitors in the same space. This context provides better understanding of how the brand stacks up relative to competitors and allows for an understanding of the brand’s comparative strengths and weaknesses.

As part of the process of defining the brand’s position in the marketing funnel, key competitors must be identified. This serves to give the brand measures context for evaluation and helps define the total market — providing a basis upon which market share can be assessed. Understanding how the brand impacts market share is a critical component to identifying its impact on revenue and other financial measurements.

The next step is to identify any specific and unique dynamics in a particular market. There may be unique cost structures or distribution channels that can impact projections and need to be identified. These costs have to be identified in order to assess the cost of growing market share and determining if the benefit outweighs the cost.

Finally, it is important to identify any external macroeconomic factors that can impact a purchase decision. For example, a car may have all the desired attributes that consumers want, but a gas price of $4 per gallon means that consumers may select a less favored model in favor of fuel economy. Macroeconomic factors also have different impacts on different types of products. For example, more expensive gasoline may not impact the purchase of consumer staples such as food and medicine, but undoubtedly would impact the purchase of luxury goods such as boats.

These elements can be integrated into a model to help define how changes in communications strategy can impact the brand, and in turn, how changes in the brand can drive changes in revenue and other critical measurements.
Financial perspectives and criteria for product branding

Revenue
Product brand building directly impacts the “top line” for a business by using focused marketing efforts to generate revenue, with a goal of making that revenue sustainable. Understanding and modeling the demand for a brand consists of evaluating the following key elements:

- Market potential
- Market share analysis
- Pricing units (brands getting higher prices, sustaining volume)
- Service contracts (brands as drivers of recurring revenue)

Market potential results from segmentation
Breaking down an overall market into “segments” are groupings of customers with unique needs satisfied with specific solutions. Segmentation is basically a targeting exercise to identify the revenue and profit potential for a brand. Autos and hotels are excellent examples of the value of segmentation. Consider Marriott with its various brands — ranging from the Fairfield Inn at the low end to the Marquis at the high end, with the Courtyard serving the business traveler and the Residence Inn serving a unique customer who needs a place to stay for a lengthier time period than a typical hotel customer. The potential for the various segments would be built with inputs such as how many customers stay at these locations, what these customers require in the way of basic services, what they desire in terms of amenities, and what they are willing to pay for these services and amenities. Virtually every auto company serves more than one segment with a different brand — some with very distinguishable names in a wide range of segments and some with only a letter or a number to separate one model from another in a more select number of segments that may be closely aligned.

Once the potential for the brand has been estimated, the next step is to evaluate the market share that a particular brand can capture.

The competitive framework of the market (identifying competitors and their role in the market) is unique to each brand. An understanding of this framework is necessary for market share to be understood. When working with partners to help build measurement tools, the executives of the business are themselves the best resources to identify this type of information. While measurement partners may be experts at collecting data and developing analytic models, the company’s executives are usually the best source of information to identify what factors are most important in driving their market and business environment. Therefore, it is important when selecting a measurement partner to look for one that is collaborative and works well with the personality of the organization.

Market share — a juggling act
There is a wealth of data required to build a sound model. The trade-offs in constructing these analytics involve determining how much additional input detail will produce a meaningful output result. It is important to identify which major factors are driving market share in conjunction with the brand. Performing this type of trade-off analysis
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allows the model to capture the majority of predictive variance in market share.
Some key data variables to consider include:

- Market structure and growth rates
- Customer size and type
- Revenue potential
- Advertising, promotion and communications spending (recent years and projected)

Identifying the structure of the market is an important element for predicting market performance and future market share. Some markets can be highly competitive, such as the soft-drink market, while others are not, such as utilities. Some markets may be growing, while others may be stable or contracting. The brand’s ability to impact business results works differently in these different types of markets. Some purchases require little thought and are conducted on a daily basis, while some are made once every few years or longer and require significant consideration. All of these factors are important considerations that need to be fully understood in the design stage of any measurement and analytic program. Further, any credible program should contain a cost/benefit analysis.

Elements of a sale are considered when appropriate. As a foundation, it is always helpful to know how a sale is made and who the ultimate consumer for the brand is. For example, if product sales are based on a number of units times a price, then this dynamic is used for the calculation of sales (demand). If another approach (say, a monthly fee times a customer base) is the basis for service gross income, then this would be in the revenue model. Configurations would be customized for other ways of accounting for revenue, as appropriate.

It is important to emphasize that while modeling to understand the opportunity to expand market share is important, the optimal utilization of this type of model is for profit contribution analysis. Conducting profit contribution analysis allows the company to understand revenue increases associated with increased market share and the costs that come with those increases (such as cost of goods sold and promotional activities). This allows for an understanding of the benefits of brand building (in the context of the cost associated with a branding program) and provides the ability to do a proper cost/benefit analysis to assist strategic decision-making. We will subsequently cover how this type of analysis should be done. In an extreme case, say with a huge brand expansion or a move into major new geographic markets (domestic or foreign), there could be capital expenditures involved. In this case, the analysis would be expanded to include the cash flow implications into the future. For most brand extension or growth situations, however, the type of profit contribution analysis that will be discussed below is sufficient.

**Gross profit — absolute and margin**

Gross Profit Margin (GPM) is the first of two key profit metrics to assess the effectiveness of product brands. An important consideration is the differentiation of “sales” and “marketing.” Sales effectiveness is measured at the sales/revenue (top-line) level while marketing effectiveness (and, by extension, brand strength) is measured by its contribution to overall profit. Brands are focused on both sales and marketing, with the impact of brands on sales (revenue) covered above.
Today it is about marketing accountability. There is no single right answer as to how much to advertise a product. Rather, the key issue relates to understanding the impact of different levers and elements that influence purchasing behavior. The follow graphic illustrates the critical elements that go into consideration of budgeting for Advertising & Promotion (A&P) and provides a framework for evaluating brand profitability.

The basic branding model

Adding Advertising & Promotion investment allows for a true cost/benefit analysis. Market and macro-economic factors, along with brand drivers, are the independent variables that effect business performance. As these independent variables fluctuate, they impact a given brand’s market share vis-à-vis its competitors. As market share is impacted, revenue for a brand will change. As revenue changes, profit is impacted. If revenue increases, it is likely that costs will increase to meet higher demand for goods or services. Conversely, if revenue declines, Advertising & Promotion investment may decline. Ultimately, the investment to drive the brand can be compared to revenue impact and then analyzed to evaluate alternative actions. If additional revenue for a brand action exceeds its marginal cost, the investment may be worth undertaking.

Gross Profit is measured in two ways — absolute amount and margin (percent-to-revenue). The absolute level is Revenue (or Sales) minus Cost of Sales (COS) or Cost of Goods Sold (COGS), noting that these two terms are synonymous.

While the absolute level of Gross Profit is of interest, the critical measure is Gross Profit Margin. Why? Because margin takes into account the all-important product price-to-cost ratio — the ability of a brand to pass on cost increases and sustain unit prices, especially when economic conditions are difficult or when the product is in a competitive market with substitutes. The ability to pass on cost increases is important for products that have significant raw material content and are, thus, subject to the potential fluctuation in those prices. The ability to sustain (or, selectively raise) prices reflects a consumer’s attraction and/or attachment to the brand — in essence, a willingness to pay more for a product that is respected and trusted. Further, a focus on margin allows for more easily evaluating products/brands of different size and scope within a business or company. Where price and cost information is available, the analysis of Gross Profit Margin for competitive products (brands) may be possible.

Gross Profit Margin is calculated as Gross Profit (absolute amount) divided by Revenue.

Advertising & promotion

Understanding how much advertising to spend on a specific product was in years past a balancing act between common sense and science. Gut feeling played a big role in whether media budgets got funded.
From a financial analysis and reporting perspective, Advertising & Promotion is a major portion (often the major portion) of the investment into establishing and maintaining a brand. Regardless of how powerful they are, consumers apparently need to be reminded of brands, even those they are familiar with. For new brands, the thrust is typically toward awareness — highlighting product features, price/value, etc. The nature of the product, price point and frequency of purchase, along with brand strength, can be determinants of the amount and type of Advertising & Promotion effort. Once a budget or plan for this activity is established, the financial impact can be reflected in one of two ways:

*Treatment #1*
A charge to the income statement (which some refer to as the “P&L”) for the amount of the expenditure during a fiscal period (the norm for GAAP reporting and many internal management systems that place emphasis on P&L performance); or

*Treatment #2*
A two-step process of first capitalizing the expenditure and then amortizing a portion of the expenditure (during each fiscal period) depending on the expected useful life of the expenditure or the Advertising & Promotion campaign. This treatment is similar to the treatment of fixed and intangible assets and is employed in some management reporting systems — particularly those oriented toward economic profit. This second method creates a pseudo balance sheet account and includes the “net cumulative” effect of ongoing expenditures as part of the capital invested in the business. The rationale for this treatment is that the expenditure has benefits that extend beyond a fiscal period, similar to fixed and intangible assets.

Thus, similar to Research & Development (R&D) within a company, A&P is an investment. As a side note, the concept of capitalizing P&L expenditures is now being carried to the area of Human Capital (the “asset” value of employees); thus, the notion of capitalizing Advertising & Promotion has merit and has some following in the business community.

**Profit contribution — contribution margin**
Profit Contribution and Contribution Margin comprise the second key profit measurement for a product brand. The calculation is similar to Gross Profit — absolute and margin — except here we start with Gross Profit and subtract A&P expense, along with any direct brand communication expense that may be classified outside of the A&P account(s). The result is an absolute Profit Contribution (or, Contribution to Profit). This amount divided by Revenue is the Contribution.

Contribution Margin measures the ability of a product (brand) to cover other overhead expenses within a business that are not easily linked to the product (brand) — some of which could be total business or company-wide A&P and/or communication expenditures — as well as general and/or corporate overhead expenses. Contribution Margin is a good indicator of profitability and is relatively easy to calculate, because it entails elements that, within any good financial reporting system, should be directly accountable to the product (brand).
To illustrate the two treatments, let’s take an example of a company that has a plan to spend the following annually for Advertising & Promotion during the next 4 years:

Year 1: $1,000
Year 2: $1,500
Year 3: $2,000
Year 4: $2,500

Further, assume that each year’s total expenditure has a useful life of 2 years and that we’re going to capitalize the anticipated annual expenditures at the beginning of each year and amortize 50% of the annual expenditure each year until each year’s expenditure is fully expensed. Further, assume that Revenue and Gross Profit are as follows:

Year 1: $10,000 Revenue, $4,500 Gross Profit
Year 2: $12,000 Revenue, $5,500 Gross Profit
Year 3: $13,000 Revenue, $6,000 Gross Profit
Year 4: $14,000 Revenue, $7,000 Gross Profit

Thus:

The following table, then, reflects the different treatments — expensing versus capitalization.

### Treatment #1 — Expensing

<table>
<thead>
<tr>
<th>Contribution Margin Analysis</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
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### Treatment #2 — Capitalization

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<th>Amortization Schedule (at 50% per year)</th>
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### Comparison

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*As a note, the first year difference is overstated, since we would have some carry-over A&P amortization from the most recent historical year; thus, we should focus on years 2–4. For those companies that employ an economic profit oriented financial system, these positive differences (for the Capitalization treatment option #2) will be mitigated with a charge to the additional capital created by capitalizing the annual A&P expenditures. The extent will be determined by the cost of capital that is inherent in the business and the effective tax rate. In the above example, inserting a cost of capital of 10% and a corporate tax rate of 40%, reduces the positive impact of capitalization to 1% or less on the Contribution Margin in years 2–4. Thus, the choice of adding an additional element of complexity in determining the profitability of a product brand is one that each company needs to make, considering the above factors and the trade-off of simplicity versus enhanced accuracy.
**Qualitative metrics**

To understand the financial opportunity available for any product there are a number of variables that need to be considered and managed. Assuming the product is already launched and there is an established marketplace, issues of quality need to be determined and monitored. Customer satisfaction research surveys are an excellent way to evaluate whether the product or service being provided meets or exceed customer satisfaction. Customer satisfaction is a key indicator of a customer’s intent to purchase again; therefore, a key strategic metric. The collection of qualitative and quantitative research on customer satisfaction will provide clear evidence on how well a firm and its products will retain customers in the future. To the extent possible, qualitative data (some call these Critical or Key Success Factors — CSFs or KSF) should be translated into quantitative metrics, such as Key Performance Indicators (KPIs).

Product quality will vary greatly depending on the nature of the product. The parameters of quality for a child’s toy are generally more tolerant than, say, for a jet engine. The dynamics change dramatically if that child’s toy is suddenly found to contain toxic paint or potentially life threatening flaws. Product quality itself is closely aligned with customer satisfaction. If product quality meets or exceeds customer expectations, it improves the chances for a repeat purchase and that is true for the child’s toy or the jet engine.

Product design is an integral element of quality. Is the product pleasing to the eye? Is it functional? Does it look good? Will it reflect well on me if I purchase it? Is it made using high quality ingredients? Do respected firms with fair employment practices manufacture the product? These are just a few of the elements of marketing that can make or destroy a product brand.

Packaging can add tremendous value to a product or, if too controversial or unappealing, may destroy value. A package design that is hard to open can create customer frustration. Packaging is another key component of the product brand. Wasted packaging creates environmental concerns. Some of the key questions that consumers ask include: Is the packaging made of recycled materials? Can the materials be recycled?

Questions of Corporate Social Responsibility (CSR) — which some may view as more of a corporate branding dynamic—are growing as part of the product purchasing decision and need to be considered as an integral part of the product brand.
About the authors

James Gregory is founder and CEO of CoreBrand. He is one of the US communications industry’s recognized experts and leading advocates of corporate branding. Jim leads all key strategic issues relating to the corporate brand. Over the years, he has developed a unique blend of creative and analytical expertise.

Jim speaks widely on the subject of corporate branding to both business and academic audiences. He has also authored four books: *Marketing Corporate Image: The Company as Your Number One Product; Leveraging the Corporate Brand; The Best of Branding; and Branding Across Borders.*

Jim created the Corporate Branding Index®, an annual research survey designed to capture vital reputation and financial statistics for CoreBrand’s various measurement products. Such products include the CoreBrand Analysis®, which helps corporations and their agencies determine the return on investment for advertising and communications.

Jim is a founding member of the MASB Advisory Council.

Roy E. Johnson has over forty years of business experience — encompassing corporate financial management, business consulting, entrepreneurship, education and writing. His corporate accomplishments include implementing company-wide capital appropriation and financial planning systems, along with shareholder value-based performance measurements, at Pitney Bowes Inc. Prior to this company, he held financial positions at General Foods, W. R. Grace and The Hertz Corporation.

Mr. Johnson has spoken on the subject of economic value-based financial performance at conferences and seminars across the United States during the past decade. His book, *Shareholder Value — A Business Experience*, was published in October 2001 by Butterworth-Heinemann. He was also a contributing author to *The Valuation Handbook*, published by Wiley Finance. Publicly owned consulting clients include Baldwin Technology Company, FMC Corporation, First Data Corporation, Hewitt, Monsanto, Merrill Lynch, PAMIDA, Penn Treaty American Corporation, Pitney Bowes and Valmont Industries. Privately owned clients include DFB Pharmaceuticals, the Army & Air Force Exchange Service (AAFES), Synchronoss Technologies, and several small owner/manager firms.

Mr. Johnson earned his Bachelor of Arts at Upsala College, and his Master of Business Administration at Rutgers University.