

**Creative Commonwealth Whitepaper Series**

**Discounting Brand Equity and the Results**



**CreativeCommonwealth**

## *The Impact of Discounting on Brand Equity*

Price discounting effects brand equity and has kept an increasingly heated debate boiling: advertisers vs. agencies, advertising agencies vs. promotion agencies, sales managers vs. marketing managers, manufacturers vs. retailers. It's a 10-parent child custody battle.

Let's begin by agreeing to a common vocabulary:

Brand image is its personality, its promise to prospective customers. Brand equity is the worth of that image and its strength as judged by its ability to remain unaffected by temporary fluctuations in any of the comprising factors. Consumers have only one collective image of a brand, created by the deployment of the brand assets at your disposal: name, tradition, packaging, advertising, promotion posture, pricing, trade acceptance, sales force discipline, customer satisfaction, repurchase patterns, etc. Clearly some brand assets are more important to product marketers than to service marketers, and vice versa. Some competitive environments put more of a premium on certain assets as well.

Then, let's look at some key facts:

### *The ultimate decision-maker is the consumer.*

Whether or not discounting has an effect on brand image is not something you can dictate, or wish away. Don't fall for the trap where you confuse the message sent with the message received. Some marketers believe "positioning" is inherent in their advertising ... but it never is. It's found between the ears of the audience. Let's repeat that another way, because it's central: you cannot dictate what your prospects perceive. They've got the steering wheel.

### *Central to brand image is its value versus competition.*

Value is, of course, the relationship between quality and price. Unfortunately for the brand, price is more easily tampered with than quality. Quality is made up of tangible attributes, intangibles, or just warm fuzzy feelings. You can say you've got it but consumers demand you prove it (have you believed a Ford ad lately?) Perceived quality takes time to build (after 50 years, everybody loves Weber grills) but it can be destroyed overnight (remember Schlitz?)

Quality is a belief, often difficult to articulate, held by the collective mind of users and prospects. For example, in every distilled spirits focus group conducted since the dawn of time, the high quality brand (usually the category leader) is described as smooth, lower quality entries as harsh. Yet, a blind taste panel shows no detectable differences. Quality is a judgement made within the context of the consumer's experiences and predispositions. The range of commitment ranges from unshakable to firm to flimsy.

*Price, on the other hand, is rock hard.*

It is not an impression built up over time. It is a number printed right there for the world to see. While consumers may not have prices committed to memory, they usually have a good feel for a product's price relative to competitive products.

So for product managers, prices are temptingly easy to change, especially compared to perceptions of quality or product formulations. Virtually no lead times. No costs for retooling or new packaging. And what the hell, it's only going to be for a short time so we can make our numbers for the quarter. No one will notice. If you work for General Foods or Frito-Lay or similar let's-cross-train-all-managers enterprises, so you feel your tenure with a brand is 18 months max, why worry about long-term issues like brand equity? Anyway, all that Wall Street demands is a better quarter, regardless of any long-term brand damage.

Enter discounting ... a temporary price reduction intended to increase sales over the short term. Sounds harmless enough. "We'll have the same quality, with a lower price, so we'll become a greater value."

That's when problems emerge.

*The perception of quality may not be fixed as firmly in the mind of the consumer as the producer might think.*

For new products which have not established their quality reference point within the field of competitive brands, or products which are creating a category and thus have few if any competitive reference points, discounting may have little or no benefit for the brand because the quality half of the value equation has not been established. In this situation, the discount serves only as a trade lever or bonus. The question "What's the deal?" is expected as a way of motivating the trade.

*For an established brand, discounting can have an adverse affect on value.*

Quality and price do not exist as isolated concepts in consumers' minds. They are interrelated. Research has shown that deep discounts do cause the consumer to believe that something is wrong. Frequent discounting serves to lower the value of the brand because of an almost subconscious reaction by the consumer who believes that quality also has been lowered (remember shirts with alligators on them?) Or, in a "value rebound," consumers begin to perceive the everyday price as too high. The brand is then bought only on deal.

*Whole categories have been poisoned that way.*

Nobody expects to pay "full price" for washers, or tires, or mattresses. Ever.

Perhaps the greatest danger in frequent discounting is with loyal users. In an effort to get new users or increased volume, discounts are offered. Some new users are induced to trial. Loyal users, however, who would have bought the product at its normal price because they believe in the quality/price relationship, are now rewarded for purchase at the expense of lower margins and their removal from

the marketplace for a period of time when the brand is selling at full price. Imagine a high level discount or a BO/GO offer for products such as steak sauce, acrylic floor wax, or pickle spears, which have a use-up rate measured in months, not days. Does it make sense to take out of the marketplace for over a year a user who would have bought the product anyway?

*Another point to consider is the form the discount takes.*

Here we are talking about the numerous forms the consumer might see.

Coupons are suffering from declining redemption rates. This is due in part to the increasing avalanche of coupons being distributed. In the future, marketers must look at coupons as only a weapon in a broader tactical effort, never as a strategy. Strategy implies long-term vision and planning, a concrete goal to be achieved over time. Coupons should be used as a weapon only if delivered to the right consumer segment within a context that enhances the brand's quality perception.

As coupon redemption rates go down, face values increase. Competition does the same, and redemption rates still decrease. The cycle becomes even more vicious. This is the major reason behind every package goods company's quest to find something more effective than the FSI.

One should also question coupons in new product introductions. Given the Value = Quality/Price equation, the question is valid. Granted a coupon can induce trial, but within the context of  $V=Q/P$ , the P is artificial and the Q unestablished. Ever wonder why so many new products succeed at launch but perform poorly in the post-test market? The heavily-couponsed or widely-sampled product tested is not the same product as the one ultimately sold. The usual excuse, that getting consumers to "try" so they'll discover the quality and be willing to pay full price in the future, asks consumers to do work for which they have neither time nor inclination.

Rebates appeared at one time to be the answer. By building in enormous breakage factors, extremely high face values could be offered ... sometimes so high that retailers could advertise the product as FREE. Here, too, there has been a consumer rebound, rejecting the increasingly complicated steps needed to qualify for a rebate. Consumers aren't stupid, and harder to fool than ever.

If one wants to see just how ineffectual and cannibalistic rebates have become, just ask General Motors. Or for contrast, note how Honda established a  $V=Q/P$  relationship combining high quality elements and very economical prices. When the quality perception became entrenched, prices could be raised without adversely affecting value.

Finally, discounts at retail. Retailers want to sell more of anything than the merchant down the block. Brand building is not as high on the priority list as getting acceptable margins and high turns, regardless of the impact on brand image or long-term value enhancement. Through discounts, allowances and fees, they want to be able to offer the same goods as their competitors at more competitive prices.

### *How then can marketers reconcile their goals for the brand with those of the retailer?*

The goal should be to establish a high quality/price relationship with the consumer. And then, when discounting becomes necessary as a trade lever, boost the quality portion of the equation so that the Value = Quality/Price equation remains relatively unchanged.

Manufacturers can enhance quality in a number of ways. As the price changes, make a change in one or more of the attributes that make up the quality impression. Such quality enhancers could be a new package, image-enhancing publicity events, or higher advertising levels. (Too often, marketers put price promotion in one quarter and advertising in another as a way of stretching A&P budgets. They should run together.)

Retailers should be required to perform some image enhancing (like end caps or POP display) while offering the product at the price they claim will make it move. Note: inclusion in an ad circular is not image-enhancing! A savvy marketer offers the tools for the retailer to help boost the quality perception. Few use them.

Fortunately, there are some retailers who understand the concept of brand equity not only for the products they sell, but for their store. Contrast this with retailers who seem confused and distressed by Wal-Mart's relentless growth.

Marketing their stores like a brand, Wal-Mart built tremendous equity in their name. And their credibility helps the brands in the store ... after all, in the consumer's mind, Wal-Mart is responsible for the low prices, so (producer) product quality is not compromised. The expectation of low price, which is an important component of Wal-Mart's brand personality, protects branded goods from value rebound.

A few final points. First, avoid getting into the cycle of frequent deep discounts. Second, if you are in it, get out. A deal can always be beaten by a competitor. An image is quite a different thing altogether. Strong brands can withstand and benefit from a well thought out discount program, within the context of a brand equity building plan. Brands developing equity realize no benefit over the long term from frequent fire sales ... and may even suffer significant damage.

Finally, with discounting a fact of life, a concerted effort must be made to assure the most effective deployment of all brand assets, unified by a central strategic vision, in order to build the quality side of the equation.

