

**If Brands Are Built Over Years, Why are they Managed Over Quarters?**

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## **Overview**

Many brands are on the wane. Private label dollar share is growing in the United States, from 14.7% in 1997 to 15.1% in 2002 (BCG-IRI study), excluding Wal-Mart, where private label share growth is also evident. Price premiums are eroding. Over the past 25 years, consumers have become significantly more price sensitive (Bijmolt, van Heerde and Peters 2005).

It is often contended that retail consolidation is to blame; making it more difficult to maintain margins in the face of trade pressure. For example, in the late 1990's Vlasic started to discount its pickles by selling them in a gallon jar. Wal-Mart became interested and asked Vlasic to price to a \$2.99 retail price point and sales at Wal-Mart quickly comprised 30% of its business. However, the gallon jar cannibalized Vlasic's business at other retailers and shrank its margins by 25%. When Vlasic asked for relief, Wal-Mart responded by reviewing its commitment to the Vlasic line. By 2001, Vlasic had filed for bankruptcy, in part as a result of shrinking margins.

Yet some firms have successfully countermanded this trend. In 2003 Foot Locker, which had quickly grown to be the largest shoe distributor and 10% of Nike's sales, cut Nike orders by about \$200MM to protest terms Nike placed on prices and selection. In response, Nike cut its allocation of shoes to Foot Locker by \$400MM. Customers, frustrated in their inability to find the shoes they like, stopped shopping in Foot Locker. Sales from its competitor, the Finish Line increased. As a result, Foot Locker acceded to the Nike terms.

Vlasic and Foot Locker assumed different approaches to building their brands. Vlasic relied on short-term sales strategies such as focusing upon a single large channel partner and using discounting to attract consumers. Further reflecting this short-term orientation, Vlasic, reduced advertising by 40% from 1995-1996 to 1997-1998. Nike pursued a longer-term orientation by investing in its brand equity (for example, it allocated \$1.2 BB to its advertising budget) and balancing its distribution across its partners. Such a long-term approach is not expedient to achieve and the effects are not all immediate. Yet such investments can build brand loyalty over the long term. Nike "owned its customers" while Vlasic ceded them to the channel.

In this article, we argue many manufacturer brands are in trouble because they have taken a very short-term orientation towards managing their brands (from their management structure on down to the metrics they use to measure their "success"). We discuss several factors that have exacerbated this trend and offer prescriptions for redressing this problem so manufacturers can begin to reclaim their customer base and add more value to their shareholders.

## **The Genesis of the Short-term View**

*The Increasing Availability of Data and Models of Short Term Revenue Impacts*

Brands did not always rely on off-invoice discounts to make sales numbers. Up until the 1970's, brands adopted more brand-equity oriented approaches to marketing. However, a radical shift in the information set available to managers at this juncture changed their views regarding how to market: the introduction of store-level scanner data. Prior to the 1970's, brand managers had to wait up to two months to obtain sales numbers for their brands. Matching weekly discounts to store movements was a difficult and error-prone task. As a consequence, large weekly increases in sales associated with discounts were difficult to observe. With the advent of store scanners in the 1980's however, promotional data could be tied directly and immediately to the consequential movement in sales. The following figures are illustrative of how promotions were viewed in the store withdrawal audit era, and how they are viewed today Figure 1 shows total country (U.S.) shipments and aggregate consumer sales on a monthly basis for a CPG product from 1978 – 1981. These consumer sales were extrapolated from a small national sample of stores. From the dotted sales line it is very difficult to understand the impact on consumer sales of any of the manufacturer's trade promotions.

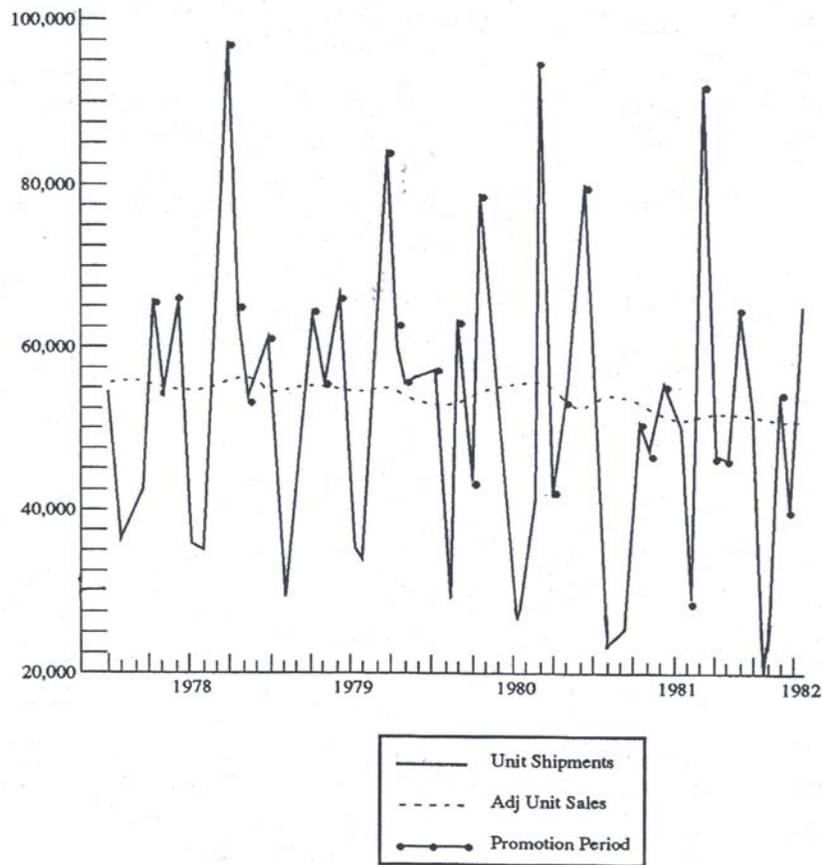


FIGURE 1 A plot of consumer sales and shipments shows major promotional peaks and troughs for shipments to the trade but less apparent effects at the consumer level.

On the other hand, Figure 2A shows the building blocks for today's promotion evaluation models – weekly, store level scanner data and observations of newspaper features and store displays in a large sample of stores which can be accurately projected to local trading areas.

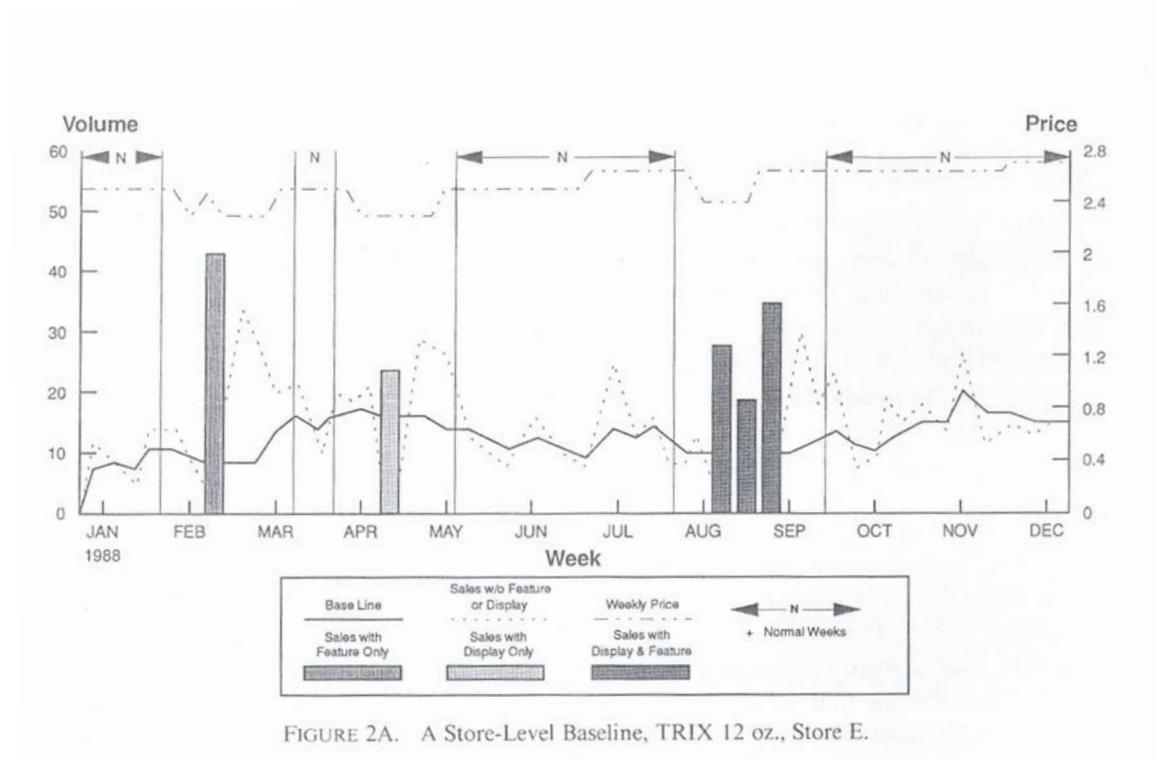


FIGURE 2A. A Store-Level Baseline, TRIX 12 oz., Store E.

In tandem with these data, baseline sales models were developed to assist brand managers in assessing trade promotional profitability (Abraham and Lodish 1993). Baseline sales models predicted the likely level of sales in the absence of a discount or other short term trade promotions. The baseline in Figure 2A is one of the many building blocks for the national aggregation for the total U.S. depicted in Figure 2B.

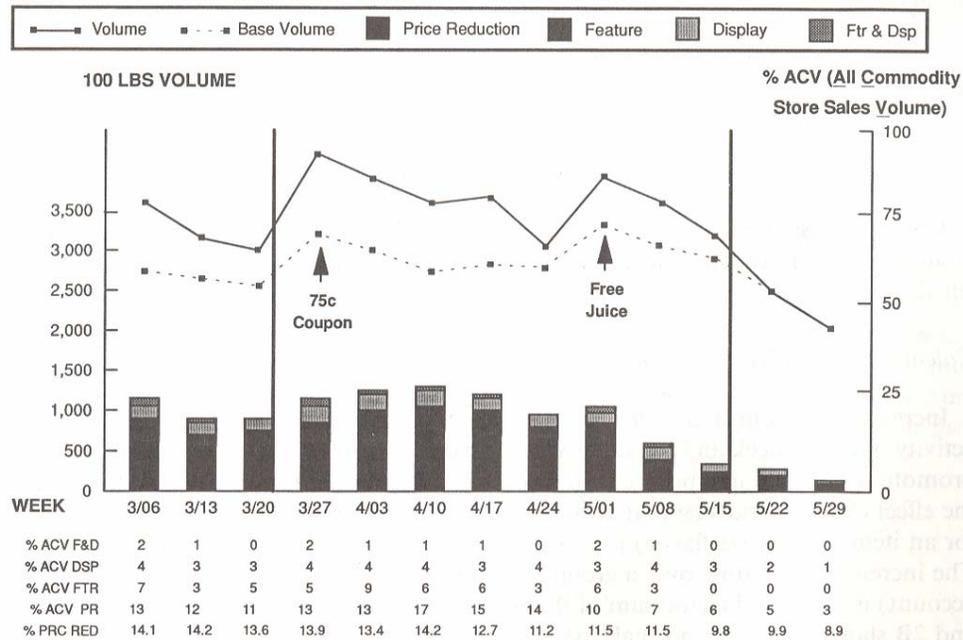


FIGURE 2B. PromotionScan Summary, TRIX 12 oz., Total United States.

Using this tool, brand managers could compute the short-term incremental profitability of a promotion. This model represented an enormous advance in the arsenal of tools to be used in managing promotions. A brand manager can use baseline sales models in conjunction with scanner data and data on features, displays, and price reductions to determine whether or not these promotions lead to higher sales and profits. The baseline model-based measure has become so ubiquitous, that many brand managers no longer realize these baselines are model estimates.

The consequences of these developments were considerable. Promotional spending on discounts jumped as promotions appeared to be quite profitable. According to various sources (Hoyt and Company, Carol Wright, Accenture, Cannondale Associates and Donnelly), between 1978 and 2001 trade promotion spending has increased from 33% to 61% of firms' marketing budgets. This growth has occurred largely at the expense of advertising, whose effects are more difficult to measure. Advertising spend has fallen from 40% to 24% of marketing during this interval. Yet the immense efficacy of promotions reflected in their pronounced short-term sales lift does not tell the whole story of how brands are affected by discounts, because lift over baseline is a short-term measure of promotional profitability. Several long-term effects could countervail these short-term increases in sales and profitability:

- **Consumer Learning:** Price promotions can lead persons to increase their expectations that an ensuing deal is forthcoming. As a result, consumers learn to lie in wait for a discount. This behavior leads to lower baseline sales in the long run, and a higher apparent promotional lift over that baseline as persons buy more exclusively on deal. From a short-term perspective, the greater promotional lift makes deals look even more profitable, leading to more discounts. Eventually, the

bulk of product moves off-invoice and margins decrease. The average brand manager, who believes that baselines are given numbers not estimates, and that they are invariant to strategy, is left to wonder how they lost the customer.

- **Brand Purchase Attributions:** By focusing consumer attention on extrinsic brand cues such as price instead of extrinsic cues such as quality, promotions make brands appear more similar. This results in increased price sensitivity as products become more commoditized. Even the trade is not immune; a factor cited in K-Mart's recent bankruptcy was its reliance on discounts to attract consumers to the store. When it endeavored to curtail them, sales plummeted. What K-Mart had done was to make price the main reason that consumers shopped there, offering little intrinsic reason to be loyal to the store.
- **Stockpiling Behavior:** Consumers are prone to forward buying. Thus, much of the responsiveness to deals is simply the shifting of purchases over time. This again amplifies the effect of deal response by simply borrowing sales from the future.
- **Competitive Response:** When one firm increases its discounts (because the apparent historical lift in sales is large), it is not uncommon for others to respond. As a result, promotions increase but sales do not, again lowering margins.

Together, these factors can combine to substantially mitigate the efficacy of promotions in the long-run. Information Resources, Incorporated reviewed 24 brands in Europe between 2002 and 2005 and found that the total impact of discounts is only 80% of their short-term effect and that the total effect of advertising can be 60% greater than its short-term effect. Another set of analyses on 71 brands by a major consumer packaged goods marketer in the United States reaches a similar conclusion. The estimated price sensitivity using the quarterly data was only one-seventh that arising from the weekly. This difference can be ascribed, in part, to the fact that weekly data include purchase accelerations, ignore subsequent competitive price reactions and consumer learning. These data suggest that the short-term data dramatically impacts perceptions of how deals work, yet a singular focus on this orientation may lead one to overstate the effects of a deal. As promotional measurement becomes even more micro-oriented in this decade (with immediate data for sales available on demand), it is likely that this effect will be further amplified.

### *Hard Data Drives Out Soft*

While immediate, large observable *short-term* increase in sales arising from *discounts* are readily apparent, the *long-term* effects of discounts and the effects of *other components of the marketing mix*, including advertising, new products and increased distribution are more difficult to measure. As a result, it is easier to make the case that promotions are the salve to heal a brand's maladies, and that other instruments such as advertising are inefficacious. For example, studies by Lodish and colleagues find that short-term advertising response is small relative to price response. Using data from split cable in market experiments of 127 TV ad campaigns from 1989 through 2003, Lodish and colleagues show that the typical TV advertising campaign for packaged goods has an advertising elasticity of .11 during the year it runs (the marketing literature suggests price

elasticities are roughly *twenty times* greater).<sup>1</sup> Moreover, the variability of the revenue productivity of campaigns during the first year is very large; many campaigns have elasticities that are not statistically different than zero while others evidence very high elasticities. More recent data (1995-2003) indicate that only 45% of the TV advertising campaigns had elasticities that were significantly different from zero (using an 80% certainty level).

In spite of these apparently small short-term effects, Lodish et al (1995) find that TV advertising campaigns that have a significant short-term (i.e, during the first year) sales effect also have a long-term impact on revenue that lasts at least 2 additional years; the revenue arising from the first year of advertising is approximately doubled over the subsequent two years. Equally important, if a TV campaign does **not** have a significant ( $p=.2$ ) impact during the first year, it has **no** long term impact.

One might view these low average short-term advertising elasticities as evidence that TV advertising is difficult to justify on a short-term basis. We disagree with this view for two reasons. First, advertisers who pre-test new campaigns in-market can isolate campaigns with a higher long-term revenue impact, because advertisements that are successful in the short-run also have a positive long-term effect. Second, even campaigns with minimal sales response can have a positive effect on margins. Such an effect can arise when advertising does not affect sales directly, but instead differentiates brands and leads to lower price elasticities. When consumers are less price sensitive, firms can raise price. Indeed, Victoria's Secret (VS) has done a number of regional and local TV advertising tests in which some stores are in areas exposed to the advertising and others are not. According to Jill Beraud, now the Lintied Brand's Chief Marketing Office, they have typically observed increases in the specific product advertising, but not observed enough short term incremental sales on a total store level to justify a pay out on the TV advertising expenditures. However, they have also measured a correlation of increases in TV advertising and their ability to increase the unit retail price over the long-term. They have found that the investment in TV advertising helps to build the overall strength of the brand and make their customers less price sensitive. The TV advertising changes and improves people's perceptions of who VS is and it also is crucial for doing new product and product line launches. Even though there are probably opportunities for VS to fine tune its TV media, budget, and creative, their basic "formula" has worked. Senior management is spending its time focusing more on new products innovation and line extension because it feels it can add more growth to the company with those activities. In the longer term these activities have been very effective for VS. They have quadrupled sales and doubled their average selling price in less then 10 years.

Even more difficult to measure are the long term effects of distribution and new products. A recent large-scale study by Ataman, Van Heerde and Mela (2006) considered 25 packaged goods categories in France over a five year duration. Their data included weekly sales, discounting intensity, advertising spending, the number of products introduced and their variety, and the number of outlets in which these brands were distributed. Findings from this research suggest that advertising and product play the

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<sup>1</sup> Elasticity is the percent change in unit sales arising from a percent change in marketing expense.

greatest long-term role in increasing the baseline sales of a brand. Discounting activity had a smaller but negative long-term effect on baseline sales. This analysis suggests that it is advertising, not discounting, that has the greatest long-term effect on baseline sales. The difficulty in measuring these long-term effects has heretofore led managers to assume the opposite; that discounts drive sales. The study also revealed that product variety and distribution lower price elasticities. A smaller but significant effect pertained to the role discounts had in increasing these elasticities. Together, these results suggest shifting marketing allocations from discounts to increasing product variety would both result in higher sales and prices in the long run in contrast to well documented finding that discounts drive sales in the short-term.

These problems are inadvertently further exacerbated by Wall Street analysts who focus on hard data to value firms and advise clients. Lauren Lieberman, Lehman Brothers equity analyst for cosmetics, household, and personal care products gave us a Wall Street point of view. “We analyze quarterly revenue and profit performance because it’s the best gauge we’ve got. But what we really value is sustainable top line growth because we feel it is indicative of higher returns to shareholders over time.” This phenomenon has a strong implication for corporate marketing spending. One firm we interviewed indicated to us that they believed distribution and products to play the greatest role in increasing sales in the long term. Ironically, they instead focused their marketing programs and research efforts on advertising and discounting. When queried why, the managers indicated they are judged on quarterly sales because investors are focused on these numbers, and that the link between discounts and the current quarter’s sales are transparent. Thus, hard numbers drive out soft, leading managers to manage brands by the data they **have**, not the data they **need**.

### *Tenure Issues*

The readily available metric of short-term sales as a yardstick for brand performance can interact with the tenure of a brand manager in an unfortunate fashion. Brand managers have brief tenures, often managing a brand for less than a year. The longer-term effects of marketing actions can take months or quarters to manifest. Accordingly, managing a brand with a long-term perspective is likely to benefit the performance of subsequent managers than current ones. In this sense, the brand management tenure issue is not unlike that of the analyst; they can only be judged by the metrics available to evaluate them.

In sum, the increasing availability of more thinly-sliced short-term sales data and measures has led to a greater emphasis on short-term marketing productivity to the detriment of the long-run health of brands. Ironically, because single source scanner data has been available since the 1970’s, it should be *easier*, not harder, to take a long-term view of brands. Unfortunately, these data are typically discarded, because few firms are versed in long-term metrics of brand performance or aware of what can be done with them. In the next section, we tender some ideas to redress these limits. By creating **hard** numbers about **long-term** effects, which are available as **short-term metrics**, firms can avoid some of the myopia inherent in their short-term measures.

## Back to the Future, the Long-term View

### *Long-term Metrics*

To help redress the short-term focus, we augment short-term measures of brand performance with metrics designed to assess the long-term health of a brand. These metrics build upon widely used and available short-term measures of brand performance so they should be convenient to use. Specifically, we note that the promotional lift above a baseline arising from a single discount is a measure of **short-term** marketing effect. These baselines and promotional lift analyses are endemic in consumer packaged goods marketing. Yet baselines and lifts are not immutable. Changes in baselines and lift over time as a result of variation in marketing strategy are reflective of *long-term* changes in brand performance. Moreover, the baseline and promotional lift have a natural interpretation; baseline sales represent a **quantity premium**. All else equal, a brand with a higher level of baseline sales has a higher level of demand than one with a lower level of baseline sales. The promotional lift or price elasticity represents a **price premium**. If brands can attain a higher level of sales without lowering their price, their margins will be greater. All else equal, the price premium reflects the increase in price a brand can realize over an alternative brand with a lower price premium. It can be shown that the price premium, or per-unit profit margin, decreases as consumer price sensitivity increases.

Together, these measures reflect a brand's long-term health. If **baselines are increasing** and **price elasticities are decreasing**, then brand equity is **improving**. No changes in the brand building activities are required. To the extent new, creative, more impactful brand-building ideas are developed, it is management's prerogative to implement them and the metrics we advance can be used to assess the efficacy of these ideas. In contrast, if **price elasticity is increasing** and the **quantity premium or baseline is decreasing**, there is a **problem** with the firms' brand building strategies. Such changes portend that the brand is fundamentally headed in the wrong direction. Even if sales and share are increasing in the short-term, the intercept and price elasticity can indicate brand equity problems, implying that sales and margins are likely to fall. Accordingly, brand building activities need to change.

What the "C" Level Manager Needs on Her Dashboard:

Each quarter firms should monitor the following metrics for their brands

- A- The estimated brand sales at a constant, non-promoted reference price. This measure is commonly called baseline sales.
- B- The change in baseline sales over months, quarters, and years, and the probability that baseline sales have increased or decreased over the months, quarters, and years.
- C- The regular price and promoted price elasticities for the brand
- D- The change in brand price elasticities over months, quarters and years and the

probability that elasticities have increased or decreased over months, quarters, or years.

Depending on the manager's risk tolerance, she may want to take action to improve the longer-term future of her brands if the probabilities and magnitudes of A going down or C going up are large enough to signal impending problems for the firms' portfolio of brands. Given the shorter-term tenure and goals of brand managers and the significant allocation of resources such changes in long-term strategy entail, it is especially desirable these metrics reside in the C-level suites. In the event these metrics are improving, they can also be useful tools in communicating the benefits of long-term marketing investments to a firm's analysts.

Lehman's Lauren Lieberman was supportive of these two dashboard measures. "These measures would be very helpful in gauging the brand and business health – as important indicators of the **quality** of revenue growth."

Returning to our hypothetical example of the brand that has over-promoted, thereby lowering its baseline sales and increasing its price elasticity, a short-term perspective would indicate that a large promotional lift is indicative that discounts should be increased, because they increase current period profits. However, the long-term metrics would offer a different perspective. By lowering baselines and increasing elasticities, profits are compromised. The trade-off between these two effects gives a more complete view of how to manage a brand. The following real example illustrates this point and shows the value of these new dashboard metrics.

One major consumer packaged goods firm, in conjunction with Information Resources, Incorporated, used this approach to track a major beverage brand's performance between 1994 and 1999. This analysis revealed a 3% decline in baselines and a 14% increase in price elasticities in 1999. The brand decline was not apparent from the short-term sales data because the firm had increased discounts that led to a 7% sales growth. The damage to the brand became apparent when the brand later tried to increase price. The increased elasticities cost the brand over 5MM in revenues. This debacle prompted management to review the brands' strategy wherein they uncovered an 8% increase in promotion spending and a 7% decrease in advertising budgets.

The foregoing application illustrated how these metrics can be used to anticipate brand weakness. The traditional approach of focusing upon revenues yielded a misleading picture of how well the brand had been managed. Had the long term metrics been in place, it is less likely the brand would have suffered.

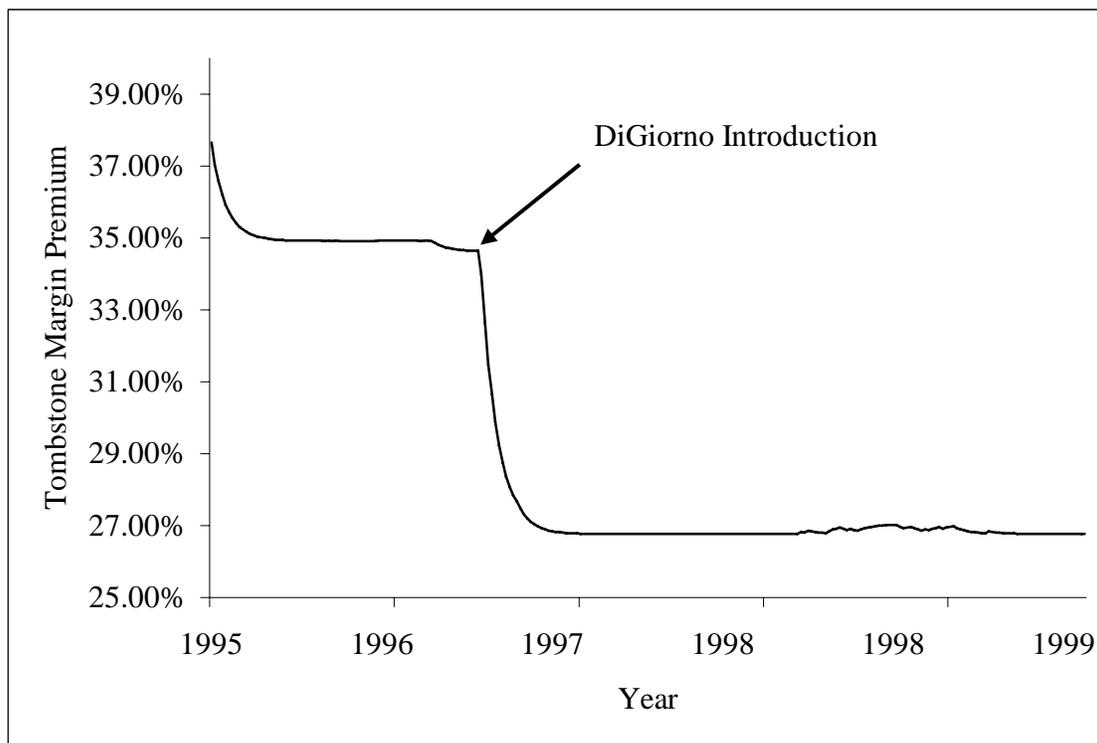
A brand that seems to have managed by these longer term principles is LaCoste, a brand of tennis shirts. When first brought to the United States in the 1950's, the shirts became a fashion rage. General Mills acquired the brand in 1969 and it continued to sell well. However, in the mid 1980s, General Mills lowered the price and broadened distribution. The short-term effect was predictable; sales increased. Yet the brand went

from elite store to clearance bins and lost its cache. LaCoste repurchased the brand in 1992. LaCoste limited distribution, advertised the brand through celebrities, and *raised* the price. Since January of 2002, sales have jumped 800%. However, in the initial years after re-purchase, the marketing had little immediate revenue effect. Had the firm continued to assume a short-term sales perspective, it is doubtful they would have turned the brand around.

### *How the Long-term Metrics Redress Short-term Myopia*

The price and quantity premium dashboard metrics address the myopia-inducing problems indicated in the preceding section: an increase in short-term data, hard data driving out soft, and short tenures.

First, the increased availability of short-term data can be “turned about” to generate more frequent assessments of a brands’ long-term health and then linking these changes to marketing strategy or competition. For example, Van Heerde, Mela and Manchanda (2004) found that the introduction of a radically new product from Kraft (DiGiorno rising crust frozen pizza) lowered the margin price premium commanded by Kraft’s established brands (e.g. Tombstone).



In essence, the roll out of DiGiorno rising crust pizza made extant products appear more similar to consumers and therefore made them more substitutable and susceptible to discounts from other brands. The implication for a brand manager with multi- portfolio brands is that the introduction of a new form can make existing brands more vulnerable to attack. Using a long-term perspective, the Kraft brand manager would need to consider

that its dominant brand, Tombstone, would have a harder time maintaining its margins after the introduction of its DiGiorno brand. In contrast, a short-term perspective would ignore the effect of competition on price premiums, and consider only DiGiorno's cannibalization of Tombstone. This short-term perspective understates the long-term effect of the brand introduction.

Second, the quantity and price premium dashboard metrics mitigate the impact of hard data driving out soft. By having measures of quantity and price premiums to supplement sales data, firms can attain a more complete picture of the effect of marketing on brands. Not only can promotions be linked to sales, but they can be linked to quantity and price premiums to ascertain whether they have deleterious long-term effects. Accordingly, Wall Street analysts can use price premiums to attain a better sense of firm profitability. This would help to make capital allocations to marketing spend more efficient.

Third, quarterly sales as measures of product manager performance could be supplemented with quarterly measures of baseline sales and price premiums. The temptation to discount a strong brand would be reduced because a decrement in the long-term health of the brand would become more apparent. This would encourage managers not only to take a long-term orientation to performance, but to expend some effort determining the underlying factors that cause brands to become strong in the long term. In addition, plots of these longer term dashboard metrics over time could serve as early warning systems to alert brand managers to problems with the brand.

### *Methods and Data*

A long-term orientation can not be successful without attendant methods and data to provide long-term metrics. We discuss each issue in turn.

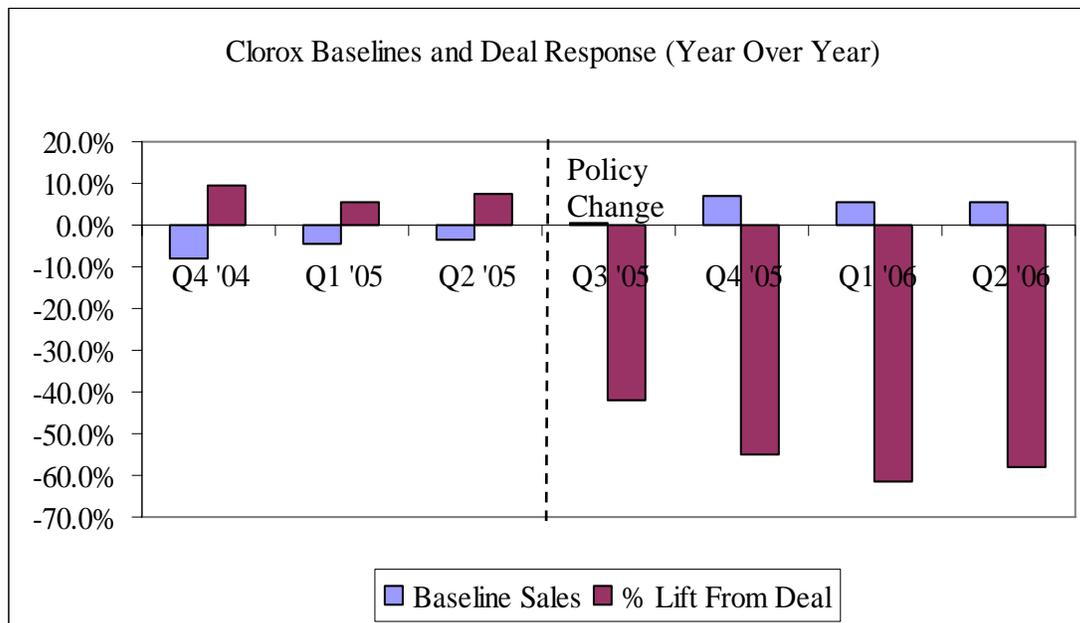
Methods. As we discuss above, experimental methods afford insights into the short- and long-term incremental quantity premiums arising from TV advertising because short-term advertising effects present in test market data are informative about long-term advertising effects. Yet this is not necessarily the case for other elements of the marketing mix. Moreover, experimental data and short-term research methods are not informative regarding how a particular TV campaign will impact a brand's price elasticity. Estimation of these effects requires multi-year scanner data sets coupled with econometric methods. Such approaches statistically link marketing policy over years or quarters to price and quantity premiums to simultaneously i) gauge the long-term effects of marketing such as the effect of advertising on price premiums and ii) short-term effects of marketing such as the effect of a given week's discounts on a given week's sales. Recent advances in this area include Bayesian State-space Models (e.g., Ataman, Van Heerde and Mela 2006).

Data. We are astonished by the paucity of longitudinal data collected by the firms we visited. Many discard data after one year. If brands are built over years or decades, it is hard to see how firms can attain any insights into brand building with just 52 weeks of data. Yet many firms we have visited have only that. Even major data suppliers such as

IRI and AC Nielsen discard data after 5 years. In spite of this, they are building more capacity and processing power to collect hour by hour level data. These hour-level data could be useful, among other things, to monitor stock-outs. However, it is difficult to imagine that local stock-outs affect market capitalization in the same way as brand equity, which often takes more than five years to build. For example, Interbrand calculates the market value of Coca-Cola brand to be \$67.5 billion dollars. This brand took decades to build and it would likely be informative to analyze how the marketing mix evolved over time to lead this brand into its ascendancy. In this sense it is ironic that data investment is focused on managing brands over the short-term.

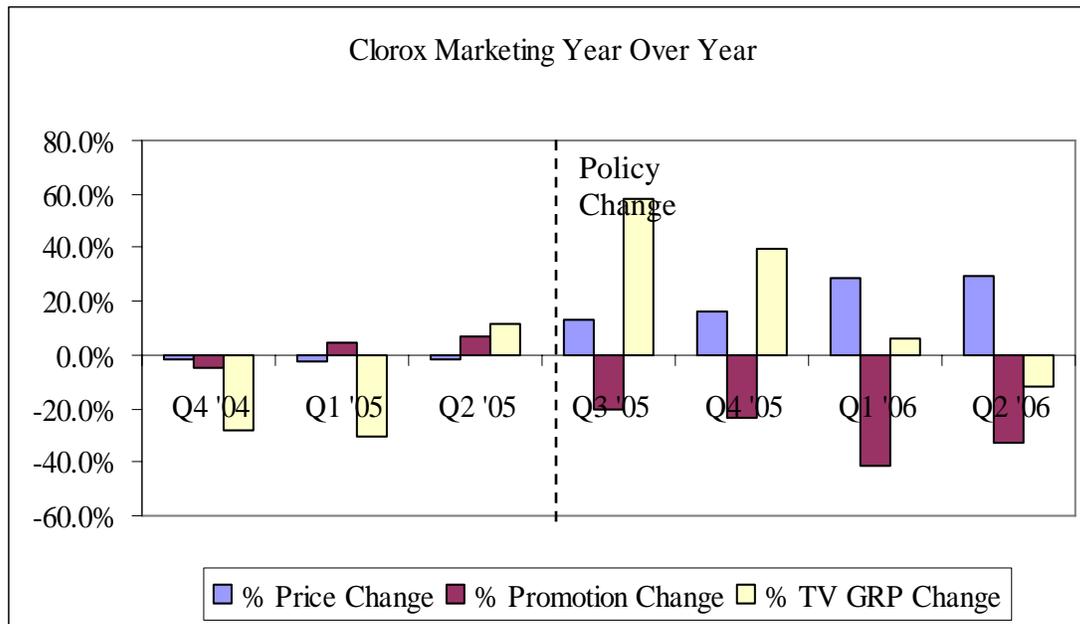
### An Application

One leading consumer packaged goods firm is ahead of the curve in its use of long-term metrics to steward its brand. Until the second quarter of 2005, Clorox Bleach was in an endless cycle of discounting its brand. Nearly once a month, the price of Clorox was reduced to \$0.99 at retail. Advertising was reduced. From a short-term perspective, the deals appeared to be quite profitable. Yet consumers learned to lie in wait for these deals, leading to low baseline sales and high promotional lift. In the midst of this, Stephen Garry, Director of Advanced Analytics at Clorox, introduced long-term metrics to measure brand performance. The following figure depicts i) quarterly baseline sales of the brand and ii) the incremental lift arising from promotion. Both are expressed as a percentage change from the previous year to control for seasonal fluctuations in sales and to protect the confidentiality of the brand.



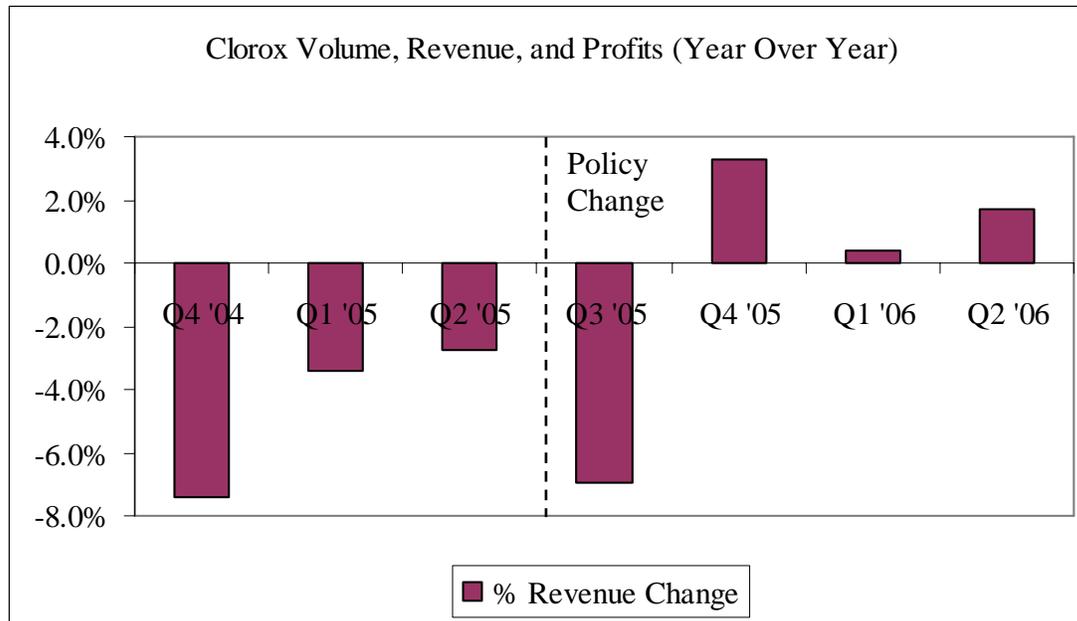
Garry found that, before Q3 2005, baseline sales were low and decreasing. Promotional lift was on the order of 300% and increasing. The low baseline and high price response indicated weakness in the brand. In response, Garry initiated an effort to

reverse this trend by reducing discounting and increasing advertising. The Figure below details these changes.



Comparing the marketing and baseline/deal response figures, we observe baseline sales increased dramatically and promotional lift (which reflects price elasticity) decreased with the change in policy. Consumers were no longer buying from deal to deal and were instead buying more volume at regular price. Interestingly, the increase in price can be directly related to the decrease in price sensitivity (one of our metrics); as price sensitivity falls, firms have greater pricing power. As discussed next, these changes had a positive long-term effect on firm revenue and profits.

As evidenced in the next figure, revenue (which was trending downward prior to the policy change) began to turn around as a result of the reduction in discounting. Clorox further indicated that profits, which continued to fall in the short term (Q3 and Q4 of 2005), rebounded in the long run (Q1 and Q2 of 2006).



Note the implication for the analyst who typically focuses upon short-term metrics such as quarterly revenue. In Q3 2005, the analyst might have downgraded the brand as a result of revenue and profit decreases. Yet Clorox, with the foresight and temerity to monitor the attendant long-term changes in brand health, persevered with their strategy. The ensuing quarters yielded higher revenues and substantially increased gross profits. Without long-term brand health measures, the analyst may have come to a misleading conclusion about the value of the brand or Clorox may not have realized the fruition of its strategy. Armed with long-term metrics, firms and analysts can assume a longer-term perspective on the brand, leading to improved profitability.

## Summary

Firms are feeling the effects of eroding margins and lower share. We argue that these symptoms stem, in part, from a decades-long trend to price promotions driven by the wide availability of weekly single-source sales data and the promotional models that accompany these data. These models evidence a strong positive effect of discounts on sales. Armed with this evidence, brand managers have increased their marketing spend. However, there is a dearth of information and approaches used to measure a) the long-term effect of discounts, and b) the role of other marketing mix instruments. We liken this partial view to driving with only the rear-view mirror. To the extent the long-term effects of promotions are detrimental to brand health, or other instruments play a greater role in developing brands, the increased emphasis on discounts may be misplaced. Indeed, recent evidence has indicated that discounts can reduce baseline sales and increase price sensitivity. Thus, the positive short-term effects can be offset by negative longer-term effects.

We propose that firms take a longer-term perspective to managing their brands. This involves a) developing long-term metrics and b) retaining longer histories of data on

brand performance. We proposed two such measures of brand performance, the quantity premium (or baseline sales) and the price premium (or the reciprocal of the price elasticity). All else equal, higher baseline sales increase units sold and a higher price premium equates to greater per unit margins. We further argue that short-term oriented measures such as sales should be supplemented with the long-term metrics to obtain a more complete view of brand performance. We believe this would offer a major step to redressing the weakening state of brands evidenced in recent years, increase our understanding of how strong brands can be built, and help firms to do a better job of “owning” their customers.

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