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Brand Management

# How Brand Building and Performance Marketing Can Work Together

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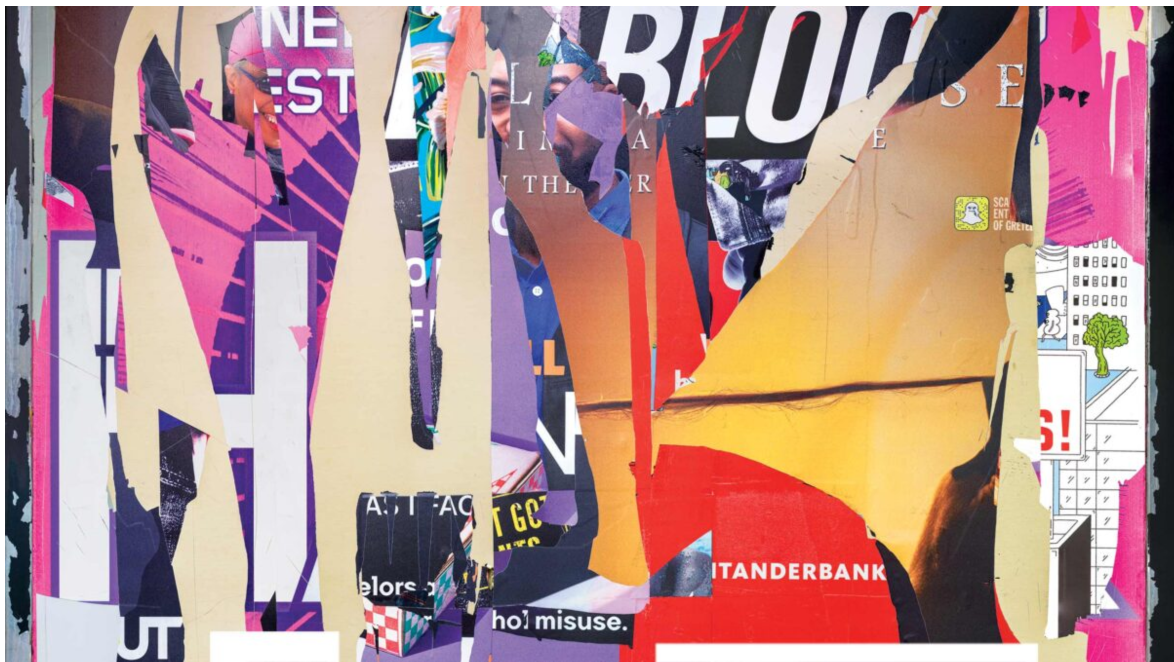


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**Summary.** Marketers often worry that performance marketing and its focus on short-term sales is crowding out brand-building activities aimed at enhancing customer perceptions of their brand—and is sometimes working against brand strategy. Brand-building activities are... **more**

**Over the past 20 years,** performance marketing has become the dominant approach companies use to connect with consumers. It is defined by the Performance Marketing Association as paying for results from marketing campaigns—like sales, leads, or clicks

—conducted through third-party channels such as direct mail providers, search engines, and social media sites. It's easy to see why the approach is so compelling: It enables companies to run highly targeted marketing campaigns that deliver measurable ROI, solving the century-old Wanamaker problem, named after the department store retailer who's credited with saying about advertising, "Half the money I spend is wasted; the trouble is I don't know which half."

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But many executives worry that performance marketing is crowding out brand-building activities—such as novel packaging, new products, distinctive services, innovative distribution, and creative advertising—aimed at enhancing customer awareness of, attitudes toward, and affinity for their companies' brands. A while ago, the CEO of a B2C/B2B tech company said to one of us, "We are great at performance marketing, but our brand sucks." More recently, executives at a global electronics giant told us that performance marketing had taken over their marketing budget and that they had lost their "brand narrative." When one of us surveyed senior marketing executives at the 2022 Cannes Lions International Festival of Creativity about their burning issues, twice as many voted for "managing the tension between brand and performance marketing" as any other issue, including "marketing talent required for the future" and "marketing in the metaverse/Web 3.0."

These concerns are not entirely new. Even before the internet made performance marketing ubiquitous, marketers experienced a tension between granular advertising that touted the functional

features of a product and more-abstract marketing activities that sought to appeal to consumers' identities—for example, offering cars as an expression of lifestyle rather than as a transportation choice.

> **Pitting brand building and performance marketing against each other in a competition for budget unnecessarily damages the effectiveness of both.**

Traditionally, the two were seen as a trade-off: Brand building was a long-term investment, and performance marketing was about generating revenue in the here and now. The trick was to "balance" them. But brand building is losing out more and more, in large part because performance marketing is considered to be much more closely linked to measurable business results.

We believe that pitting brand building and performance marketing against each other in a competition for budget and attention unnecessarily damages the effectiveness of both. We offer a different approach, which hinges on creating metrics that measure the effects of brand-building and performance-marketing investments on a North Star metric for brand equity. That is then linked to specific financial outcomes—such as revenue, shareholder value, and return on investment—and deployed as a key performance indicator for both types of investments.

With revamped brand metrics in place, companies can supercharge decisions about how and how much to invest in brand building and performance marketing in order to fortify the financial contributions of both and get them working better

together. We'll illustrate this approach by examining the experiences of three very different brand owners—an airline, a fast-food chain, and a winemaker.

## Creating Your Brand Metrics

Brand building has long suffered from having measures—such as "awareness" and "advocacy"—that have no credible predictive linkage or retrospective connection to financial performance. For that reason, its accountability as a business contributor—especially in the short term—is often considered to be weak, undermining its perceived value. For its part, performance marketing lacks measures that account for its impact on brand building, and its metrics account only for shortterm results, such as sales, leads, and clicks.

If companies want more performance-accountable brand building and brand-accountable performance marketing, they need to upgrade their brand metrics. Here's how.

**1. Create and connect brand-positioning and activation metrics.** The foundation of brand building is positioning. It determines a brand's ability to compete in the marketplace. The most successful brands automatically and immediately convey the distinctive benefits they offer, to whom they offer them, and why those benefits matter. By doing so, they capture market share, gain pricing power, forestall commodification, and earn recurring, sustainable revenue growth.

Your company must consider four things in positioning a brand: *purpose,* or your long-term commitment to values other than profits (for example, inclusivity, sustainability, humanitarian goals, or cultural priorities); *emotional attributes* (such as competent, sophisticated, or cool) that you want target consumers to associate with your brand; *functional benefits,* or the tangible features of quality, design, and variety that you want your brand

to project; and *experiential qualities,* or the intangibles (such as consistency, convenience, and expertise) that you want your brand to represent in your target market.

These constituents of positioning are commonly known among marketers and executives, and most companies already capture some data to help them gauge how well customer perceptions of their brands align with their intended positioning. But from a management perspective, such data is not particularly useful on its own. You need to connect it to measures of what we call *activation levers.*

Activation levers are the means by which your company realizes and lives by your positioning choices. They fall into five familiar buckets: product, price, place, people, and promotion. You need metrics that quantify consumer perceptions for all these levers—not just for one or two—because they are the touch points your target audience has with your brand. The levers impact your brand in two ways: directly (for example, great products build brand love) and indirectly through brand positioning (for example, advertising, events, and product features can support a choice to prioritize "cool" as an emotional attribute). Cool products make your brand cool, which builds love for it in consumers who want to feel cool. You need to be able to quantify both direct and indirect effects in order to capture the rich interdependencies between positioning and activation and their impact on your brand.

Barton Lewis photographs the found and accidental art of New York City subway stations, where print advertising is displayed and removed over time, creating collagelike effects.

To do so, we recommend applying structural equations modeling, or SEM, a technique used in big data analysis. SEM is a foundational capability, because it allows you to quantify the direct and indirect effects of brand positioning and activation on each other and on brand equity's four key elements, which we turn to now.

**2. Create a composite metric of brand equity.** The goal of all positioning choices and activation activities is to grow brand equity. Companies measure brand equity in a dizzying number of ways, but we recommend measuring it as a composite of four key elements: *familiarity,* the degree to which consumers feel they know and understand a brand, beyond just being aware of its existence; *regard,* how much consumers like and respect a brand; *meaning,* the relevance that consumers perceive a brand has to their lives; and *uniqueness,* the differentiation that consumers see in a brand.

We recommend these four elements because together, they evoke powerful emotions toward a brand such as love, commitment, and respect, or hate, indifference, and contempt. The emerging field of neuroeconomics tells us that such emotions account for more than 90% of consumer decision-making. They have an enormous impact on choice, consumption, usage, price sensitivity, repeat purchases, and referrals, and drive a brand's contribution to financial growth, often through permission to offer new products or services and enter new markets. This is equally true in B2B markets where shifts in technology blur categories and in professional services, a sector that often competes on brands' intangibles.

Measuring a brand's familiarity, regard, meaning, and uniqueness is not a new idea. What's different about our approach is that we roll up the four FRMU metrics into a single composite measure of brand equity. This can be done using a 1-to-7 Likert scale for each submetric, for example, and then taking a simple, unweighted average of each. A more sophisticated approach is to use principal component analysis, which provides sharper predictive accuracy by weighting each metric.

Another difference of our approach is that each FRMU metric is ranked by percentile against a curated universe of brands. Every brand competes with a wide array of brands—not just with its closest competitors—for the hearts, minds, and wallets of customers. For example, people don't just ask, "Should we go to McDonald's, Wendy's, or Burger King for dinner tonight?" Just as often, they ask, "Should we go to McDonald's, order takeout from a local restaurant through DoorDash, prepare a Blue Apron meal kit, or pull a Swanson Dinner out of the freezer?" In that moment, the perceptions of these brands compared with one another influence the choice of what to do for dinner that night—and that choice affects the revenues of those brands.

A third difference is that each measure of familiarity, regard, meaning, and uniqueness is refreshed on a weekly, monthly, and quarterly basis. Things happen every day that affect FRMU metrics relative to other brands. These can be exogenous events, including competitors' moves, sociopolitical events, and environmental shocks like Covid-19 (think Corona beer and Purell hand sanitizer) and the war in Ukraine (Stolichnaya vodka). They can also be events specific to your company, from introducing new products or services to changes in packaging, pricing, advertising, access, and more. All these factors affect brand equity and its contribution to current revenue and shareholder value, which is why you need high periodicity if your brand metrics are to be reliably predictive of financial results.

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A fourth difference of our approach is that each element of FRMU is precisely measured by customer type, including loyal versus promiscuous customers ("Switchers") and former customers who are open to coming back ("Winbacks") versus prospects, rejecters, and "Unawares." If you measure your brand with only current customers, you could overlook opportunities with noncustomers who are high-potential prospects. You might also fail to take into account people who have a say in a customer's buying decision even though they are not the buyer. Misses like these can seriously damage your brand metrics as leading indicators of financial metrics.

The final difference is that our approach requires brand data to match census demographics. This means, for example, that the people you survey to measure perceptions of your brand should match the distribution of gender, ethnicity, income, age, marital status, family size, sexual orientation and gender identity, and location in a country's population. Otherwise, you will compromise the predictive power of your brand metrics and weaken your ability to target audiences that offer the most-promising financial growth and returns.

**3. Make brand equity a KPI for performance marketers.** At too many companies, performance marketing is exclusively focused on demand conversion without regard to its impact on brand equity. Companies must regularly and frequently monitor changes in brand equity and its four constituents against the conversion rates from their performance-marketing programs.

If conversion rates are going up but brand equity metrics are trending down, they should conduct analyses to determine whether the performance-marketing mix (for example, direct mail, email, and banner ads) is negatively impacting the brand or whether the problem is content related (say, poorly conceived messaging). And they should revise either or both accordingly. Rising brand metrics but falling conversion rates is less likely, but it can happen when performance-marketing programs are disconnected from brand-growth strategies.

**4. Establish your brand's link to revenue and shareholder value.** You may believe that your metrics already have this linkage, especially if they've been used by your company for a long time. But in our experience, brand metrics are akin to children: We never love someone else's as much as our own. And sometimes we give them too much benefit of the doubt.

The final step in our framework is to link FRMU metrics to financial metrics—such as revenue, shareholder value, and return on investment. Statistical techniques like elasticity modeling

allow you to quantify the likely financial impact of a given investment in particular brand-positioning and performance-marketing activities.

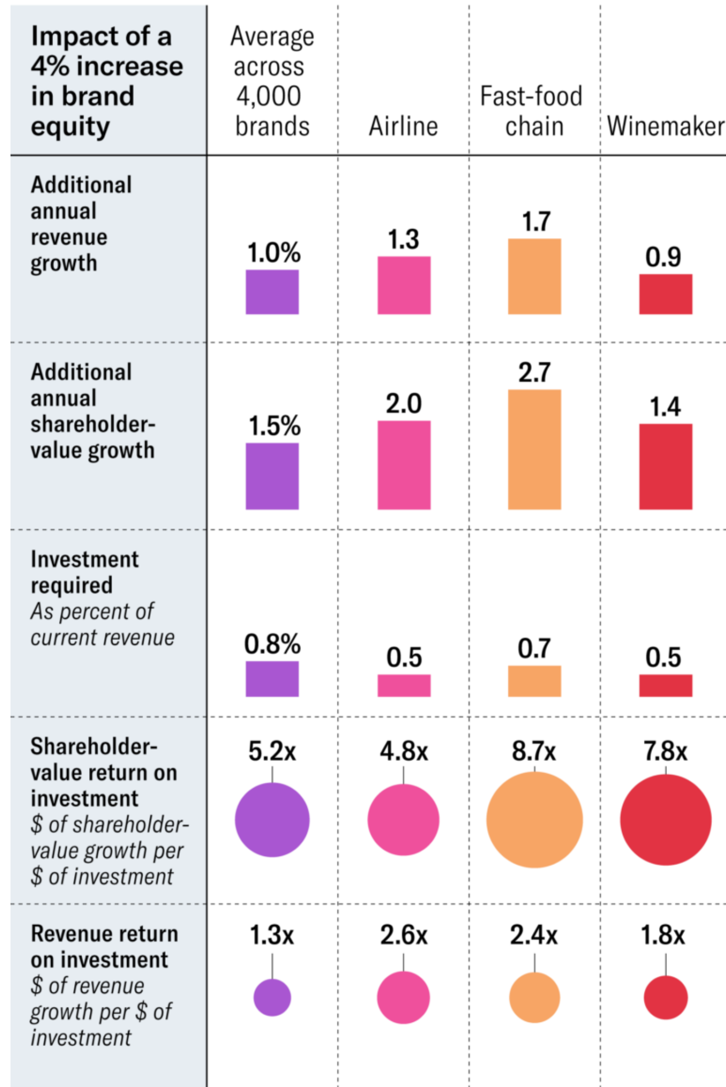
This process should be repeated for every brand in your portfolio: No two brands are alike, and thus the linkage between brand positioning, activation, brand equity, and financial metrics will be different for each one. Ideally, you should get these links independently verified, for example, by a financial consultancy and marketing-mix modeling expert.

## Making Brand Building Performance-Accountable

With the help of our colleague Michael Reh, the chief data scientist at BERA, we worked with the three brand companies—the airline, the fast-food company, and the winemaker—over the past three years to create robust brand metrics, adding new measures and deprioritizing or repurposing others whose causal linkage to financial metrics could not be established. The net effect was to streamline and standardize their brand measurement systems across multiple brands and countries, and to reduce costs by discarding metrics that were expensive to track but didn't demonstrably improve financial performance. All three companies were able to precisely measure the impact of a given percentage increase in brand equity on their annual revenue and shareholder-value growth—and calculate how much investment would be needed in order to deliver that increase.

## Brand Equity's Financial Impact

With the right brand metrics, you can precisely quantify and predict the impact of brand-equity growth on current revenue and shareholder value. Results for three very different brands we worked with show that both the short- and long-term ROI of effective brand building is very high.

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Each of the companies used what it learned to create a brand-growth strategy for reaching a targeted customer segment through specific marketing and other brand-building investments in order to achieve quantifiable financial goals.

**The airline.** This brand was in the top quartile of industry

profitability, partly because its marketing budget was about a third less than those of its closest competitors. But its brand had met the same fate as some big, well-known brands such as Bud Light and GM: It had solid brand equity—but only because it ranked high on familiarity and regard with the broad population. When it came to meaning and uniqueness, however, the airline's metrics had fallen off precipitously. In other words, many more people knew and respected the brand than thought it special. Thanks to its new brand-equity measurement system, the airline was able to more precisely target its marketing dollars in order to improve meaning and uniqueness without increasing its overall spend. The brand managers for each of the airline's geographic markets identified the target audience that offered the greatest potential for financial growth: for example, repeat customers ("Loyals") in Baltimore, at-risk customers ("Switchers") in San Diego, former customers open to returning ("Winbacks") in Tampa, and noncustomers open to becoming customers ("Prospects") in Honolulu.

The brand managers then set three-year goals for improvements in brand equity and its four submetrics, tailored to their specific markets. In Honolulu, the goal was to increase the airline's brand equity among Prospects by 6% a year. In Tampa, the goal was an annual increase of 4.5% among Winbacks, reflecting the tougher challenge in reengaging former customers.

At the corporate level, the airline directed its marketing investments to markets where growing brand equity would generate the highest financial returns. It dialed back on discounting in metro areas with the highest brand equity (which translated into the most pricing power), and it has set prices more competitively in areas where its brand equity was relatively low (until its local brand-growth strategies turn this around).

This top-down/bottom-up approach to brand building revitalized a stagnating brand, making it one of the strongest among all the air carriers. More important, despite being significantly outspent

in marketing, the airline's brand gained 1.6 percentage points of relative market share while maintaining its top-quartile profitability. And it's still early days.

**The fast-food chain.** This company's core customer segment is Gen X males. They absolutely love the brand. Among this segment, the chain is in the same league with brands such as Bose and Duracell, boasting a brand equity that ranks in the top 10 percent of the world's most important brands. But the fast-food chain's success with Gen X males left little headroom for growth through further penetration of that group.

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The seemingly obvious solution was to target women, but C-suite leaders were concerned that expanding the audience would dilute the brand's appeal to its core audience. That changed when the company's revamped brand metrics revealed that positioning the brand to double down on three emotional attributes—cheerful, exciting, and reliable—would resonate with women who have

families and would reinforce the brand's equity with Gen X males. Moreover, the shareholder-value growth expected from the new segment would more than cover the investment required.

The company made a business case for growing the brand by including women with families in the target audience, using measurable goals for the brand's investment in its new "cheerful," "exciting," and "reliable" positioning. Since the initiative kicked off, the company has successfully transitioned from a male-dominated brand to a family brand and increased its revenue-related KPI by 8%.

**The winemaker.** This label was a top seller among a very select group of wine drinkers in the 35-to-48-year-old age group. Like Yeti (the cooler company) and TikTok (the social media app), the brand had low familiarity relative to much bigger, broad-based brands but strong brand equity thanks to high meaning and uniqueness with that age group.

The company's leaders wanted to expand its customer base beyond the 35- to 48-year-olds, but how? Based on data from its new brand metrics, the wine label learned that the potential shareholder-value return on brand building among 25- to 34-year-olds was four times greater than for the 49+ age group. The company also found that fortifying three attributes of its brand positioning—authentic, hardworking, and inclusive—would have the biggest impact on brand equity in the younger age group and enhance its appeal to its core customers.

To activate those three attributes, it relied on two levers: product (packaging innovation, such as a new bottle shape and label that communicate authenticity and inclusiveness) and place (channel innovation, such as availability through the online sites, hotels, bars, restaurants, and retail outlets where the younger cohort goes to buy wine). As a result, it achieved the rare feat among wine labels of transitioning from a niche offering to a mainstream brand without losing its distinctiveness.

## Three Brand-Equity Growth Strategies

The brand owners highlighted in this article used our framework to identify the target audience for brand-equity growth that offers the greatest financial return and the specific brand-positioning and activation investments required to realize that return.

| | **Target audience** | **Investment priorities** |
|---|---|---|
| AIRLINE | Focus on local market segments with highest financial-return potential, for example, Switchers in San Diego and Prospects in Honolulu. | Adapt brand positioning to local challenges through sharper service differentiation with Switchers in San Diego and more-meaningful information for Prospects in Honolulu. |
| FAST-FOOD CHAIN | Grow brand equity with women who have families while maintaining loyalty of Gen X males. | Appeal to emotional attributes of “cheerful,” “exciting,” and “reliable” through new menu choices and messaging. |
| WINEMAKER | Prioritize younger cohort (25- to 34-year-olds) over older age group (49+) without alienating core age group (35 to 48). | Communicate “authenticity,” “hardworking,” and “inclusive” through new product varieties, labeling, and messaging. |

For all three companies, brand-growth strategies are now selected based on their expected ROI. (See the exhibit “Three Brand-Equity Growth Strategies.”) Setting quantifiable goals for brand positioning, activation, and equity is the new normal, and brand managers are held accountable for the financial results they promise with their brand strategies. This is what it means to implement performance-accountable brand building. Let’s now look at how performance marketers can become brand-building partners rather than rivals.

## Making Performance Marketing Brand-Accountable

We know that performance marketing can have a profound impact—positive or negative—on a brand. Our three brand owners have taken steps to ensure that the effect is positive. They did this by:

**Aligning performance marketing with the brand-growth strategy.** Each of our brand owners now asks their performance marketers to work with their brand-building teams to ensure that both are pursuing the same growth priorities for the same target audience. This involves testing every performance-marketing campaign for its impact on the company's brand-growth strategy a priori and then evaluating it ex post.

Consider the airline's Tampa target audience of Winbacks, with whom the brand had lost its meaning and uniqueness. The airline came up with a strategy in which performance marketers first did premarket A/B testing with a beta audience of Winbacks to determine which campaign designs had the most impact on revitalizing meaning and uniqueness. Based on the results, they chose the winning campaigns for in-market A/B testing and regularly monitored their impact, asking questions such as "Are the campaigns increasing brand equity with the right segment (Winbacks in Tampa, not just Loyals)? And are they increasing it in the right way (improving meaning and uniqueness, not just familiarity or regard)?"

At all three companies, performance marketers began to understand how their companies' brand-growth strategies could help them generate greater and more-sustainable sales. They could also see how their activity contributed to the company's long-term prospects. As important, performance marketers began to actively engage with brand marketers, thereby bringing new insights into the process.

**Measuring total ROI.** Performance-marketing metrics don't typically account for the impact campaigns have on brand equity

and long-term value growth. That has the nasty side effect of generating false positives. For example, price-point performance-marketing campaigns may be increasing click-through rates—but with the wrong audience and in ways that work against brand growth with the right audience (as defined by the company's brand-growth strategy). Measuring ROI based just on high click-through rates suggests that the return is positive, even though the campaign is having a negative impact on the brand strategy, which has consequences for long-term value.

> **Like any other business process, brand building can have its own KPIs, they can be closely linked to financial results, and the people responsible for decisions can be held accountable.**

Our three brand owners now use the brand measurement approach we recommend to capture the effects of every performance-marketing campaign on brand equity and revenue and shareholder-value returns. They have seen that brand-friendly performance marketing actually produces much higher returns than traditional measures of marketing ROI indicate. They've also learned just how costly performance marketing is when, however inadvertently, it works against brand equity rather than for it.

### Three Takeaways

We offer three takeaways that will help you make brand building and performance marketing work better together:

First, treating performance marketing and brand building as a short-term/long-term trade-off is dangerously wrong. It's wrong because both performance marketing and brand building impact current revenue *and* long-term value. It's dangerous because it asks CEOs to accept less of a good thing (say, demand conversion

from performance marketing) to make room for more of another good thing (long-term value growth from brand building). This is what "balance" really means, and it only exacerbates the tension between the two by trapping them in an unhealthy competition for budget.

Here's a second takeaway: Brand building is as financially measurable as performance marketing. The perception that this isn't so has allowed brand building to be eclipsed by performance marketing at so many companies. If you think you can't measure the expected and realized financial results of brand building, you'd be right to conclude that you can't hold anyone accountable for improving it and that you have no way of knowing what works and what doesn't. But as we've seen, that's not the case. Like any other business process, brand building can have its own KPIs, they can be closely linked to financial performance with high periodicity, and the people responsible for brand-building decisions can be held accountable for them—and rewarded accordingly.

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Conversely, and our final takeaway, your current performance marketing may not be as measurable as you think. As we've pointed out, the most common metrics uniformly understate the return on performance marketing that supports brand-equity growth, while overestimating the return on performance-marketing campaigns that, however unintentionally, erode brand equity. The brand measurement approach we've described solves

this by enabling both brand building and performance marketing to be guided by a single North Star metric for brand equity that can be linked to both current and long-term financial metrics.

Realizing these three truths will help you and your company solve one of the biggest problems that CEOs and marketing professionals face today.

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