

The Measurement and Determinants of Brand Equity: A Financial Approach

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Abstract

This paper presents a technique for estimating a firm's brand equity that is based on the financial market value of the firm. Brand equity is defined as the incremental cash flows which accrue to branded products over unbranded products. The estimation technique extracts the value of brand equity from the value of the firm's other assets.

This technique is useful for two purposes. First, the *macro approach* assigns an objective value to a company's brands and relates this value to the determinants of brand equity. Second, the *micro approach* isolates changes in brand equity at the individual brand level by measuring the response of brand equity to major marketing decisions.

Empirically, we estimate brand equity using the macro approach for a sample of industries and companies. Then we use the micro approach to trace the brand equity of Coca-Cola and Pepsi over three major events in the soft drink industry from 1982 to 1986.

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[Next >](#)



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