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**The Relationship of  
Corporate Brand Strategy and Stock Price**

By Chuck Pettis

Here we present a second article by technology marketing expert Chuck Pettis. Having discussed the importance of branding in technology (*The Importance of Brand to the Success of Technology Companies*, March 6, 1995), Chuck now provides an overview of the intuitive logic as well as academic studies linking brand strategy to stock price performance. He finds that smart brand extension can

result in stock price appreciation of 2-9%; that there is a positive correlation between customer perception of quality and stock price returns; that company name changes can signal improved profitability; and that winning companies have succinct positioning statements that reflect understanding of their differentiation.

*"The big thing is that brand equity and the strategies to build it matter. Brand strategy does influence the financial performance of any company."*

Robert Jacobson, leading brand researcher and chairman of the University of Washington marketing department.

Stock price is the ultimate measure of corporate success and failure. This paper presents a straightforward model, simply illustrated in Figure 1, for predicting stock price increases. Simply put, the available research shows that, in most cases, corporate improvements in brand strategy programs produce a positive stock market return. Investors and analysts of publicly traded companies can use the model to judge and evaluate companies for investment (or sale) and find companies poised for growth. The brand strategies explained are also appropriate for use by corporate executives to not only better serve the needs of their stockholders, but also better serve the needs of their customers.

is based on a number of assumptions and hypotheses. The available research seems to show that the use of smart brand strategies results in increases in stock price. However, quantitative (predictable and repeatable) research on the relationship of brand strategy and stock price is limited. Therefore, the first assumption is that the findings of the research studies briefly summarized in this paper are valid. Indeed, the model is predicated on making logical assumptions and extrapolations of their findings.

Almost all brand research is based on consumer and packaged goods products. The state-of-the-art of packaged-goods branding is far ahead of technology branding. What a brand manager for Tide knows quantitatively, the brand

Figure 1

**A Brand Strategy Model to Increase Stock Price**

Elements of Brand Strategy

- Brand awareness
- Positive brand attitude
- Brand extension
- Perceived quality
- New brand name
- Clear brand identity

The brand strategy model for predicting stock price increases

manager for an information technology product is probably not even aware of.

The second assumption is that the proven principles of packaged-goods branding, when appropriately applied, are also a formidable weapon in the hands of a brand-savvy high-technology CEO competing against brand-ignorant foes.

An informal polling of technology marketers and executives has verified the fact that less than one percent of technology companies know the number one reason customers buy their products. Therefore, I hypothesize that any technology company, small or large, that applies a basic level of customer research and brand strategy will have a significant competitive advantage in marketing and product development. Further, execution of that brand strategy will result in quality products that meet customer needs and wants, increased sales and more predictable sales growth, and enhanced perceived value by stockholders and analysts (i.e., higher stock valuation).

**(High Brand Awareness + Positive Brand Attitude) + Brand Extension = 2% to 9% Stock Price Increase**

An empirical study done by Vicki Lane and Robert Jacobson<sup>6</sup> shows that extensions of brands that rate very highly on both positive brand attitude (i.e., esteem) and brand awareness (e.g. Hershey, Coke, Peter Norton/ Symantec) create a positive stock return of 2-9 percent. Consumers value new products with well-established brand names because they quickly convey the brand's attributes and reinforce a sense of trust. Brand extensions save the company marketing costs and generate higher revenues more quickly than new brands.

Extensions of brands with very low brand awareness (share-of-mind) and esteem also provide a positive return because they have high upside potential and little downside risk. So, it behooves a new or little known company to establish a brand name for a line of products early on. Companies that communicate this brand strategy to investors are telling the market, "We are embarking on a brand strategy," and investors typically reward the company by buying more stock.

When there is a large imbalance between brand awareness and esteem, there is a negative excess return. It just doesn't make sense to extend a well-known brand of mediocre or

unpopular products or an excellent, but unknown brand serving a niche market. The market says, "You have work to do on product quality or brand awareness before you start extending brands."

In all cases, look for companies that (a) focus on brands rather than just products, (b) demonstrate an understanding of brand strategy, and (c) inform investors of brand strategy plans. "Howard Schultz, CEO of Starbucks Coffee, set out to create a successful differentiated brand, not just to be in the coffee business," says Duane Knapp, a leading brand strategy advisor. "Their current P/E multiple of 47 is their reward."

**Increased Perceived Quality = Increase in Stock Return**

In a recent study, David A. Aaker and Robert Jacobson<sup>7</sup> found a positive relationship between changes in quality perceptions and stock return. Perceived product quality by customers influences long-term business performance and provides evidence that management has a long-term corporate brand strategy in place and is tracking its strategic performance, as well as its quarterly profit performance. Indeed, programs to increase perceived quality and other components of brand equity (e.g., brand awareness, brand associations, intellectual property, esteem/reputation/goodwill) pay off.

Aaker's and Jacobson's research shows that "brand building for 34 major U.S. corporations did pay off where it really counts in our system—for the shareholder." Not only is stock market return positively related to ROI, but to changes in brand strategy programs, as well. This is strong reason to search for companies beginning or improving brand equity or brand identity programs.

Quality is more than Total Quality Management on the manufacturing floor. Quality is a function of trust and customer satisfaction with the brand. It doesn't matter if the product has zero defects leaving the factory if the customer doesn't trust the company and isn't satisfied with their experience with the brand. Quality is 90 percent perceptual.

Trust is a function of risk, credibility and intimacy. Look for companies that reduce the level of perceived risk for the consumer; have open, credible communication with

<sup>6</sup> Vicki Lane and Robert Jacobson, "Stock Market Reactions to Brand Extension Announcements: The Effects of Brand Attitude and Familiarity," *Journal of Marketing*, January 1995, 63-77.

<sup>7</sup> David A. Aaker and Robert Jacobson, "The Financial Information Content of Perceived Quality," *Journal of Marketing Research*, May 1994, 191-201.

analysts, shareholders and customers, and most importantly, create a personal and intimate link with each individual customer. Look for personalized mailings, quick honest communication from the CEO in times of trouble or crisis, acknowledgment of problems and difficulties, and an overall caring attitude.

Reactive customer satisfaction is no longer sufficient. Customer satisfaction should be proactive. A satisfied customer looks for innovation, a passion for success from the company, and new ideas. The customer needs to feel like they are personally supported and that their needs are important. It's as simple as listening to customers and responding appropriately.

Combine trust and customer satisfaction with brand name awareness and you have a company that is going places.

### **New Company Brand Name**

"Changes in the company name are a signal to the stock market that the company will start acting differently," says Bob Jacobson, chairman of the University of Washington marketing department. "The market response to the corporate name change depends on the company's position and where they are moving to."

A name change communicates important and significant information. It is often a "least cost" means of communicating "good" information to the market. Research by Dan Horsky and Patrick Swyngedouw<sup>8</sup> found that, in most cases, name changes signal improved profit performance. A change in company brand name says to the market, "We have changed our company (i.e., brand strategy, management, organization, product offerings) and those changes are for the better."

The study found that both cosmetic name changes (e.g., Paine Webber to Paine Webber Group or Echlin Mfg. to Echlin) and radical name changes (e.g., Alaska Interstate to Enstar, Consolidated Foods to Sara Lee) signal a change in the firm's activities.

"Horsky and Swyngedouw did not really address the issue of the response," says Bob Jacobson. "I would think that more radical name changes (assuming the stock market approves) would be associated with bigger movements in stock price."

Name changes in industrial companies are more likely to improve performance than name changes in packaged-goods companies, while name changes in financial institutions may signal increased risk and be seen unfavorably.

Companies being acquired or merged should pay careful attention to the selection of the new company brand name and the product brand names that are retained. New, small, and medium-sized companies without the resources to fund the large brand awareness campaigns needed to create awareness and brand associations around proprietary names like Exxon and Xerox should select meaningful and suggestive brand names (e.g., AutoCad, OneComm, Unicator).

### **Price Advantage Through Brand Building + Cost Cutting = Stock Increase**

Many companies are cutting costs, downsizing and right sizing. But there is only so much that can be cut until quality, trust and customer satisfaction suffer. Look for companies that have not only cut costs, but are also building a price advantage (premium pricing and margins) through brand building.

### **Technology Company + Credence Building = Competitive Advantage**

Customers rely on different types of product evaluation attributes when they are considering a brand purchase. Three brand evaluation attributes are search (e.g., call, look, study, analyze), experience (e.g., taste requires personal experience to evaluate) and credence (i.e., perceived belief and confidence in the brand). As a customer's evaluation moves from search to experience to credence, brand becomes more important. Technology products, in particular, rely on credence because even after a customer uses it, they still may not be sure how good it is at meeting their needs. For those buyers of technology-based products who aren't technology or computer experts, credence and brand names are very important.

To find companies who are consciously working on building brand credence, look for companies publicizing or advertising product endorsements (e.g., J. D. Power and Associates, PC Magazine's Editors' Choice), using credible spokespersons (e.g., Sprint's Candice Bergen), leveraging an existing brand personality (e.g., Symantec's Peter

<sup>8</sup> Dan Horsky and Patrick Swyngedouw, "Does It Pay to Change Your Company's Name? A Stock Market Perspective," *Marketing Science*, Fall 1987, 320-335.

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Norton, Microsoft's Bill Gates), or using a brand symbol (e.g., the Merrill Lynch bull).

### Customer-Based Brand Identity + Consistent Use Company Wide = Optimal Differentiation

Most companies have a mission statement, but the market doesn't care if the company's management agree on where they, as managers, want to go. The mission statement is usually internally focused rather than customer focused. The market only cares if customers understand and approve of the company's value proposition. A value statement or positioning statement is a concise statement of what business the company is in, the key benefit the company provides and what differentiates the company and its products from the competition. Creating a positioning statement is no small task. A substantial amount of research and effort should go into its development.

Ask company managers, "What business are you in, what makes you better than the competition and what is the number-one reason that customers buy your brand?" Few can respond with the same answers or with answers that are truly customer relevant. Invest in those companies that have a succinct and down-to-earth brand identity based on researched customer needs, wants and deficiencies.

### Corporate Brand Equity Checklist

Here is a checklist of questions that can posed to corporate managers in order to rate their brand strategy IQ.

- Does the company have a logical process for making brand extension decisions?

- Is there a written plan for raising perceived quality?
- Is there a written definition of what the brand stands for (brand identity manual) that includes a positioning statement, brand associations, brand personality and other brand messages and images?
- Does the company track the level of brand awareness, consideration, purchase and loyalty for itself and its primary competitors? Does it track its level of esteem and customer attitudes toward the brand?
- Do they research investor perceptions and have open and regular communication about their brand strategy and performance? Are investors treated as a necessary evil or as valued stakeholders?
- Do they regularly underpromise and overdeliver (e.g., Microsoft's historic investor relations strategy)?

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Chuck Pettis is author of the book, *TechnoBrands: How to Create & Use Brand Identity to Market, Advertise & Sell Technology Products* (AMACOM Books). A leading brand consultant and speaker, Mr. Pettis has over 25 years' brand marketing, advertising, and entrepreneurial experience in both large and small technology companies. Former Managing Director of BrandSolutions, Division of Publicis, a leading brand consulting and strategic research firm, he has a BA in psychology from Carnegie-Mellon University and an MS in design from Southern Illinois University. He can be reached at BrandSolutions, 225 105th Ave. SE, Bellevue, WA telephone 425-637-8777, email: cpettis@brand.com.

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**U.S.  
Investment  
Research***March 6, 1995***Server &  
Enterprise Hardware***Steven Milunovich, CFA (212) 703-6236***The Importance of Brand  
To the Success of Technology Companies***By Chuck Pettis*

*We have emphasized marketing elements in analyzing computer companies since 1990 because investors tend to overlook the importance of marketing strategy in a highly technical industry. In a world of open systems, however, differentiation is harder to come by. More observers are now considering the importance of marketing, especially branding. We came across an excellent book on this topic called TechnoBrands: How to Create & Use Brand Identity to Market, Advertise & Sell Technology Products (AMACOM) by Chuck Pettis, a leading brand consultant and speaker. We asked Chuck to write a synopsis of his thoughts, which appears below.*

For many years, technology marketers could build a better mousetrap and then sit back and watch the customers line up at their door. Those days are gone. Faced with global competition, downsizing and mature commodity-like markets, even the best product no longer guarantees success. Technology for its own sake no longer adequately differentiates products. Better brand identity and customer-oriented benefits, not better specifications, will determine who succeeds and who fails.

"Brand" is not a new-found marketing gimmick; it has provided a guarantee of quality since the beginning of commerce. Brand is not something that only belongs on

the supermarket shelf. In fact, the wrong technology purchase decision can cause MIS executives to lose their jobs.

**Brand Defined**

Brand is much more than a trademark or a logo. It is a "Trustmark," a promise of quality and authenticity that customers can rely on. The purpose of a brand is to uniquely identify a company and its products, differentiating them from competitors. Brand enhances the perceived value, quality and satisfaction a customer experiences. It provides a springboard for new products, contributes to stable, long-term demand and maximizes profitability.

Technology branding is different from consumer branding. While consumer products are often simple commodities, technology-based products are complex. Because of this, consumer brands, like soap, must magnify small differences (e.g., *IVORY SOAP: 99<sup>44</sup>/100% @ PURE, IT FLOATS*), while technology branding must focus on simplifying product messages in order to reduce buyer confusion (e.g., "Intel Inside").

The systematic process for creating a technology brand identity is called TechnoBranding. The six basic steps of TechnoBranding are:

1. Define your objectives. What questions need to be answered?
2. Conduct qualitative and quantitative research.
3. Define the brand — create the brand identity.
4. Develop the brand strategy and communications plan.
5. Execute an integrated marketing communications plan — use the brand identity.
6. Manage the brand and track it to build brand equity.

**Empirical Research on the Importance of Branding**

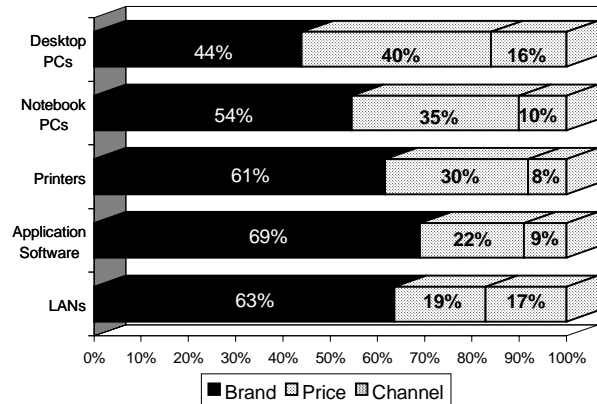
"Branding has become much more important recently because of the proliferation of choice that's available to customers," according to Patrick J. McGovern, chairman of the board of International Data Group (IDG), the world's largest computer publishing and research company. "What's been fascinating to watch over the last thirty years is technology marketers 'discovering' the value of brand marketing only later in the product's life cycle," McGovern continues. "Technologists tend to think that technology alone will sell their product — that superior technology is the only thing that differentiates them from their competitors. In fact, customers, especially now that the PC market has exploded the product choices available, are anxious to feel secure in their product purchase, and brand image — by conveying the commitment of the vendor to the product and its service and support — plays a key role in providing that security."

IDG does extensive research on this topic, initiating a series of studies called "Buying I.T. (Information

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**Most Important Factor When Purchasing Product**



Source: International Data Group, "Buying I.T. in the '90s: The Channels," page 85.

Technology) in the '90s" that explores how computer buyers make their brand decisions, among other things. In late 1992, IDG explored the relative importance of brand, price and distribution channel for corporate buyers of computer products. In a survey of 947 buyers conducted for IDG by IntelliQuest, respondents identified the most important factors in selecting desktop PCs, notebook PCs, printers, application software and local area networks (LANs). As seen in the accompanying figure, the most important factor is brand.

**Brand Premium = Profits**

The economics of technology businesses is changing rapidly. A survey by McKinsey & Company and Intelli-Quest, a high-tech research firm, quantified the premium price that corporate PC buyers will pay for alternative brands of PCs. At the time this research was conducted, IBM, Compaq and Apple could command a premium price of \$295, \$232 and \$195, respectively, on a particular configuration of PC. This premium was measured as the amount the average customer was willing to pay for identical product over a "second tier" brand.

"Although brand-related price premiums have been substantially reduced in the PC industry due to increased competition, it is important to note that even small differences can have a tremendous impact on the bottom line," says IntelliQuest president Brian Sharples,. "For example, Compaq's ability to charge a \$232 premium on a PC with an average selling price of \$2,500 adds 9.3 percent to the bottom line. In today's competitive markets, this can mean the difference between profit and loss at the corporate level."

When every company cuts head count and overhead, costs

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tend to approach parity. The one thing that a company can do that is sustainable over time is build a brand-based competitive advantage. "Developing a price advantage is the single biggest lever that a company can employ to boost margins and profits," says Sharples. In this paradigm, the focus shifts from minimizing product costs to maximizing the premium price that can be charged. Cost advantage can be a powerful weapon, but in most mature technology markets, significant cost advantages are becoming harder to develop. What do you do when all of the major players in your markets have made similar cuts in their corporate costs and you find that potential new margin is being erased by further rounds of price cutting? Sustainable margin advantage is no longer just a function of cost, but of the price premiums gained through brand strength.

### **The Intel Brand Campaign**

The "Intel Inside" program was one of the first brand campaigns in the technology industry and is still one of the most visible. "Intel Inside" defuses Intel clone vendors, gets computer buyers to seek out Intel-powered computers, and enables premium-brand pricing for both the computer chip and the computer itself. The theme is upgradability and the message is that having an Intel processor inside a PC means state-of-the-art technology and helps consumers protect their computer investment.

The campaign is the most expensive ad campaign ever launched by a semiconductor company. Has it been a good investment? *Financial World* annually ranks brand values. Intel, a high-technology newcomer to *Financial World's* list of brand valuations in 1993, entered the list at No. 3 with a valuation of \$17.8 billion.

### **Brand Name, Research & Extension at Microsoft**

How important is brand to Microsoft? "Our number one brand, obviously, is the Microsoft name. It has been our most valuable asset," according to Marty Taucher, former director of public relations for Microsoft.

Microsoft decided a long time ago that it was going to be a company with multiple businesses. The primary investment was going to be in the Microsoft name and to establish Microsoft as the leader in the software industry, with high quality operating system and application software products. What would Microsoft like their brand to be

thought of in people's minds in, say, five years? "We have some specific objectives," answers Taucher. "In general, we believe we've achieved the mind share of the customers as seeing Microsoft as the leading company, not only in the software industry, but in the PC computing industry. We want to build on that leadership with a reputation for innovative products that make people's lives better, improve their overall productivity and are fun to use, depending on which segment you're with."

### **The Importance of Brand Equity**

Brand equity can be defined as the added value provided to a product or company by its brand name. It is the financial advantage of a brand over a generic or less worthy brand. Software is much more valuable if it is from Microsoft or Lotus. A computer is more valuable if it has Intel Inside.

Brand equity doesn't just happen; it's a combination of quality product, advertising, marketing programs, point-of-sale programs, and customer-service programs — a bundle of customer experiences that creates the ultimate brand image. Brand name is king with mass merchants and retailers. According to Bob James, a Price Costco buyer, the warehouse chain's premise ". . . is to buy national brand products that are the leaders in their particular categories. In general, we only stock one SKU [i.e., specific product] in each category."<sup>1</sup>

The brand is an intangible asset on the balance sheet. Managed and nurtured, it becomes a significant asset. When Philip Morris acquired Kraft in 1988 for \$12.9 billion, \$11.6 billion was for goodwill, the majority of which was based on the estimated brand values. As the technology industry consolidates, look for companies that build their brand value and equity. Brand is not only a significant source of competitive advantage and future earnings, but also, arguably, a company's most important asset. In most technology markets, branding is now a necessity, not an option.

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<sup>11</sup>Keller, Jeff, "Born to Buy: A Day In the Life of a Buyer," The Costco Connection, November 1993, page 10 - 11.