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Title: **Naming Businesses: Names as Drivers of Brand Value**

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Naming Businesses: Names as Drivers of Brand Value[1]

"Fifteen years ago, the name of a bank didn't matter so much, because many states had restrictive branching. Suddenly you can have folks with the same or similar name looking to move into your town and then the intellectual property value of your bank's name becomes more important". Larry Harris, attorney with Suelthaus & Walsh, P.C. cited in (Cocheo, 2004, p20)

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ABSTRACT

Purpose. The paper proposes a new method to assess trade name distinctiveness.

Methodology. The authors implemented a two-staged methodology. First, catchwords in trade names in the relevant database were identified and ranked according to how commonly they were used and, second, these names were classified into four distinct categories using clearly-defined criteria based on their degree of similarity; (1) *champions* (zero similarity), (2) *runners-up* (low similarity), (3) *Wannabes* (high similarity), and (4) *washouts* (extreme similarity).

Originality. This is the only study in the field to provide a practical method for assessing trade name distinctiveness through providing actual examples about the possibility of name confusion or differentiation. The study also introduces new concepts to the naming strategy such as catch words, trade name distinctiveness, distinctiveness scale, and the similarity indicator. Moreover, the study provides a new classification of the characteristics of names that should, or should not be used.

Limitations. The study is limited by: (1) the number of names compared is relatively small, (2) the terminology used to denominate the various scale levels could be revisited and other denominations might reflect the levels better, (3) due to its pioneering nature the adopted

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approach needs to be validated by further studies. In particular, how does one assess that the method is working adequately and, (4) because the scale focuses on one attribute of the name i.e. distinctiveness, other relevant attributes were not taken into consideration. Therefore, the trade-off between the various attributes was not within the scope of this study?

Key words

Brand Distinctiveness, Brand Similarity, Brand Equity, Measurement Scale, and Trade Names.

INTRODUCTION

Although the concept of brand distinctiveness has relevance to a wide audience of practitioners and academicians it remains a largely overlooked aspect of branding. Other aspects such as brand equity, value, personality, etc. continue to be studied extensively since Aaker's and others works on the subject in the early 1990s. While the importance of the name associated with the brand has been recognized quiet early in marketing literature, no means existed to date to guide the naming process. As a result naming remained clearly affected by, if not a function of, luck and coincidence with many seemingly good names failing and other seemingly bad names succeeding. Hence, the motivation for the study and the approach taken, including the conceptualization of distinctiveness has been carried out with the key objective of providing a practical tool that could help in creating brand names and trade names that are discernable by consumers, where value ultimately lies. In doing so, distinctiveness has been defined in terms of frequency of usage of the key words comprising the name. At the end, the study demonstrates a tool that can be used in one particular stage of the naming process; the actual naming itself, not the steps preceding it or the later steps needed to build value on and around that name once it has been adopted. It is important to note at this point that this is not an inclusive study that claims to cover the various branding aspects; it rather introduces a tool designed for the sole purpose of composing or creating names that share as little as possible with existing names, one that eliminates customer confusion.

Professional nominators and entrepreneurs use two common phrases to describe the naming process; choosing a name, or selecting a name. In this study, and in search of term distinctiveness, the words compose and create are used interchangeably to replace these two common terms. The discussion throughout the paper focuses on composing or creating a trade name, not selecting nor choosing one. In selecting and choosing, the possibilities are limited since all names are already there and what nominators do is merely browse through lists. Composing, on the other hand, is about arranging notes to create inspiration. Composition is done by composers engaged in creation, the possibilities of which are, by definition, infinite. Applying this approach to business naming enables trade name composers to discover the numerous naming opportunities open for them.

This approach to naming is useful in a global marketplace where companies have concerns about the possible consequences of their names (Howe, 1982). Because the selection of a name is costly and because companies of all sizes engage in this activity, these companies place a significant value on the choice of a "good" name. Since a company's name extends beyond the company itself; investors may pay a premium for securities of companies with carefully elected names. A company's name is an important dimension of its image. A bad choice of name may be an obstacle for the company to overcome, while a fortunate name may have a positive influence on individuals' perceptions of the company. Deciding whether the intended audience confuses or might confuse a trade name with another is a major issue facing nominators i.e. those responsible for coming up with a name for the company or its products. Obtaining evidence to dispel the fear that the composed trade name might be similar to existing trade name(s) and thus creating confusion in perceptions in the marketplace (Weitz, 1960) is a hard task to achieve .

To conclude, this study attempts to provide a mechanism for assessing the distinctiveness of a trade name through providing actual evidence about the possibility of name confusion or differentiation. This is achieved through introducing new concepts into the naming strategy area such as catch words, trade name distinctiveness, distinctiveness scale, and the similarity indicator. The study also provides a new classification of the characteristics of names that should, or shouldn't be used.

VALUE OF TRADE NAME DISTINCTIVENESS

The literature on the value of trade names is ample. In fact, researchers have long established that certain names warrant certain monetary and nonmonetary outcomes for companies, or brand equity. The concept of brand equity has been widely discussed in by marketers; much of the research stems from a Marketing Science Institute (MSI) conference on the topic (Leuthesser 1988; Ailawadi *et al.*, 2003). Aaker (1991), Aaker and Keller (1990), Broniarczyk and Alba (1994), Farquhar (1989, 1990), Feldwick (1996), Keller (1993), Loken and Roedder-John (1993), have written extensively on the concept and on how to build, manage, and extend it. Not only academics were interested in the concept, Baldinger (1990, 1992) and Blackston (1992, 1995) report that advertising and market research executives are also emphasizing the importance of brand equity; companies are creating the position of brand equity manager; and consulting businesses have been established to evaluate and track brand equity (Ailawadi, Lehmann, and Neslin 2003).

Marketing literature suggests that different brands generate different future cash flows as a result of differences in brand-specific factors (Srivastava *et al.,* 1998). Companies have paid, and continue to pay, significant prices to purchase certain brands. For example, Philip Morris paid $12.9 billion to purchase Kraft, four times its actual book value (Bahadir *et al.*, 2008). Percentage-wise, 49% of the company value was attributed to brands with the purchase of Gillette by Proctor and Gamble, while at the other end, less than 1.51% was attributed to the brand value in the purchase of Latitude by Cisco Systems.

Srivastava *et al.,* in their study of the financial value of brands found that, on average, the magnitude of a target company's (the company that is going to be purchased) brand value accounts for 7.3% of the transaction value. Given the magnitude of these transactions where the mean acquisition value is $2.16 billion, brands certainly represent a substantial share of a company's value.

A study by Gary (2006) on benchmarking services branding in New Zealand's service company supports the notion that effective branding is a key source of success. Managers of these companies were asked to describe their companies' major sources of competitive advantage. The responses show that 44% of the managers of the top performing companies perceive branding to be a major source of advantage. In one unprompted comment by a respondent, the company was able to charge a premium of up to 50% on its brand: "*We've put on a set of clothing in the form of the brand. And we manage to extract a price premium of at least 30% and sometimes 50% or more in the markets around the world" p735.*

The effects a name can have on the brand value engulf both customer and company. At the customer level a name affects customers' attitudes toward the company and its brands, awareness and image of these brands, knowledge, loyalty, and helps create a differentiated clear image that cannot be explained by product attributes. At the company level, a name effects price, market share, revenue, and the incremental cash flow resulting from the product with the brand name compared with that which would result without the brand name (Ailawadi *et al.*, 2003).

A more direct way of demonstrating the value of a brand is that provided by Elliot and Percy (2007) in their well-written book on brand management. The authors asked the reader to contemplate the following questions: “Have you ever been in a museum or art gallery and found yourself looking at a painting with which you were not familiar? How does your opinion of that painting differ if you learn that it is the work of a familiar great master artist vs. if you see that it is by an unknown artist, one you have never heard of? …In these situations, it is the name value that makes a difference. In fact, the name value in a case like this can have very real financial value…There is a value to a brand [trade name] that is over and above the intrinsic value of the product itself.” pp80.

Brand Management

This Elliot and Percy excerpt demonstrates the importance of branding a product, regardless of what that product is: a painting, a car, a company, etc. For trade names to be managed in the best interest of the company, they should be branded (i.e. treated as brands). Through brand management, they need to be built and managed the same way a brand is managed and built. With consumers taking quality for granted and treating more products as commodities, companies are having a tougher time distinguishing their brands (Landry, 2008). A brand cannot be called so unless it supports brand distinction; the brand’s potential to be distinguishable from others in the marketplace. Otherwise the brand will have little value. A true brand contributes to the financial value of a company by increasing the customer loyalty that sustains future sales, improves trade cooperation and support, sustains higher price points, creates higher margins vs. competitors, lowers price elasticity, increases barriers to new competitors, and lowers risk for line and product extensions (Elliot and Percy, 2007).

By branding a trade name, companies create the impression that the trade name is special; being associated with certain characteristics. As such, a branded trade name is one of the most valuable elements in marketing, one that demonstrates what the owner is offering to the market. Companies managing trade names as brands need to realize that these brands will have to compete for the available consumer mind space. An important aspect of this competition is developing brand differentiation and brand awareness (i.e. consumers recognize that the brand exits). Elliot and Percy (2007) describe three stages for building a brand in the mind of the market. Stage one describes developing brand awareness and perceptions of quality. Such awareness is important in reducing perceptions of purchase risk. Moreover, this awareness might be sufficient on its own to motivate consumers to engage in a marketing exchange in low involvement situations. Stage two describes the perceptions of differentiation and of personal relevance. For consumers to perceive the brand as truly differentiated from competition the company needs to develop the beliefs that the brand is different from others, that this point of difference is unique to the brand and that the brand is distinctive and worth paying more for. At this stage, consumers need to see the brand as standing out from the competition (i.e. to be noticed). Finally, stage three requires developing two more perceptions in the mind of the market. These are social esteem and emotional bonds.

In the model above introduced by Elliot and Percy, two concepts are relevant to this study; brand awareness and brand differentiation. Brand awareness focuses on whether consumers recognize the existence of a brand. The word awareness doesn't describe the direction of consumer attitudes towards a brand (i.e. positive or negative sentiments; merely describes the fact that consumers notice the brand). Brand differentiation, on the other hand, describes whether a brand is seen to be different from others in the marketplace.

To achieve differentiation, nominators need to determine how they want the consumer to perceive the brand-and by extension the branded company. A nominator needs to ensure that the brand holds its own area in the mind space of consumers. Holding such space means that the brand has to develop its own brand identity; the outward expression of the brand such as name and visual appearance, as well as the perceived values a brand carries. This identity symbolizes the brand's differentiation from competitors. Without a clearly defined identity, the brand will not attain consumer recognition.

To achieve both trade name awareness and trade name differentiation nominators need to compose high impact names that have the potential to be differentiated in the first place. In many occasions, however, only the trade name gets promoted. An example of this case is Mercedes-Benz, where the strong company name, as a parent trade name, leverages a range of sub-brands. Another example is IBM, where the famous branding statement "No one ever got fired for buying IBM" was made.

Weitz (1960) was one of the very first to study trade name confusion or recognition systematically. In this regard the suggested two approaches that can be used for evaluating the degree of confusion between two names. These approaches can be used as well for the establishment of a name for a new product which is not to be confused with existing products. The first approach was called the *recognition-confusion procedure* and the second the *identification of company names procedure*. Even though the audience that was tested by Weitz was highly knowledgeable, results of his study revealed that approximately 50% of the sample showed some sign of confusion when the two names were presented verbally, and about 35% when the two names were presented visually.

The importance of trade name identification can be illustrated using local banks as an example. According to Larry Harris, attorney with Suelthaus & Walsh, P.C. cited in (Cocheo, 2004, p20) “Fifteen years ago, the name of a bank didn’t matter so much, because many states [American] had restrictive branching. Suddenly you can have folks with the same or similar name looking to move into your town and then the intellectual property value of your bank’s name becomes more important”. “Now that banks can readily invade each others’ turf, it isn’t unusual for banks to show more concern about what they and competitors are called” (Cocheo, 2004, p20).

Objective and Method

This study aims: to develop a model to help entrepreneurs and nominators measure the distinctiveness of trade names they are considering for their businesses. The model will also usable in indicating the distinctiveness of existing trade names. To achieve the objectives of this study a thorough methodology was applied.

First: a list of all registered trade names in the Emirate of Abu Dhabi was acquired from the chamber of commerce in July 2008. The list currently includes 50,000 registered trade names. Second: a random sample of 100 trade names was chosen across the different business categories. Third: the names in the selected sample were broken down into their individual component words to determine the catch words in each of them. Overall, 227 catch words were identified. On average, every trade name included 2.18 catch words. Fourth: these words were then classified according to the number of times they have been repeated in the sample. The classification used in this study is named frequency of usage or name commonality, which included four different categories; champions, washouts, runners-up, and Wannabes. Depending on the most common features of each of these categories, the name was classified. For example, Wannabe names are those that anyone who is no one can use. Washouts are easy rides but will not support a company in winning in the name game. Sixth: depending on the frequency of usage, the more frequently a catch word is used, the less value is added to the business and the less trade name distinctiveness is created. Seventh: a catch word that is not commonly used in the relevant trade name database is assumed to add more value and distinctiveness than a frequently used catch word.

Finally, an important fact to state at this point is that the methodology applied in this research is of a demonstrative nature; it introduces a road map to guide practitioners and owners in high involvement naming situations. No claims or attempts to prepare an inclusive list of catch words in this particular database or in any other database were made.

LIMITATIONS

Since this is the first paper internationally to introduce a method of measuring brand distinctiveness based on the word composition of the brand name it self, and since the constructed measurement scale is the first of its kind, a room for improvement certainly exists. In particular, the following issues need to be addressed:

1. Since no specific name comparison software existed at the time of the study, the researcher had to resort to manual comparisons which meant that the number of names included in the study was limited. Using comparison software, researchers could analyze more catch words and catch phrases in various trade name databases to fine-tune the scale.
2. The terminology used to denominate the various scale levels could be revisited.
3. The study is also limited by the pioneering nature of its approach which needs to be validated by further studies. More specifically, how does one assess that the assessment method is working adequately? While this may be less of an issue in case of a book chapter or trade publication, this is an important element to be considered in future studies.
4. Since the scale focuses on one attribute of the name i.e. distinctiveness, other attributes were not taken into consideration (e.g., credibility, how easy it is to remember the name, etc.). Therefore, the question of how should a trade-off be made between the different relevant attributes was not within the scope of this study?

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