Why brands should stay true to premium price models

Companies should think twice about heavy discounting and seek to maintain a premium price strategy if they want to build brand equity as recession bites.

By Matt Barker 2 Jul 2020

McQueens Flowers is seeing increasing interest across the UK as consumers look for a little treat amid the pandemic.

With a global recession looming on the horizon most brands would be expected to start cost-cutting, batten down the hatches and look to ride out the storm with minimal damage.

However, BrandZ's study of the top 100 most valuable global brands suggests that heavy discounting can be counter-productive, damaging to brand equity and, ultimately, a company's bottom line.

Chief growth officer UK at Kantar, Jane Bloomfield, says that our notions of what premium actually means have changed. Today they go beyond the traditional idea of luxury goods and lean more towards the everyday treat, which can mean everything from the groceries we order to the cinemas we visit.

"There's always a premium version of every category," she explains. "One thing that we've found over the years is that being able to charge that price premium is really important, but it's also overlooked by brands, in particular when it comes to building brand equity."

All of BrandZ's top 100 enjoy strong equity and are described as trusted, innovative brands. That in turn creates strong consumer relations and so allows them to justify a premium model. There are, of course, a number of luxury brands in the mix, including Louis Vuitton (19th place, $52bn), Chanel (34, $36bn), Hermès (39, $33bn) and Gucci (49, $27bn).

Being meaningful, meeting people's needs and behaving differently are all key factors in driving a premium price model and being perceived as offering what BrandZ describes as a "practical value".

"The sure way to undermine that premium position is a price war," says Bloomfield. "That's obviously a challenge if you think about this idea that a recession is coming, but our data shows quite clearly that there is no evidence that consumers are trading down or up in terms of their everyday shopping."

Supermarkets, one of the few sectors allowed to continue trading under lockdown, have repositioned themselves as a vital part of everyday life, providing a crucial frontline service.

Waitrose enjoyed an 8% jump in sales when the pandemic hit, boosted by anxious consumers stocking up on produce, with online orders doubling and the company working hard to improve its delivery experience.

Head of brand marketing, Rupert Ellwood, believes the retailer's reputation for offering premium products has been a crucial part of its success so far this year. He is confident the brand can continue to reap the benefits of its strong equity and all-important practical value.

Waitrose sales rose by 8% when the pandemic hit.

"Our customers have been really interested in provenance and quality over the long-term, so this isn't new to us. We're committed to providing our customers with the best tasting food that has been responsibly sourced. Our focus is very much on offering products that are unrivalled on quality and taste," says Ellwood.

“It’s something we focused on in our multichannel campaign earlier this year, which highlighted the stories that sit behind our products and how our commitment to sourcing the best quality ingredients is reflected in their superior taste.”

That particular campaign, ‘You can taste when it’s Waitrose & Partners’, was a way of communicating to consumers the experience of premium products, something Bloomfield believes is a vital part of justifying any extra cost and gaining the trust of a loyal customer base.

Having a captive audience in recent months has certainly helped too.

“The big supermarkets have had this great opportunity over the past three or four months to demonstrate just why they’re worth that premium,” she says.

Time for a treat

As Bloomfield explains, people will always want little treats to get them through the week, an idea brands like Waitrose and rival Marks & Spencer should be leaning heavily into for the remainder of the year.

Emily Tallis is senior marketing executive at McQueens Flowers, the London-based florist that provides bouquets and displays to hotels and event planners, as well as operating a busy retail operation.

McQueens saw an obvious drop in corporate sales during lockdown, but enjoyed a notable increase in personal gifting and nationwide deliveries, beyond its typically dominant customer base within the capital.

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Jane Ostler, BrandZ

“Our bouquets aren’t what you would call everyday demand,” says Tallis. “The lifestyle spend is still there but maybe on different things, bringing little treats into the home. It’s a new focus for people.”

Changes in buying and sharing habits, with consumers increasingly finding pleasure in smaller things, could well spark a shift away from ostentation and the more traditional notions of luxury.

As Tallis explains, people are looking for something more personal to them by spending a little extra on food or weekly flowers, rather than wanting to be seen as keeping up with the latest brands.

“They’re seeking out the authenticity and finding those things that matter to them most,” she says. “Obviously, everyone’s lifestyles have changed hugely and I’m sure that’s had a reflection on the products they’re buying.”

Consumers have also become a lot more savvy about issues such as sustainability, demanding far more from brands than cheap deals. In the current context maintaining a premium pricing strategy could actually be a show of strength, trust and authenticity.

Bloomfield urges brands to remember that, no matter how bumpy the ride gets over the coming months, when it comes to maintaining a premium strategy it’s important not to wobble.

Methodology

Kantar’s BrandZ valuation process takes the financial value created by a brand in US dollars and multiplies it by brand contribution. The result is Brand Value: the dollar amount a brand contributes to the overall value of a corporation. Isolating and measuring this intangible asset reveals an additional source of shareholder value that otherwise would not exist.
That brand contribution is derived from consumer research that quantifies how much of the volume people purchase and how much of the price premium people pay can be attributed to brand equity, connecting what people think to what they do.
This year’s analysis involves 17,000 brands, 3.8 million consumers, 512 categories, 51 markets and 5.3 billion data points.