What Makes a Brand Premium?

Article by Doug Briley

Like most people, I like nice things. I'll confess I spend more on my personal wardrobe than many men, and I'm a guy who will spend money on clothes that last and wear them for years instead of cheap stuff I'm constantly replacing. This is my approach when it comes to my personal wardrobe habits, but how does this notion scale for a consumer just like me when it comes to buying groceries? Or a vacation destination? Or a car? Or even family healthcare?

Think of this concept inverted: How does this idea apply to the other guy who spends as little as possible on his wardrobe so he has disposable income for other priorities? There may be more going on here than Mosaic profiles and simple segmentation. A careful review of consumer tradeoffs and premiums may be a perspective too often overlooked.

ROOM FOR A NEW PERSPECTIVE

Many marketers operate in a space where we support premium brands, but too many times we become distracted by selling those products or services to anyone who will buy—even people who aren't the target. We live under the pressure of making growth happen, but sometimes the business goals are set by bigwigs who too narrowly focus on short-term results. I've observed brands who move units quickly with deep discounts, hitting volume or revenue goals this year, but in the long-term they discount the product and give it away to consumers who will never pay full price.

I get it. We don't want to restrict our sales only to the consumers who can easily afford us. We want to sell to anyone who will buy now, thinking to ourselves try, learn, and optimize. What is often overlooked, however, is the depth of the financial tradeoffs that we're asking those consumers en masse to make in order to trade up for our premium brand.

Measuring the depth of those consumer tradeoffs relative to category norms provides an under-valued perspective, especially if considered alongside the abundance of consumer and profile data available to us today. Might this concept be a scalable way to evaluate a brand's "premium-ness", regardless of the brand's category? This neglected approach can pave the way for colorful, outside-the-category ideas for innovation and consumer appeal.

DATA ANOMALIES THAT LEAD TO OPPORTUNITY

After poring over more than a decade's worth of brand data on thousands of brands, we acknowledge that data supports what we already assumed to be true about premium brands: people with lots of money buy nice things. Whether you're talking hand bags or trash

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bags, restaurants or retail, it's easy to recognize the pattern that the nicest, most expensive brands are favored by consumers with the highest household income. But breakthrough ideas are rarely borne from predictable and expected patterns, so looking deeper becomes essential if we want to discover something novel.

What's more intriguing to us in the same data, though less obvious, are the fewer instances when wealthy people opt for the less expensive, or when average income people make deep tradeoffs to purchase really pricey things. Now the conversation becomes even more fascinating, especially since there are a whole lot more average-income people than there are excessively wealthy ones. What is it about these brands that are able to inspire consumers to say "no" to some things so they can say "yes" to a brand that's slightly or greatly out of financial reach? These are the nooks and crannies where opportunity lies for brands to up sell consumers on premium choices—especially brands in the top tier and middle of the pack. Even brands whose sales have plateaued can capitalize on the non-obvious anomalies and turn them into possibilities or innovations. However, discoveries may require looking beyond one's own category.

WHAT "PREMIUM" REALLY MEANS

Ultimately, premium brands prompt consumers to make tradeoffs—consciously or unconsciously—in order to obtain or experience said brand. As an example, the Lucchese boots I bought decades ago caused me to make some rather deep-at-the-time financial tradeoffs: they were the most expensive shoes I had ever purchased. At that stage of my career, buying such expensive boots was rationalized by the years of wear I knew I'd get out of them. The emotional component was met because of style and aesthetic satisfaction. The boots met my expectations, and I still wear them.

But what makes a brand premium and ultimately proves its "premium-ness" is its ability to command a price higher than its competitors over time. Let's call that ability a brand's "premium equity," which Lucchese maintains. Their premium equity is confirmed by the fact that years later I bought a pair of the same brand for my son, and they were still just as expensive or more than the first pair. We can all agree that putting a high price on a low-quality product won't build success, so it stands to reason that price alone won't make a brand premium. It has to include so much more: the brand experience, packaging, quality, customer service, and all the expectations that a high price point sets. If the brand meets or exceeds those consumer expectations for a sustained period, the brand generates premium equity.

THE WORK OF BUILDING PREMIUM EQUITY

Caution: don't underestimate the complexity of what it takes to build premium equity. The components that create it don't come quickly or easily. If you're an established brand, your premium equity is likely the result of years of doing things the right way, making hard choices, even failing from time to time. You've probably refused to compromise on quality when competitors succumbed to lowering their standards. You've also endured the challenge of holding fast to your brand values and taking difficult stances during price wars.

If you're a new or startup brand, and you're committed to being premium, you'll have to "act your age." By this I mean you'll need to behave like an established brand when it comes to quality, brand standards, and pricing. New technology and your ability to adapt quickly could be a distinct advantage for you if used strategically, especially if you're competing in a mature category.

Whether you're an established brand or an emerging one, your appeal as a premium brand will need to command two things: keeping your price appropriately north of

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your competition, and voraciously reinforcing (maybe even reinventing) your credibility in the minds of consumers. The two must go hand in hand. Premium credibility is constantly at risk of erosion, and the erosion can happen quickly.

WHEN BECOMING LESS PREMIUM IS THE RIGHT THING

Here in Texas, we sometimes see agriculture and ranching instances in which using a controlled burn becomes necessary to make the land healthier. It's a fascinating and frightening event that takes careful calculations, anticipation of environmental conditions like weather and wind, and well-guarded borders. For premium brands, growth planning should induce the same sense of fear and respect as a controlled burn. Becoming more widely accessible will naturally result in a somewhat less premium status, but marketers should carefully anticipate what can go wrong and manage the clearly defined boundaries with vigilance and brand mission.

Many luxury brands have done this well in recent years. For example, Porsche used to be so elite and inaccessible in the automobile category that its small amount of consumer data registered as hyper-luxury in much of our analysis. Data shows that as the brand expanded into the SUV and sedan categories, its explosive growth in units and household penetration actually lowered its premium status somewhat.

But Porsche has maintained a distinctly luxury, high-performance brand in ways, they believe, will help them extend the brand "to represent the sportiest and most exclusive cars in every sector," according to Bernhard Maier, a Porsche Sales & Marketing executive.[1] What's at risk for Porsche, according to a Business Insider article a few years later, is becoming known as an SUV manufacturer that also produces a few sports car models rather than the premier sports car brand that also makes SUVs.[2] Two other premium brands that have done this well are Mont Blanc pens and Tumi luggage. Both brands have extended their brand offerings into other categories (apparel and accessories) but have done it in careful ways that have been controlled within the same retail experience and brand standards. It's obvious every morning, too, in the Starbucks line as people wait impatiently for their $5 cup of 50-cent coffee.

THE COMPLEXITY OF MEASURING "PREMIUM-NESS"

My final thought seems overtly simple but is actually massively complex: the factors that make a brand premium are the choices made by the people who steward the brand. Marketers have to decide what's more important: alluring growth that may open the door to brand erosion, or careful, controlled growth that upholds a premium standard and maintains premium equity. But after analyzing decades of data, we observe that premium brands fundamentally and consistently do two things:

1. They charge an appropriately premium price relative to other brands in the category.
2. They demonstrate their brand's ability over time to consistently command that premium price.

Measuring a brand's "premium-ness", however, requires an unconventional perspective like the one discussed earlier—measuring the tradeoffs consumers make to purchase. A brand's "premium-ness" is more accurately and quantifiably measured by the premium behavior—not income alone—of the consumers who buy it. So in the end, what you claim about your brand doesn't matter. What matters is whether or not consumers believe it enough to pay more for it. ■

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2. Zhang, Benjamin. (2016, March 19) Porsche is Living Dangerously by Focusing on its SUVs [Web log post]. Retrieved November 12, 2019 from https://www.businessinsider.com/porsche-suv-sales-game-2016-3