

Brand Purpose and Brand Success

THE AUTHORS

Michael Zürn

Researcher

Fabian Buder

Head of Future & Trends

Matthias Unfried

Head of Behavioral Science

all: Nuremberg Institute for Market Decisions,
Nuremberg

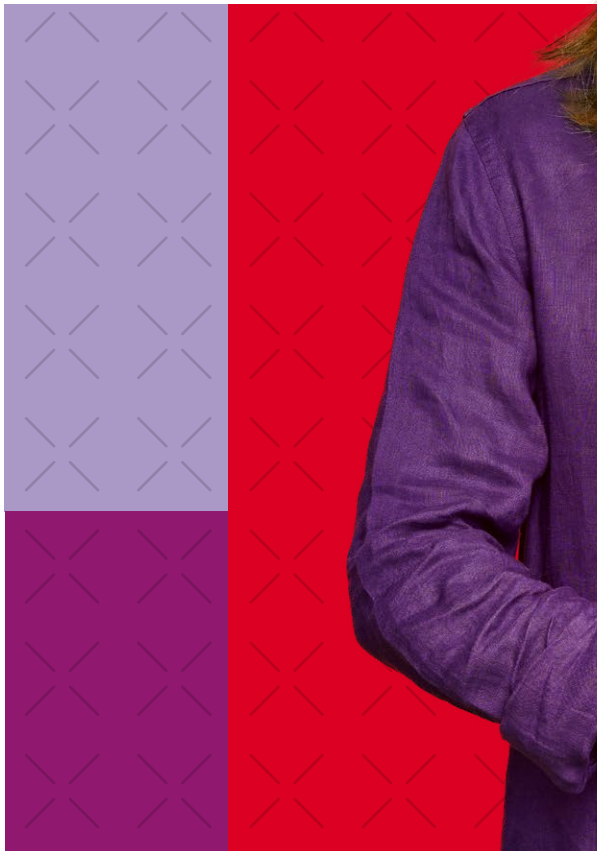
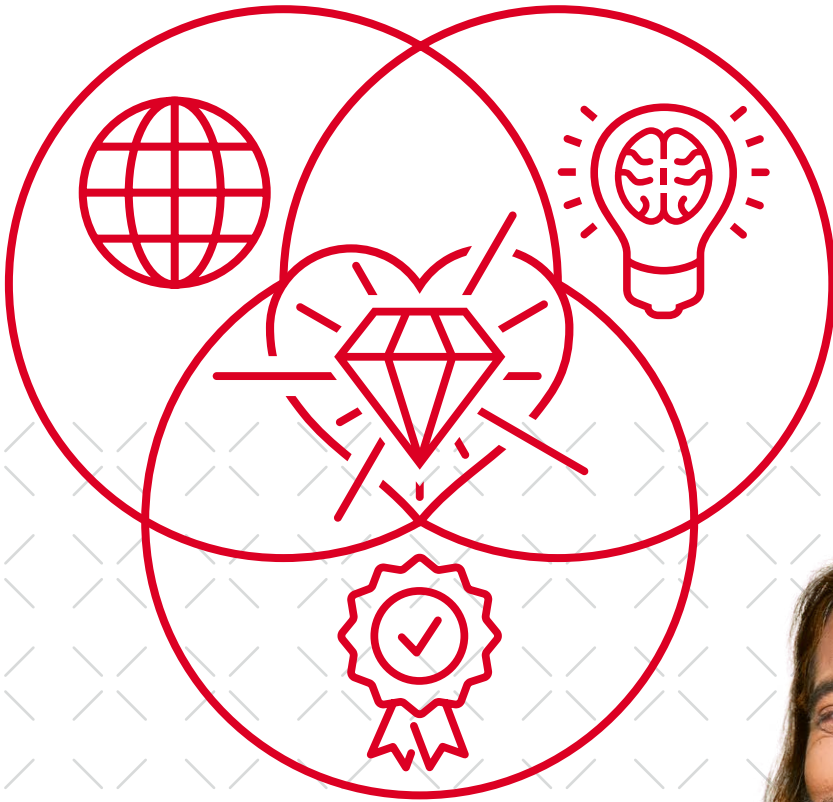
KEYWORDS

Brand Purpose, Profit, Purpose Beyond Profit, Customer Benefits, Third-Party Effects, Net Promoter Score

New challenges call for new performance metrics ✕ The year 2022 saw an almost unbearable number of disasters, both natural and humanitarian: wildfires in North America and Europe, hurricanes in the Atlantic and floods on the Indian subcontinent. And we must not forget the ongoing hunger crisis in Africa and, once again, a war in Europe. While the United Nations has set 17 Sustainable Development Goals to focus global awareness on the most urgent challenges, the organization itself has limited means with which to tackle them. Instead, the UN relies on encouraging governments around the world to adopt regulation and legislation in support of these goals. Fortunately, private enterprises also appear to have taken on more responsibility over recent decades. To a certain degree, the very reason why businesses exist is no longer limited to generating shareholder value; more and more private companies are claiming a purpose beyond profit and therefore also care about social responsibility and sustainability. However, including the purpose of a business in strategic and operative decisions has so far been impeded by a lack of reliable metrics. After all, you can't manage what you can't measure.

The purposes of business activity: What lies beyond profit? ✕ Basically, the purpose of any business is rather obvious: to offer products and services that yield certain benefits to their customers. In turn, the customers are willing to pay a price that helps businesses achieve financial goals. That is, the fundamental purpose of business boils down to generating benefits for customers and profits for entrepreneurs or shareholders. Both these purposes are closely interrelated and cannot be fulfilled without each other.

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**BOX 1**

The Perceived Purpose Score: How consumers evaluate a company's purpose via its brand perception

Whether or not a company aims for a purpose beyond profit is not easy to measure. Often, the evaluation is based on the analysis and integration of corporate communication, public filings, marketing materials and press coverage from and about a company. However, consumers typically do not evaluate companies as abstract legal entities by reading their annual reports; instead, they form their attitudes via touchpoints with the companies' brands. Therefore, we have chosen an approach that relies on consumers to integrate this information. After all, the subjective brand images that result from consumers' own inferences ultimately determine their attitudes toward a brand and, consequently, their purchase decisions and brand success.

Thus, we used a consumer-based approach to assess brand purpose and developed a measurement tool, the Perceived Purpose Scale, which covers the three types of purpose discussed above. Specifically, we created a set of more concrete subgoals addressing each purpose dimension (see Figure 1 for some examples of subgoals). Then, we asked consumers to provide their subjective impression regarding the importance of each goal for specific brands. Finally, we aggregated participants' responses into a three-dimensional perceived purpose score (Index 0-100) for each brand, indicating consumers' perceived importance of the three purpose dimensions – achieving financial success, providing customer benefits and caring for third parties.

In our study, 400 German consumers assessed the perceived purpose of the world's 100 most valuable brands (according to the global brand consultancy Interbrand). In addition, we investigated whether brands which are perceived to care about third-party effects might even be more successful in the end. To answer this question, we used the 100 brands' scores in the three purpose dimensions to predict a central metric employed in brand management, the brands' Net Promoter Score (NPS). To calculate this "one number you need to grow" for each brand, participants indicated whether they would recommend the brand to their friends and family using a scale ranging from 0 = "not at all likely" to 10 = "extremely likely". Then, the share of "detractors" (indicated by a rating from 0 to 6) was subtracted from the share of "promoters" (indicated by ratings of 9 or 10) to yield each brand's NPS. That is, brands that have more promoters than detractors have a positive NPS, while brands that have more detractors than promoters have a negative NPS.



Different types of corporate purpose are not necessarily mutually exclusive, but each company or brand will have an individual mix of goals that constitute its individual purpose.



FIGURE 1 > Purpose dimensions and examples of subgoals used in the Perceived Purpose Scale



**Financial
success**

- > Profits for the company
- > Financial security for the shareholders of the company
- > Cost efficiency of the company



**Customer
benefits**

- > Solving customer problems
- > User experience
- > Safety for the customers and users



**Third-party
effects**

- > Ecologically and socially sustainable investment of the company's profits
- > Solution to social and ecological problems
- > Positive contribution to the community



The higher a brand's score on the third-party effects dimension, the higher its share of net promoters.



However, the transactions between companies and customers might additionally affect third parties who are not directly part of the transaction. They cause external effects that can be positive as well as negative: Vacationing in distant places may provide fantastic experiences to travelers and revenue for the tourism industry, but it also causes considerable CO₂ emissions, which contributes to the collapse of our climate and ultimately affects all of us. Cheap palm oil makes many products available for the masses, but its production too often lays waste to entire ecosystems. In contrast, if the workforce of a company is composed of members from social groups who are otherwise in conflict, merely working together can ameliorate social friction and increase

well-being in the community. Also, there can be charitable components to business activities, such as donations from each product sold.

In sum, beyond striving for financial success, the purpose of a business can be the creation of customer benefits as well as positive third-party effects, such as the provision of community services and charitable activities, or the reduction of negative third-party effects, for instance by offsetting or insourcing emissions. These different types of corporate purpose are not necessarily mutually exclusive, but each company or brand will have an individual mix of goals that constitute its individual purpose.

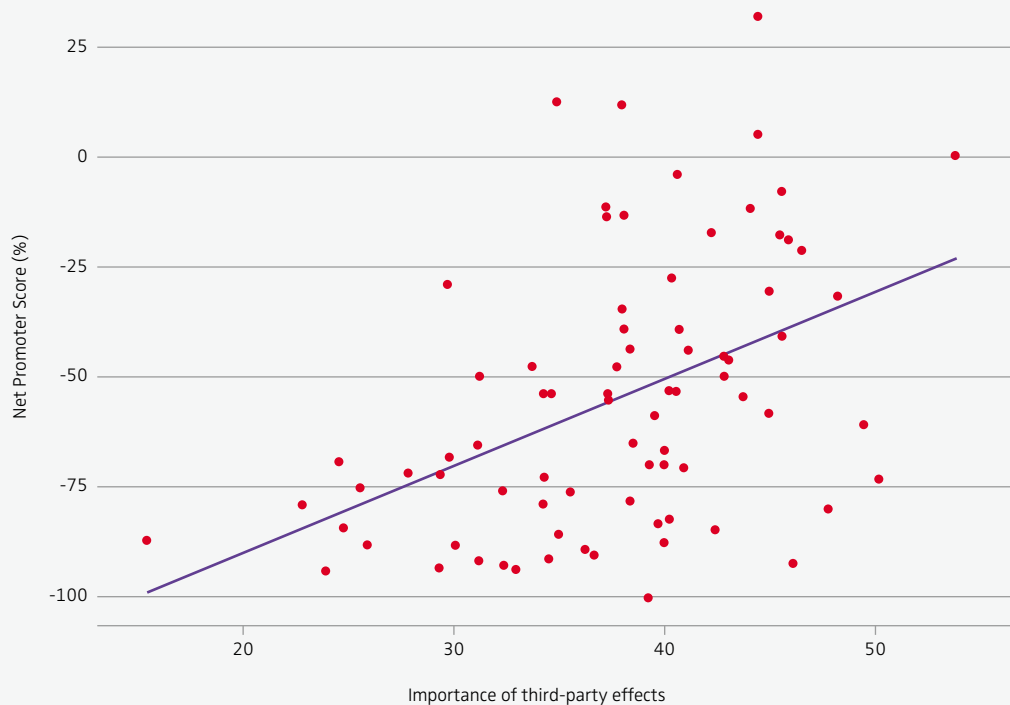
Consumer perceptions of brand purpose ✕ Given the many challenges our societies face, it makes sense that companies look beyond profit. But are there reliable metrics to assess which businesses and brands pursue a purpose beyond profit and which ones don't? And if we had such metrics, how would they relate to other corporate KPIs? Might a concern for third-party effects even support companies in achieving their more traditional goals? Researchers at the Nuremberg Institute for Market Decisions have conducted original research to find some answers. Box 1 describes the study.

Relationships among purpose dimensions ✕ Our research revealed a distinct hierarchy of how consumers rate the purpose dimensions across brands. Financial success is perceived to be the most important purpose dimension, fol-

lowed by the creation of customer benefits, while third-party effects are perceived to be least important for the top 100 most valuable brands.

In addition, we investigated the relationships among the purpose dimensions. First, consumers perceive the purpose of creating customer benefits to be independent of the purpose of achieving financial success. Second, creating customer benefits is positively associated with caring for third parties in the mind of the consumers. Third, orienting business toward third-party effects is perceived as antagonistic to the purpose of achieving financial success. That is, a brand can be perceived as striving for both financial success and creating customer benefits, but the purpose of financial success is perceived to conflict with the purpose of having a positive impact on third parties.

FIGURE 2 > Correlation between brands' perceived concern for third parties and the likelihood that consumers will recommend those brands





Being perceived as a brand that cares about the common good can be an advantage.



Doing well by doing good? ✕ To test whether a brand's perceived purpose beyond profit is good for business, we further investigated the relationship between our purpose dimensions and the Net Promoter Score. Our analyses show that neither the financial success dimension nor the customer benefit dimension is a strong predictor for the NPS. However, the higher a brand's score on the third-party effects dimension, the higher its share of net promoters. In Figure 2, the purple line illustrates the positive relationship between these two scores. When it comes to building a loyal customer base that will recommend the brand to potential new customers, being perceived as a brand that cares about the common good can be an advantage. It must be noted, however, that our methodological approach does not allow for causal interpretations of the relationship. All we can say is that brands that are perceived as trying to make the world a better place have more net promoters. It may be that doing good makes a business flourish. However, it may also be that only flourishing businesses can afford to do good.

Perceived purpose scores can support brand decision-making ✕ Quantifying a company's purpose beyond profit is no easy task, but it is highly relevant. Our Perceived Purpose Score is an example of a theoretically grounded and consistent quantification of brands' purpose from a consumer perspective. We found a positive correlation be-

tween the NPS and brands' perceived care for third parties, supporting the assumption that support for social or environmental causes can pay off. In sum, this research lays the foundation for a more systematic, rigorous investigation of purpose beyond profit. So far, we have only tested a single brand performance metric, but future analyses will also consider additional KPIs to complete the picture. For brand management, it will be crucial to understand how customers currently perceive a brand in all three purpose dimensions but also how you want a brand to be perceived. Our tool can guide decisions by identifying the most efficient ways to get where you want to be. ✕



FURTHER READING

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