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Rachel Wolff

Companies are relying on brand equity to overcome economic headwinds

Article

The trend: Companies are increasingly looking to leverage the strength of their brand names to mitigate the effects of inflation and negotiate favorable relationships with retailers.

- **Levi's** president and CEO **Chip Bergh** noted in the company's Q1 2022 earnings call that its "brand equity has never been stronger and is driving outsize growth."

- Brands including **Birkenstock** and **Vans** are pressuring retailers like **Walmart** and **Nordstrom** to stop selling look-alikes as they seek to preserve the integrity of their labels.

More on this: Because brand names carry connotations regarding quality, trendiness, social values, and overall desirability, businesses are naturally desirous to protect them wherever possible.

- Vans won a temporary injunction this week against Walmart to prevent the retailer from selling what the shoe brand calls “blatant knockoff versions” of its products.
- **Adidas** is suing fast-fashion giant **Fashion Nova** over the sale of a sneaker that the athleisure company alleges mimics the design of its iconic “Stan Smith” shoe, per Bloomberg.

What this means: Brands with enough brand equity can raise their prices without alienating consumers, as well as force retailers that stock their products to make concessions.

- Birkenstock has successfully lobbied Nordstrom, **Zappos**, and other retailers in a bid to prevent them from selling similar designs from other brands, per The Wall Street Journal. The chief executive of **Mephisto USA** likened the move to “competitive bullying,” noting that his company hadn’t infringed on design patents and had been selling similar styles for over two decades.
- In Levi’s most recent earnings call, Bergh said that **“the overall strength of Levi’s brand” enabled the company to raise unit prices by 10% “without negatively impacting demand,”** allowing the business to increase profitability.

The shift to D2C continues: Managing consumers’ brand perceptions is especially important as brands shift their focus to direct-to-consumer (D2C).

- While relationships with retailers are still key for many brands (as Birkenstocks’ maneuvering illustrates), companies like **Nike** and **Crocs** are turning to D2C to build deeper relationships with customers and have greater control over their brands.
- But companies that go this route must ensure they have enough equity to convince shoppers to seek out the brand directly, instead of as a part of a trip to another retailer.

The big takeaway: Consumers might be moving to private label brands for groceries and other essentials, but the strong performance of brands like Levi’s and Nike shows that plenty of shoppers are willing to pay higher prices for premium items.

But brands should take care: If they hike prices too much, they'll be left with inventory that will have to be sold at a discount—which could dilute their brand and disincentivize shoppers from paying full price in the future.