

TRADING UP

Has the pandemic affected the positive momentum of premium brands?

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THE RISE IN DESIRE FOR PREMIUM BRANDS

From the frantic stockpiling of toilet paper in the early days of lockdown to the “revenge shopping” of luxury fashion items which saw Hermès announce record sales after reopening its flagship Shanghai store¹, we have witnessed some new and unexpected consumer behaviours during the pandemic triggered by the Covid-19 virus.

The events of 2020 have undoubtedly put people under new personal, financial and social constraints which poses the risk of shifting established purchase habits in the longer term. Ipsos recently explored how brands can grasp an opportunity to premiumise further, even in times of economic downturn, when smartly positioned as affordable indulgences.² And this seems to be working - as we can see from some brands in Great Britain, for example.³

Deploying a premium brand strategy has been a classic move for many companies and industries in recent years as economic conditions have generally been prosperous

across the globe.⁴ Indications from our brand equity database tell us that the Covid-19 pandemic hasn't broken the pre-existing trend of prosperity for premium brands. Whatever the different and varied context consumers are facing now, they do continue to show more and more appetite for premium. However, the picture looks different across categories, and there are undoubtedly some marked geographical differences.

This paper explores the perhaps surprising long-standing success of premium brands with a meta-analysis of Ipsos' Brand Value Creator equity database. We have investigated how the desire for premium brands has risen in recent years. From these foundations we have shaped different explanations for what is driving this enduring success and why it appears to continue even as we face the evolving consequences of the Covid-19 crisis.

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PREMIUM PRICING

Premium brands can offer a significant business advantage as charging higher prices per unit brings greater profitability. But premium brands can only account for a limited portion of the sales generated in any given category as consumers may not want, or simply cannot afford, to pay more for everything they buy. We believe that perceptions of and desire for premium brands depend on the relative value consumers allocate to them vs. other options available in the 'moment of truth' - the point of purchase. Importantly, they are also affected by the context in which people make their brand and product choices.

But what does this mean for premium brands? While people may *desire* a premium brand, the relative price point can be a roadblock to actual purchase. So, generating significant consumer desire and helping consumers to overcome this price barrier is a cornerstone of premium brands' success.

Ipsos' exclusive approach to measuring brand equity, Brand Value Creator (BVC), incorporates key drivers of consumer demand, called **attitudinal equity** (i.e. desire generated by a brand derived from consumer perceptions). A view of premium brands in our BVC

database over the past six years (between 2015 and 2020) confirms the trend that premium brands globally have seen a constant, yet moderate, growth in consumer desire (+7%). During this period, our database included measurement of almost 250,000 brands in 150 categories across 100 countries.

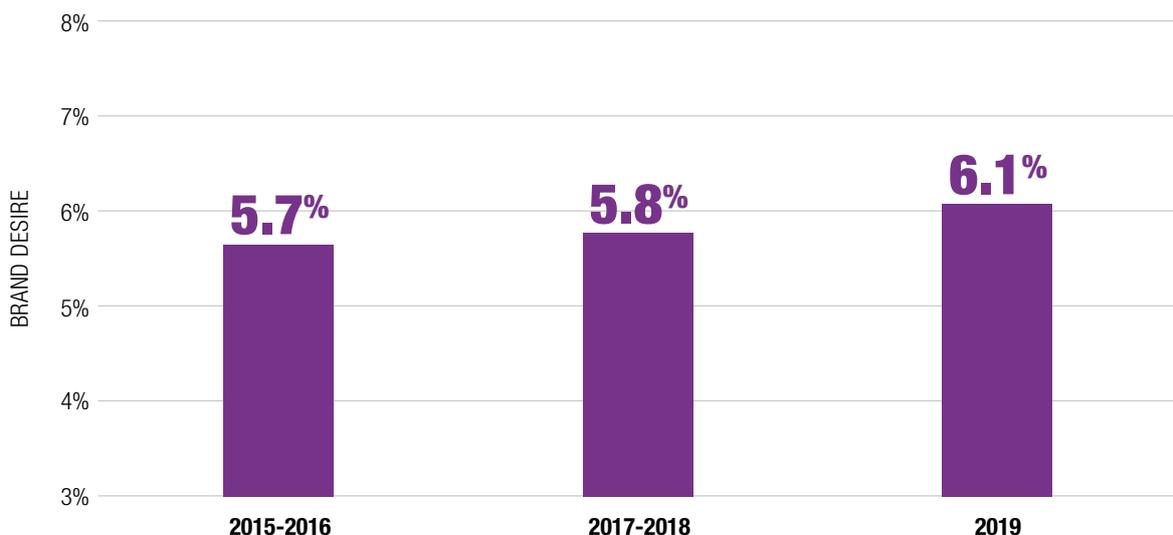
PREMIUM BRANDS

Defined in our database as brands that lose 15% or more of their Attitudinal Equity due to price being a barrier to purchase. This threshold has proven best to distinguish between mainstream and more expensive brands.

ATTITUDINAL EQUITY/BRAND DESIRE

A measure between 1 and 100 which reflects the level of desire a brand commands, derived from consumers' purchase habits and attitudes. In a market the total of Attitudinal Equity for all brands adds to 100 and closely reflects market share, as per Ipsos' validation.

Figure 1 Evolution of consumer demand for premium brands (Attitudinal equity, or brand desire)



Source: Ipsos Brand Value Creator database, 2015-2019

EMOTION, ASPIRATION AND INFLUENCE: DRIVERS OF PREMIUM BRANDS

The dynamics of premiumisation can be different across categories, as the type and intensity of product innovation - and hence the derived consumer value - show a wide range of elasticity (see an illustration in figure 2). Consumer electronics brands are constantly benefiting from intensive technological R&D investments, which has led to a quick democratisation of new applications and services in smartphones, voice assistants, connected objects, and so on.

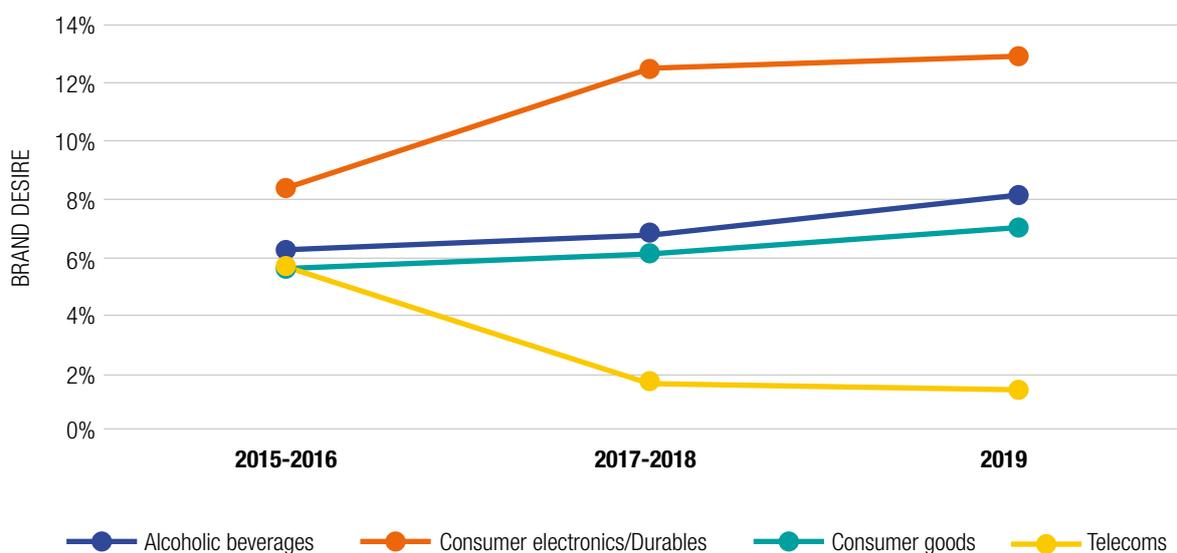
In a completely different sphere, the explosion of new, niche and challenger players, as seen in premium alcoholic beverages, has come about through greater creativity. The Beer category, for example, has faced great changes in western countries with new brands entering the market and showcasing high cultural resonance, such as Pabst Blue Ribbon in the USA. Or challenger brands breaking free from the

conformism of established mainstream brands, such as Scottish Brewdog in the UK. Beyond the rising interest in premium IPAs, the long tail of micro-breweries and trendy local craft beers brands (e.g. UK Beavertown, FR Gallia) have literally flooded into the mainstream and selective off-/on-trade channels.

These examples illustrate how a premium position can be supported by two different pillars: perceived **functional superiority** and **emotional value**, which both brand desire.

In that respect, telecom brands have performed poorly in maintaining both aspects of brand equity and some were unable to sustain their premium positioning over the long term. They have competed on price with little perceived differentiation in their offering, leading them increasingly to a mainstream or a value positioning.

Figure 2 Consumer demand for premium brands by category



Source: Ipsos Brand Value Creator database, 2015-2019

Despite being different by nature, we believe that premium alcoholic beverages and consumer electronics/durables share critical characteristics that explain this long-term, global trend.

These characteristics are:

HIGHER LEVELS OF CONSUMER INVOLVEMENT IN THE BUYING DECISION

Because of less frequent buying patterns, spirits and consumer electronics would, for example, generate higher levels of interest, personal choice and motivation than buying on impulse (e.g. a soft drink).

PROJECTING ASPIRATIONAL VALUES AND SOCIAL STATUS

These categories show more potential for affiliation and self-expression because brands are noticeable to people, can relate to special social moments (a celebration or certain life milestone), and can act as a badge of recognition with clear links to contemporary culture. This can be the case for Harley Davidson or an Apple Watch.

AN ECOSYSTEM OF EXTERNAL INFLUENCES INCREASES THEIR PERCEIVED VALUE

Both consumer electronics and premium wines or spirits are not solely promoted by the companies making them but are scrutinised, rated, commented and recommended by an entire ecosystem of influence (key opinion leaders, press, online conversations, influencers or celebrities) acting beyond their control.

We believe that the combination of these different factors has contributed to the growth in desire for premium brands in some categories (going beyond the alcoholic beverages and electronics/durables as showcased in our equity database). Absence of the above criteria can also explain why other types of products or services, like consumer goods or telecoms, have not seen such growth for premium brands.

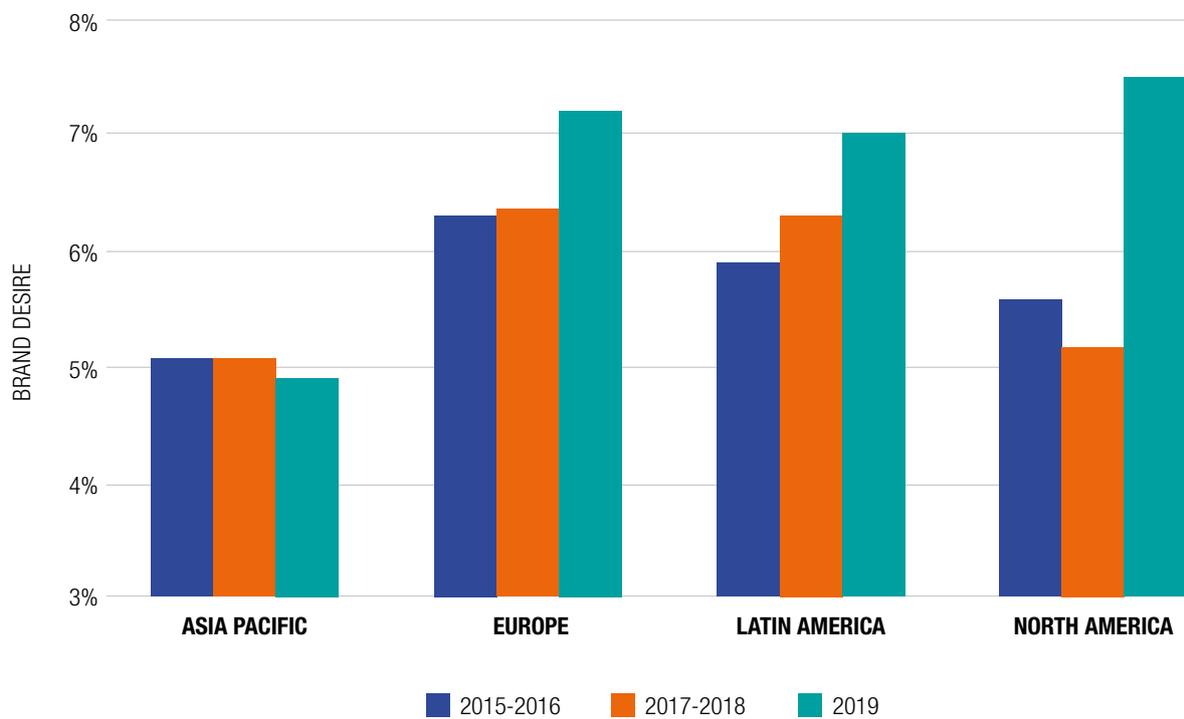


When it comes to some different regions of the world, there are also marked differences compared to the overall global picture.

Over a five-year period, desire for premium brands has been on the rise in most regions except in Asia Pacific (see figure 3).

Before Covid-19 hit in 2020, premium brands were generating around 7% of consumer demand in Europe and the Americas while lagging at around 5% in Asia Pacific. This was somewhat contradicted by a growing number of premium brands in Asia Pacific in our database over the same period (+35%). This increasing presence of premium brands had not been converted into higher brand desire in this region.

Figure 3 Evolution of consumer demand for premium brands by region



Source: Ipsos Brand Value Creator database, 2015-2019



HOW HAS PREMIUM FARED DURING THE PANDEMIC?

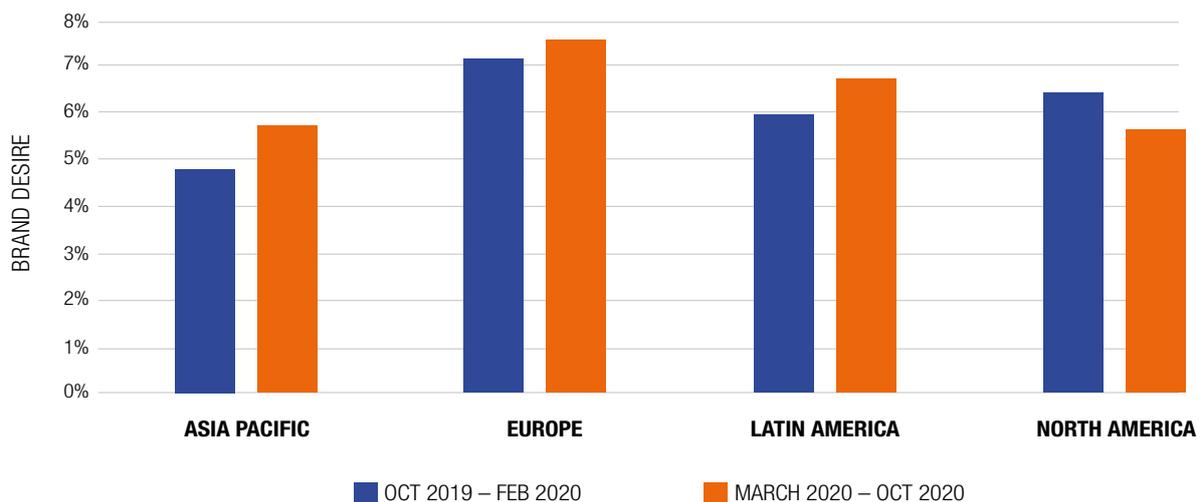
During the pandemic, we see many consumers shifting their personal priorities, changing some long-established consumption habits, and starting to allocate spending differently.

Was premiumisation still a sound strategic avenue for brands in 2020? To approach this question, we focused our analysis by comparing our BVC data from the period preceding the global Covid-19 outbreak (October 2019 to February 2020) with a period covering the first peaks of the epidemic (March to October 2020).

And despite the pandemic, we have seen premium brands continuing to generate higher consumer desire across the board. Their brand desire increased from 6.0% to 6.5% (+8%) since Covid-19.

But the picture is not the same everywhere. Since March 2020, Europe, Latin America and Asia Pacific regions were driving demand for premium brands whereas the positive trend behind their popularity in North America have stopped (see figure 4).

Figure 4 Evolution of consumer demand for premium brands by region since Covid-19



Ipsos Brand Value Creator database, October 2019 - October 2020

Is it so surprising to observe premium brands continuing their momentum throughout the Covid-19 outbreak?

Perhaps not, as some consumers may have submitted to a tendency to indulge in times of calamity. Related to this, eating preferences have been more impacted by the situation of lockdown, especially in parts of the world where habits of eating out or on-the-go are deep-rooted in people's life. We find that 63% on average across 28 countries report eating out less frequently since the pandemic.⁵

In Asia, our local Ipsos tracking experts have noticed a tendency for consumers to splurge on more premium brands as they were not able to eat and drink out as often as before. Premium wines, ice creams and frozen food have seen an increase in demand and have enjoyed a growth in sales. Cooking more often at home, people have tried new brands that are sometimes more expensive and different to those they would normally consider. This is driven perhaps by a fear of scarcity or desire to boost their normal standard of living in a small way.

This trend is clearly reflected in our database as the average number of brands purchased or considered by consumers across categories went from an average of 4.5 in January to 5.7 in May 2020 (+27%).

We also know that in times of crisis, consumers are potentially less willing to choose brands that are less familiar. People can be generally prepared to pay more for brands that they trust and are confident can deliver on their promises. Associated with greater perceived quality, premium brands paradoxically don't pose as much of a risk when times are uncertain, even if disposable income could be under pressure.

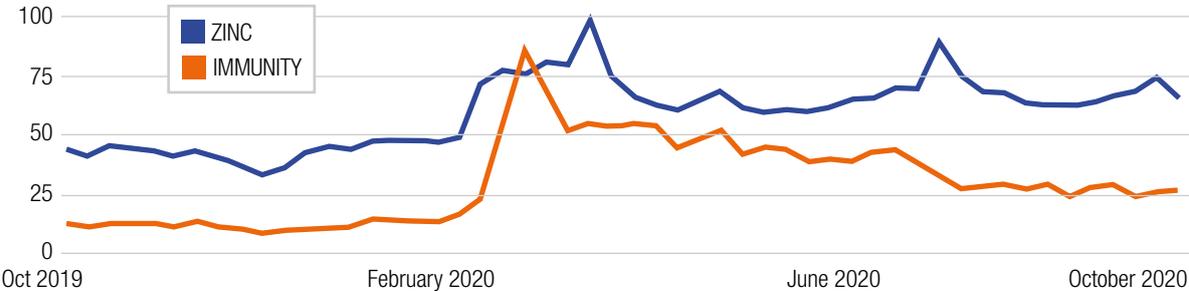
Finally, the fear of becoming ill might have influenced people to purchase more premium products as they seek to adopt healthier lifestyles to build immunity and protect their health. Products perceived as healthier often carry a higher price tag, and – especially in a pandemic situation – this could be something consumers are willing to pay for.

General public compliance with strict lockdown rules further pushed the health topic to the top of many people's agendas. We see a sign of this in the Google search trend for the words "immunity" and "zinc" (which is known to help the immune system) over the last 12 months. This is particularly apparent in Asia Pacific countries as well as Mexico, where we see spikes in online searches in March/April 2020 (figure 5).

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Even if some consumers might have been more inclined to indulge or prioritise healthy options, this may not have been accessible for others. Workers in North America, for example, experienced a relative lack of income protection schemes in contrast to Europe where many countries implemented unprecedented measures to protect jobs and incomes. Employment figures in North America have quickly dropped despite massive macro-economic financial stimuli. The consequences have been drastic for many people with tight budgets and less confidence in financial prospects (and spending) in the long term. This shift is reflected in the decline of brand desire for premium brands in this region since Covid-19.

Figure 5 Immunity-related internet searches during the pandemic



Source: Google search trends for 'Immunity' and 'Zinc', October 2019 - October 2020

PREMIUM BRANDS TODAY AND TOMORROW

A long-term view of our database confirms the increasing power of premium brands to ignite consumer desire, not only in consumer goods or in developed economies, but across many categories and markets. And while we can learn from some categories which have successfully created and nurtured premium brands, others seem to occupy more challenging territories in which to build and defend premium offerings.

Contrary to popular belief, in times of crisis, like the world is facing with Covid-19, a premium strategy can still be successful as many consumers appear to be more willing than before to pay for such brands.

Of course, many ongoing questions remain: are some consumers totally immune to scaling back their shopping habits, regardless of the wider economic situation? Should we expect long-lasting uncertainty in the global economy as a consequence of the pandemic? Will new societal norms and new consumer rituals emerge, causing people to buy differently e.g. fewer or cheaper brands? Will people adopt evolving premium shopping patterns in relation to trade disruptions (e.g. buying less but more expensive brands)?

This meta-analysis indicates that the success of premium is versatile and differentiated. Continuing our brand tracking work and with deeper investigation, it is possible to better understand the conditions, factors and rules that will guide premium brands to successfully win the hearts of consumers in the years to come.



KEY TAKEAWAYS

1

The Covid-19 pandemic hasn't broken the pre-existing trend of prosperity for premium brands in both developed and developing markets - it has even increased. But there are some geographical differences.



2

A premium position can be supported by two main pillars: perceived functional superiority and emotional value, which increase brand desire.



3

Category dynamics can influence a brand's ability to premiumise. Certain categories are more amenable to pushing a premium brand strategy.



4

Premium does well where there is potential for technical product innovation, high levels of consumer engagement, and the ability to project aspirational values.



5

Some people seek indulgent comforts during times of uncertainty and panic. Consumers also seem to be drawn to brands with greater perceived quality – such as premium brands – as they pose less of a risk.



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