

# [Research and theories associated with brand equity](https://assignbuster.com/research-and-theories-associated-with-brand-equity/)

This chapter reviews existing research and theories associated with brand equity. First, to be better understand the role of brand equity, it start from presents the concept of brand; secondly, the concept of brand equity and the importance are described; third, different brand equity measurement approaches are explained, finally, emerging literature of brand equity for online companies are conclude.

2. 1 Brand

Brand has become a major player in modern society. The role that brand plays in economic, social, cultural, sporting, even religious matters is significant (Kapferer, 2004). Brand is one of the most important concepts related to marketing science. Brand is one of the company's most valuable assets and creates intangible wealth for the company. A strong brand means sustainable high levels of profitability, and brand loyalty drives repeat business (Stoctt, 2002; Alwi, 2009); a strong brand leads credibility and differentiation (Aaker, 1996). Furthermore, brand strength not only forges customer bonds in the long term but also attracts and retains talented employees who will make an effort to provide good service to the customers and then help build good relationships with customers. Thus, brand-building and brand management is not only critical in marketing (Wood, 2000), but are also long-term underlying business strategies for an organisation. Branding is an organisational tool whose successful application depends on attending to the strategic, organisational and communicational context in which it is used.

Nevertheless, branding is becoming increasingly important in the retailing industry in terms of influencing customer perceptions and driving store choice and loyalty (Ailawadi & Keller, 2004). Due to its highly competitive nature, the rise of the retailer as a brand is one of the most important trends in retailing. Brand is an important determinant of consumer choice and repeat purchasing. Smith and Brynjolfsson (2001) analyzed 20, 268 consumer decision-making instances at an internet Shopbot; they selected various books from 33 retailers over 69 days for a total of 1, 512, 856 observed offers. Although each retailer offers a homogeneous product, consumers use brand as a proxy for retailer credibility in non-contractible aspects of the product and service bundle, such as shipping reliability.

For all these reasons there are many definitions relating to brand in the marketing literature. The definition of brand is one of hottest points of disagreement among experts in the literature, several different interpretations of brand often drawing on several concepts in their conceptualizations (De Chernatony 2001; Kapferer, 2004; Keller, 2003). In order to better understand the role of brand equity, let us start with an accurate definition of 'brand' or 'branding'.

The most quoted definition is modified from an older proposal by the American Marketing Association (AMA) (1960): 'Brand is a name, term, symbol, or design, or logo or a combination of them used to identify and differentiate a product or service from the competitor in the marketplace.' (Aaker, 1991; Barwise et al., 1990; Kotler, et al. 2003; Keller, 2003) This definition points out that brands operate in a market environment where differentiation is crucially important. However, it is argued that the other key feature of this definition is that it is more company-orientated rather than seen from the consumer's perspective.

Ambler (1992) takes a highly subjective consumer-oriented perspective to interpret brand: 'The promise of the bundles of attributes that someone buys and provides satisfaction…the attributes that make up a brand may be real or illusory, rational or emotional, tangible or invisible.' According to Gardner and Levy (1995), brand is a sum of both intrinsic and extrinsic presentations in which both functional and psychological benefits are blended. Sterne (1999) considers that brand is much more than a logo, a name, or an image projection: it is a promise made by a company to its customers and supported by that company. It is also truly about the company as a whole or, as we say, 'corporate image'.

De Chernatony and McDonald (1998) start with the notion of 'successful', which was an intrinsic part of the definition of brand: 'A successful brand is an identifiable product, service, person or place, augmented in such a way that the buyer or user perceived relevant, unique, sustainable added values which match their needs most closely.' According to De Chernatony and McDonald (1998), to have a successful brand identity is to be able to offer a product, service, or place that can be distinguished from others.

Leslie de Chernatony (2001) clearly concludes that the diverse interpretations of brand have been placed into three categories: input-based perspective, output-based perspective or time-based perspective. The input-based perspective stresses branding as a particular process of managers directing resources to influence consumers: brand as a logo, brand as a 'personality', brand as adding value, brand as identity etc. The output perspective is a consumer's interpretations and consideration of the way in which the brand enables him or her to achieve more: brand as image and brand as relationship and so forth. The time-based perspective sees the evolving brand as an entity. Chernatony (2001) considered that, if a brand is conceived solely in terms of either an input or an output perspective, this may lead to an unbalanced strategy; it is better to recognise brands as dynamic entities, evolving to meet changing environments.

The perceptions of the buyer or the user about the brand can only be enhanced in this way (Pickton and Broderick, 2001). According to Aaker (1991), who is famous for his numerous studies about brand and brand valuation, the brand is the differentiating name or symbol, such as logo, trademark, or packaging, which is utilized for differentiating the goods or services of one vendor or a group of vendors from those of their competitors (Pickton and Broderick, 2001).

The modern concept of branding is much more than the placing of a symbol to differentiate products. Nowadays branding is used to make an emotional connection to products and companies. It builds a sense of participation, the wisdom of having purchased superior quality and a sensation of intangible qualities that contain the brand name (Dolak, 2001). Aaker (1996 highlights that it is important to describe the characteristics of brands, including the strategic importance of understanding the brand's 'personality' and the connection to people's perceptions of and attitude towards the brand, contributing to a differentiation of brand identity, guiding the communication effort and creating brand equity. Another brand strategist, Kapferer (1992), also affirms that brand personality can establish a clear association in consumers' minds. Branding is becoming more a function of the relationship and the experience the consumer has with the brand, a long-term relationship with the consumer centred on emotional feelings more than on economic transactions (Pine & Gilmore, 1991; Simonton & Schmitt, 1997).

Considering all these definitions made of the brand, it could be concluded that the brand is an important element reflecting the perceptions of the consumers regarding the product and service and it becomes prominent in the competition between enterprises, hence the brand becomes an indicator of value and power (Marangoz, 2007A). Therefore, it is possible to understand why building strong brand equity is a top priority for many firms today, determination of the level of the value that the brand possesses is of great importance for the administrators of the enterprise and in terms of the decisions they make.

## 2. 2 Brand equity

The higher the brand equity, the more powerful the brand is. The brand equity stresses the importance of the role of the brand in marketing strategies, which become an integral component of marketing performance measurement, and highlights the importance of having a long-term focus within the brand management (Ambler, 2003; Clark, 2004).

Brand equity has been the subject of increasing interest and scholarly investigation for over a decade. Prior studies established the positive effect of brand equity on the consumer side, including the following: consumer preference and purchase intention (Cobb-Walgren, Ruble and Donthu 1995); consumer perceptions of quality (Dodds, Monroe and Grewal 1991); consumer evaluations of brand extensions (Aaker and Keller 1990; Bottomley and Doyle 1996). Meanwhile, on the financial and economic side, there are the following: market share (Agarwal and Rao 1996); price inelasticity (Erdem, Swait and Louviere 2002); shareholder value (Kerin and Sethuraman 1998); resilience to product harm crisis (Dewar and Pillutla 2000); and strong brand association and other assets such as trademarks and channel relationships (Christodoulides, De Chernatony et al. 2006).

In the marketing literature, although researchers agree on the advantages of strong equity brands, the concept of brand equity has proliferated into multiple meanings, and many researchers have tried to define the concept of brand equity in a number of different ways for a number of different purposes. As Berthon et al. (2001, p. 1) point out 'perhaps the only thing that has not been reached with regard to brand equity is a conclusion.'

The literature suggests the brand equity concept is being defined in terms of two primary perspectives: one based on the financial outcomes for the firm and the other on consumer-based perceptions of firm performance (Wood, 2000; Kapferer, 2003; Rios; 2008). The next section shows different perspectives of brand equity conceptualisation and describes how the concept of brand equity has evolved through time.

The actual term 'brand equity' was then taken up by academics such as Leuthesser (1988), Farquhar (1989), Aaker (1991) and Keller (1993) to name a few. Leuthesser (1988) offered a broad definition of brand equity: ' the set of associations and behaviour on the part of a brand's customers, channel members and parent corporation that permits the brand to earn greater volume or greater margins than it could without the brand name'. Later, Farquhar (1989) more briefly defines brand equity as the added value with which a brand endows a product. From consumer perspectives, this added value can be viewed in terms of enhancing a consumer's ability to interpret and store large amounts of information about a product. One of the most commonly-cited definitions of brand equity in terms of consumer-based brand equity, provided by Aaker (1991, P39), defines the value associated with a brand as brand equity: 'A set of brand assets and liability linked to a brand, its name and symbol, that add or subtract from the value provided by a product or service to a firm and or to that firm's customers.' (Aaker 1991, p. 12) This definition characterized it as the added value the brand gains as a result of investing in branded marketing (Aaker, 1992, Farquhar 1989, Srivastava and Shocker 1991). Similarly, Keller (1993) conceptualizes brand equity in terms of consumer knowledge about the brand: 'the differential effect of brand knowledge on consumer response to the marketing of the brand'. A group discussion at the Marketing Science Institute's May 1988 conference also suggested that brand equity is 'a set of brand associations and their strength, transferability, and ability to affect behaviour'. The previous definitions mentioned above are based on consumer perspectives; nevertheless, others suggest a financially-based definition or other aspects.

From a financial perspective, brand equity is linked to the sales and profit impact enjoyed as a result of prior years' marketing efforts versus a comparable new brand (Brodsky, 1991). According to Lassar, Mittal and Sharma (1995), the brand equity's first perspective is the financial asset value which creates financial asset value to the business franchise. This practice is used to compute the result of customer-based brand equity. In other words, it is used to calculate the value of the brand to the firm (Smith, 2007).

Simon and Sullivan (1993, p. 29) have presented a 'financial market value-based' technique for estimating a firm's brand equity. They use stock price to evaluate the value of the brand equities of the firm. They examine 'the incremental cash flows which accrue to branded products over unbranded products'. Incremental cash flows are taken from the value consumers place on branded products and on the cost savings that brand equity generates through competitive advantages. The evaluation technique used by Simon and Sullivan (1993) extracts the value of brand equity from the value of the firm's other assets. Srivastava and Shocker (1991) also described brand equity as the financial outcome of management ability to leverage brand strength via tactical and strategic actions in providing superior current and future profits and lower risks. Accordingly, brand equity is the measurable financial value in transactions that accrues to a product or a service from successful programs and activities (Smith, 1991).

Herman (2001) and Yoo, Donthu &, Lee (2000) add a new aspect by associating brand equity with all the unreal benefits of a brand. Yoo, Donthu &, Lee (2000) define brand equity as 'the equity differences between two similar products'. That is, if two brands gain the same utility benefits but with a different brand names, the brand name gives the product its unreal benefits. Herman (2001), giving the famous example of the 'Blind Test' of Coca Cola, also defines brand equity in terms of benefits that are supplementary to the product's utilities. Those are 'psychological advantages, social advantages and even experience benefits'.

Ambler (2003: 41) noted that 'brand equity is such a big concept that people have difficulty describing it' and went on to suggest that the multiplicity of voices in brand equity research results from researchers looking at different aspects of the same concept. Likewise, Schultz (2003) proposed looking at brand equity as a continuum. At one end is the psychological value of a brand, while at other end is the financial value of the brand, for instance, the amount the brand is worth to the owner.

A common feature of the definitions discussed above is that they either address the role of brands for the seller, or they focus on the role of brands for the consumer. None of the authors (Aaker, 1991, 1996; American Marketing Association, 1960; Kotler et al. 1996; de Chernatony and McDonald, 1992; Keller, 1993) explicitly addresses in their definitions how brands benefit both the buyer and seller, although some (e. g. Doyle, 1994) describe both buyer and seller benefits. Accordingly, Wood (2000) argued that it is possible to draw together many of the approaches to brand definition, and an integrated definition can be achieved that highlights a brand's purpose to its owner, and considers how this is achieved through consumer benefits: 'A brand is a mechanism for achieving competitive advantage for firms, through differentiation (purpose). The attributes that differentiate a brand provide the customer with satisfaction and benefits for which they are willing to pay (mechanism).' (2000: 666). Consequently, brand equity is an important marketing construct from financial, strategic, and consumer behaviour perspectives.

Briefly, however the benefits or attributes of brands are described, it is important that they are distinguished from the added value (and other advantages) the firm gains, as this has been the source of much confusion.

## 2. 3 Brand Equity Measurement Approach

All these definitions and descriptions of brand equity constitute the fact that it is one of the most valuable assets an enterprise has; therefore there is a need to develop measures of brand equity (Washburn and Plank, 2002).

Three research approaches to measure brand equity have been proposed: the first, producing measures for the firm, focuses on the monetary or financial value of the brand in the marketplace (Morris, 1996); the second refers to a multidimensional concept that involves the value added to a product or service by consumers' associations and perceptions of a brand name, normally conceptualized as consumer-based brand equity (Aaker, 1991; Keller, 1993, Yang and Jun, 2002, Washburn and Plank, 2002,); the last one is a combination of the financial- (or market-based) and consumer-based approaches.

Nonetheless, Kapferer (2004) points out that there is a major schism about brand equity between two paradigms, depending on the beneficiary of value: consumer or firm. Accordingly, brand equity will be mainly analysed in terms of financial and consumer perspectives in this paper.

## -2. 3. 1Financial Based Brand Equity

From the financial point of view, the brand equity is measured in the form of money, which intends to acknowledge the true 'value' or outcome of the long-term intangible investments. This capitalised value of brand is normally used by shareholders to measure their investment, or by acquisitive enterprises to measure the goodwill of the merger and acquisition, or by managers to raise funds and brand strategies (Walgren, Ruble and Donthu, 1995; Keller, 2009).

Keller (2009) and Winters (1991) concluded that three approaches can be used to measure the brand's financial value. The first is the cost perspective, which involves all the costs of building and maintaining the brand, such as research costs and advertisements. The second is the market-based approach which sees the brand as a product in the market that has potential benefit for buyers and sellers, and is on the purpose of acquisition most of the time. The third one is the income approach, which focuses on the incremental cash flows that the brand will bring in the future. Simon and Sullivan (1993) and Brodsky (1991) suggested that the sales, profits, net present value (NPV) and price premium etc are common tools in this regard.

Nevertheless, the financial measurement of brand equity is a direct way to measure the brand equity by using financial information, and the result is objective. Furthermore, it is different from the customer-based measures which use relative information that cannot be translated into financial information and troublesome survey method and as a result, it can be utilized in the strategy formulation. However, it has several limitations. First of all, many scholars argue that the financial value is just one aspect of the brand equity that cannot replace the customer-based value because it does not reflect the consumer-perceived knowledge of the brand (Marangoz, 2007B). Furthermore, the information it relies on is historic, which means the outcome of the calculation can only represent, for the most part, the past performance of the brand; there is a lack of predictive ability (Keller, 2009). Thirdly, the validity of the information is still questionable (Rios, 2007); Keller (2009) said that the intangible assets are harder to estimate than the tangible assets, by any of the three approaches. The problem of access to the financial information is also vital for researchers in this case (Rios, 2007). In terms of the managerial purpose, the large amount of financial information is difficult for the managers to interpret and use as a means of operational decision-making. Moreover, regarding the dynamic environment of the Internet, the financial information is hysteretic when measuring the true value of brand equity. Therefore, financial measurement is not popular with scholars and managers.

## - 2. 3. 2Consumer-Based Brand Equity

In the marketing literature, numerous researchers agree with the notion of customer-based brand equity, and research has largely concentrated on consumer-based brand equity as opposed to firm-based brand equity. It is argued that the financial-firm approaches offer little usable information for brand managers, but the consumer-based approach offers insights into consumer behaviour which can be converted into actionable brand strategies to satisfy consumer needs (Keller, 1993).

The literature on marketing research can broadly be grouped into three categories exploring, respectively, consumer-based brand equity's conceptualisation (e. g. Aaker, 1991; Keller 1993; Erdem and Swait 1998), development of measurement (e. g. Allawadi, Lehmann and Neslin 2003; Park and Srinivasan 1994; Netemeyer et al. 2004; Vázquez, del Rio and Iglesias 2002; Yoo and Donthu 2001a) and validation of instruments (e. g. Agarwal and Rao 1996; Washburn and Plank 2002; Mackay 2001).

Two of the most cited consumer-based frameworks are those suggested by Aaker (1991) and Keller (1993). Although they conceptualized brand equity differently, their approach to brand equity relied on consumers' brand associations. These two methods are described as follows.

Aaker's (1991) framework of brand equity is the most frequently-used model in practice and comprises five sources. Four sources are based on customer perceptions of the brand: brand awareness, perceived brand quality, brand associations/differentiation and brand loyalty. The fifth source is market-based rather than customer-based.

The brand loyalty is the most fundamental dimension of brand equity and the core of brand value. Aaker argued that no other brand equity dimension is as effective for the brand equity as brand loyalty (Aaker, 1991). Brand equity can reduce consumer uncertainty and reduce the cost of switching to other brands. It is critical for companies to maintain their original customers and attract new customer groups. The brand awareness is expressed as the power of the brand's existence in the consumers' minds and it is an important part of the brand equity (Pappu, Quester and Cooksey, 2005). Four levels regarding brand awareness have been proposed by Aaker (1991): top of mind, brand recall, brand recognition and brand unawareness. Brand awareness is the first step in communicating with the customers. The perceived quality is defined as 'the customer's extensive judgment of perfection or superiority about a product'. It is not the actual or objective quality but the customer's subjective evaluation of the product (Zeithaml, 1988). Brand association indicates that all associations with the brand are related in the consumer's mind because, if these associations can be assembled all together with some signification, the impression of this signification will become a brand image. The brand image is a communication result of the brand positioning. The fifth sources, other proprietary brand asset it incorporates the market value of such as comprises patents, trademarks and R&D investments, distribution system.

The dimensions present in the model and the different values contributing to the brand equity in each dimension are given in detail in Figure 1. This equity provides value to the consumer and the firm was outlined. This model by Aaker was one of the first seminal works in the field of brand equity and led to future research.

Figure 1. Aaker's Brand Equity Dimensions and Gains for Each Dimension

Source: David A. Aaker. 1996. Building Strong Brands, New York, The Free Press, pp. 9.

Keller (1993) takes Aaker's research one step further by offering an alternative model: consumer-based brand equity (CBBE). Just as its name implies, the CBBE model's approach is to gain insights into consumer behaviour; the basic premise of the model is that 'the power of a brand lies in what resides in the minds of customers' (Keller, 2003, P59). According to Keller's conceptualisation of CBBE, 'customer-based brand equity occurs when the consumer has a high level of awareness and familiarity with the brand and holds some strong, favorable, and unique brand associations in memory' (2003, P67).

The CBBE is defined as 'the differential effect of brand knowledge on consumer response to the marketing efforts of the brand'. Thus, a brand is positively valued when the consumer reacts more favourably to a known brand name product than an unbranded product. Brand knowledge is composed of two important sources: brand awareness and brand image. Brand awareness is related to the strength of the brand node or trace in the memory as reflected by consumers' ability to recall or recognize the brand under different conditions or, as we say, brand recall; and brand image is defined as consumer perceptions of and preferences for a brand, as reflected by the various types of brand associations held in consumers' memories (Keller, 2003). Two basic approaches, direct and indirect, are involved in Keller's CBBE framework. The direct approach to measuring brand equity assesses the impact of brand knowledge on customer response; the indirect approach attempts to assess potential sources of brand equity by measuring consumer mindset or brand knowledge. Each measure can only capture one particular aspect of brand knowledge; thus, multiple measures are required to account for the multidimensional nature of brand knowledge.

Inspired by Aaker and Keller, Park and Srinivasan (1994) take brand associations as the foundations of brand equity; they divided brand equity sources into attribute-based and non-attribute-based components. A survey-based method of measurement is developed to gather different customer opinions and attitudes to determine possible factors in building brand equity. By collecting data on the importance of attribute-based and non-attribute-based factors, brand managers can determine how the company's brand rates compare to the competition and thus plan the future direction of the brand. Park and Srinivasan (1994) validated their brand equity model against predictions of respondent-reported market share. Market share and price premium are suggested as meaningful summary measures of brand equity because they are linked to a brand's profitability.

Christodoulides and De Chernatony (2006) consider that the current knowledge of consumer-based brand equity has evolved from two theoretical approaches: cognitive psychology and signalling theory in information economics. The dominant stream of research is based on cognitive psychology, which suggests that brand equity arises from brand associations held in the customer's memory in the form of images (Aaker 1991, 1996; Keller 1993); on the other hand, brand equity research rooted in information economics takes into account the imperfect and asymmetrical nature of contemporary markets. Imperfect and asymmetrical market information creates uncertainty in consumers' minds about available products or services. It motivates the role of credibility (determined endogenously by the dynamic interactions between firms and consumers) as the primary determinant of consumer-based brand equity; thus signals and brand names may act as such signals to consumers (Erdem and Swait 1998).

Little systematic research has been done to develop a scale to measure consumer-based brand equity. Yoo and Donthu (2001) developed and validated a multidimensional consumer-based brand equity scale (MBE) based on Aaker's and Keller's conceptualizations of brand equity. The MBE model consisted of 22 items for assessment: five on brand loyalty, four on brand awareness, seven on perceived quality, and six on brand associations. The fifth dimension (proprietary brand assets) was considered irrelevant as the focus of their study was consumer-based rather than market-based. An overall brand equity (OBE) scale (Yoo and Donthu, 2000), sources include: brand loyalty, brand awareness, brand associations and perceived quality is developed to evaluate the impact and validity of the MBE. A reasonable level of correlation between the MBE index and OBE was reported (0. 60, 0. 63, and 0. 59) (p <0. 0001), and has been taken to support the validity of the MBE. Hence the multistep psychometric tests demonstrate that their MBE scale was reliable, valid, parsimonious, and generalisable across several cultures and product categories (Yoo and Donthu, 2001). Indeed, Yoo and Donthu's study offers a set of parsimonious measures for a MBE model, which is useful for marketing practitioners as they can track brand equity of individual brands on a regular basis. The model can also be used as a diagnostic tool as it can indicate a brand's strengths and weaknesses. This helps marketers to efficiently allocate resources where needed and plan successful branding strategies.

Allawadi, Lehmann and Neslin (2003) propose that the revenue premium a brand generates compared with that of a private label product is a simple, objective, and managerially useful product-market measure of brand equity. The authors provide the conceptual basis for the measure, compute it for brands in several packaged goods categories, and test its validity. The empirical analysis shows that the measure is reliable and reflects real changes in brand health over time. It correlates well with other equity measures, and the measure's association with a brand's advertising and promotion activity, price sensitivity, and perceived category risk is consistent with theory.

Netemeyer et al. (2004) also used the CBBE according to Aaker (1991) and Keller (1993), developing it to measure the core/primary sources of consumer-based brand equity. Two models were hypothesised: one is the primary CBBE source (brand quality, brand value for the cost, brand uniqueness and willingness to pay a price premium) which was hypothesised to predict the purchase intention and actual purchase; the alternative model is related to brand associations (awareness, familiarity, popularity, organisational associations and brand image consistency) which influenced brand purchase intention. Results obtained from LISREL indicate that there was no discrimination between the perceived value for cost (PVC) and perceived quality (PQ) sources; primary CBBE sources are better predictors than related brand associations.

Argarwal and Rao (1996) suggested the first step towards a set of parsimonious measures, testing the convergence and predictive validity of 11 measures of customer-based brand equity. However, the psychometric properties of their measures have not been reported or fully analysed, according to Washburn and Plank (2002). Furthermore, the parsimony comes at a cost; several measures consisted of single items and were therefore assumed free of error when measuring a construct. As a result, these measures have been declared inappropriate for studies that examine consumer-based brand equity phenomena (Yoo, Donthu and Lee, 2000).

Vázquez1 et al. (2002) proposes the development and validation of a measurement instrument of brand equity based on the value ascribed to brands by consumers. The results obtained indicate the existence of four basic dimensions of brand utilities: product functional utility, product symbolic utility, brand name functional utility, and brand name symbolic utility. The various tests employed show a reasonable degree of reliability and validity of the proposed scale for the sports shoes sector.

Washburn and Plank (2002) view Yoo and Donthu's consumer-based brand equity scale as a valuable initial step in developing a recognized tool for measuring consumer-based brand equity. They further investigated Yoo and Donthu's (2001) scales in addition to the original 22 item scales contained in the MBE and OBE, incorporated attitude toward the brand and purchase intention as two additional measures, and in some ways supported their findings (no differentiation between brand awareness and brand association); however, they had serious reservations after the exposure of residual problems.

Consumer-based equity approaches can also be argued as having shortcomings; one of the major drawbacks has been the lack of systematic means of assigning consumer based equity a financial value that can be recorded in the financial statements. The 'subjective' nature of consumer-based measure usability has