Brand Equity And Business Performance : Towards A Conceptual Framework

** Bijuna C. Mohan*
*** A. H. Sequeira*

ABSTRACT

A Brand is considered to be one of the most important intangible assets of any business. Companies spend a considerable amount of their revenue and time on brand building activities. In this scenario, there arose a need for the justification of brand building activities. Brand equity and business performance are the two concurrent topics of interest to both managers and academicians. This study examines the relationship between brand equity and business performance in the Fast Moving Consumer Goods (FMCG) industry. By understanding the dimensions of brand equity, the study focuses on the important contributors to brand equity. This article focuses on the studies establishing the relationship between brand equity and business performance, in which brand equity dimensions, i.e. - brand awareness, brand loyalty, perceived quality and brand associations - are related to business performance. Building on existing conceptual and empirical data, a conceptual framework of such a relationship was developed. The proposed framework can serve as a reference framework to leverage the business performance in the brand management process.

Keywords: Brand Equity, Business Performance, Brand Awareness, Brand Loyalty, Brand Association

INTRODUCTION

Brands have a remarkable capability to impact the way people perceive products. Consumers rarely just see a product or service; they see the product together with the brand. As a result, how they perceive the product is shaped by the brand. A Brand can elevate or diminish a product. Creating and building brands are the greatest challenges faced by the marketers (Calkins et al., 2005). Positive customer - based brand equity, in turn, can lead to greater revenue, lower costs and higher profits, and it has direct implications for the firm's ability to command higher prices, customer's willingness to seek out new distribution channels, the effectiveness of marketing communications and the success of brand extensions and licensing opportunities (Keller, 2003).

Mostly, organizations move away from defining and measuring performance or effectiveness. However, this is not a viable proposition, especially in the long run. 'What is not measured is not managed' is a well-known management catchphrase. Managers need to monitor every aspect of the business - staring from cash flow to productivity, and the return on investments made. Hence, the effect of brand equity on the performance of organizations has great relevance in today's world. Performance is a recurrent theme in most branches of management, including strategic management, and it is of interest to both academic scholars and practicing managers. While different researchers have suggested strategies for improving and managing organizational performance, the academic community has been preoccupied with discussions and debates about issues of terminology, levels of analysis (i.e. individual, work-unit, or organization as a whole), and conceptual basis for assessment of performance (Ford & Schellenberg, 1986).

In this article, an attempt is made to conceptually identify the interrelations between customer-based brand equity and business performance for the fast moving consumer goods industry. FMCG is the acronym for Fast Moving Consumer Goods, which are also known as Consumer Packaged Goods (CPG). FMCGs are products that have a quick turnover, and relatively low cost. FMCG products are those that get replaced within a year, and they constitute a major part of consumers' budget in many countries. Marketing of FMCGs plays a pivotal role in the growth and development of a country, irrespective of the size and population. It is a fact that the development of FMCG marketing has always kept pace with the economic growth of the country. The FMCG sector primarily operates on a low margin and ,therefore, success primarily depends on the volume of sales (Sarangapani & Mamatha, 2008).

FMCG is the 4th largest sector in the Indian economy. Based on current trends, the projected growth at 10-12 per cent

* *Assistant Professor,* Department of Humanities, Social Sciences and Management, National Institute of Technology Karnataka, Surathkal, Mangalore-575025, Karnataka. E-mail : bijunacm@yahoo.com

** *Professor,* Department of Humanities, Social Sciences and Management, National Institute of Technology Karnataka, Surathkal, Mangalore-575025, Karnataka.

will be an industry size of US$ 43 billion by 2013 and US$ 74 billion by 2018 (The Nielsen Company, 2010).
Theoretical and empirical propositions about how brand equity could affect business performance are discussed in the present paper. The first part of the paper focuses on the relevant literature from diverse but related areas to identify existing theoretical and empirical evidence of this relationship. The second part of this paper consists of the development of a conceptual model that links brand equity with business performance. The research was done for the period from 2009 to 2012.

LITERATURE REVIEW

A lot of research has happened in the area of building and managing brands. One of the terms which is of interest to researchers in brand management is Brand Equity.

❖ **Brand Equity :** Brand equity is viewed from different perspectives by different researchers. Some researchers have suggested two types of brand equity : Organizational brand equity, which is based on the value of the brand to the firm and Customer brand equity (Capon, Berthon, Hulbert and Pitt, 2001), based on the value to the customer. Organizational brand equity focuses on using the financial market value of the firm as a basis for valuing brand equity (Simon & Sullivan, 1993). Simon and Sullivan (1993) defined brand equity as the incremental cash flows which accrue to branded products over unbranded products. A financial-based approach offers greater unbiased insights into the value of the brand for accounting purposes, for mergers, acquisitions or divestiture purposes. Although a financial approach may provide a more precise insight into the valuation of a brand, it may not be useful for brand managers to establish marketing strategies because the financial approach is only limited to a brand's value estimation (Keller, 1993). The two most popular perspectives and approaches regarding the concept of Brand Equity are given by Aaker (1991) and Keller (1993). According to Aaker, Brand Equity is "a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and / or to that firm's customers." The set of assets / liabilities are grouped into five categories: brand loyalty, brand name awareness, perceived brand quality, brand associations and other proprietary brand assets. Other proprietary brand assets include patents, trademarks and channel relationships.
Keller (1993) considers brand equity from a customer based view as being the "differential effect of brand knowledge on consumer response to the marketing of the brand." According to Keller (1993), brand knowledge is the key to creating brand equity. Keller (1993) described a detailed conceptualization of brand knowledge, which is defined in terms of two components, brand awareness and brand image. Brand image can be measured by studying the brand associations of Aaker (1991). What Keller left out from Aaker's framework in defining brand equity is the brand loyalty dimension. The brand equity for global brands can be measured under four basic dimensions: Perceived quality, Brand loyalty, Brand associations, and Brand trust. Brand trust emerged as a new dimension instead of brand awareness (Atilgan, Akinci, Aksoy, & Kaynak, 2009). The study was done for McDonalds and Coca-Cola. The customer based brand equity approach is more practical as the information offers a strategic vision of customer behavior, and managers can develop strategies accordingly (Kim, Jin-Sun & Kim, 2008). The conceptual definition of brand equity for this research is grounded on Aaker's (1991) comprehensive framework, where brand loyalty, perceived quality, brand awareness and brand association lead to brand equity. These established constructs are included in various customer based brand equity models (Aaker, 1991; Keller, 1993; Yoo & Donthu, 2001). In the model by Aaker (1991), there is a fifth component - other proprietary brand assets. The fifth component, other proprietary brand assets are not relevant to consumer perception. Hence, only the first four dimensions are included here.

❖ **Customer Based Brand Equity :** Customer based brand equity is approached from the perspective of the customer. For a brand to have value, it must be valued by the customer. The power of the brand lies in what customers have learnt, felt, seen and heard about the brand as a result of their experiences over time (Keller, 2003). If the brand has no meaning to the customer, none of the other perspectives of brand equity are meaningful (Keller, 1993; Cobb-Walgren & Ruble, 1995). There will be value to the investor, the manufacturer and the retailer only if there is value to the consumer (Cobb-Walgren & Ruble, 1995). In a study by Pappu, Quester and Cooksey (2005), they confirmed that consumer-based brand equity was a four-dimensional construct. The results of the study established the multidimensionality of consumer-based brand equity, consistent with the conceptualization of Aaker (1991).

According to Kim, Jin-Sun and Kim (2008), in the lodging industry (service industry), the model linking outcome variables with three factors of brand equity demonstrated a better fit than the proposed model with four factors of brand equity. The study for brand equity for online companies revealed partial support for the application of the offline brand equity theoretical framework based on brand awareness, brand associations and loyalty. Brand loyalty and brand value associations directly create brand equity for online companies (Rios & Riquelme, 2008). By examining the dimensionality of customer-based brand equity, it was found that in the hotel industry brand, equity is a three-dimensional construct which consists of – loyalty, image and quality. Brand awareness dimension was not found to be significant in the tested model for hotels (Kayaman & Arasli, 2007).

In the study done by Atilgan, Aksoy and Akinci (2005) in the beverage industry, brand loyalty was found to have a dominant effect on brand equity. On examining the practicality and applications of Aaker's (1991) customer-based brand equity model in the Chinese sportswear market, it was found that brand association and brand loyalty are influential dimensions of brand equity. Weak support was found for the perceived quality and brand awareness dimensions (Tong & Hawley, 2009). By investigating the measurement invariance of the consumer-based brand equity scale across two samples of UK and Spanish consumers, it was found that the brand equity scale was invariant across the two countries. Results show that the consumer-based brand equity scale has similar dimensionality and factor structure across countries (Buil, Chernatony, & Martínez, 2008).

❖ **Measuring Brand Equity :** Existing measures of brand equity can be divided into three categories. The first category is the customer mindset and focuses on assessing the consumer based sources of brand equity. The second and third categories are called the firm and trade perspective (Farquhar, 1989). Mahajan et al. (1990) claimed that customer based brand equity can be measured by the level of consumer's perceptions. Consumer based brand equity means the measurement of cognitive and behavioral brand equity at the individual consumer level through a consumer survey (Yoo & Donthu, 2001). The measure used here is developed using the brand equity dimensions of Aaker (1991) and Keller (1993). These measures are popularly accepted as valid and comprehensive.

❖ **Business Performance :** Performance is identified or equated with effectiveness and efficiency (Neely, Gregory and Platts, 1995). Performance measurement can be designed on the basis of several different disciplinary approaches like engineering approach, systems approach, management accounting approach, statistical approach, consumer marketing approach and conformance to specifications (Waggoner, Neely, & Kennerley, 1999). According to Venkatraman & Ramanujam (1986), the conception of business performance centers on the use of simple outcome based financial indicators called - financial performance. A broader conceptualization of business performance would include emphasis on indicators of operational performance (i.e., non-financial) in addition to indicators of financial performance. According to Kaplan and Norton (1996), financial measures of performance alone cannot guide an organization to market dominance. Non-financial performance indicators also have to be measured and improved. According to Prieto Isabel (2006), business performance includes financial performance (using perceptual measures) and non-financial performance. In a study conducted by Safon Vicente (2007), two types of business performance were identified – market and financial. According to him, financial performance is more complex than market performance.

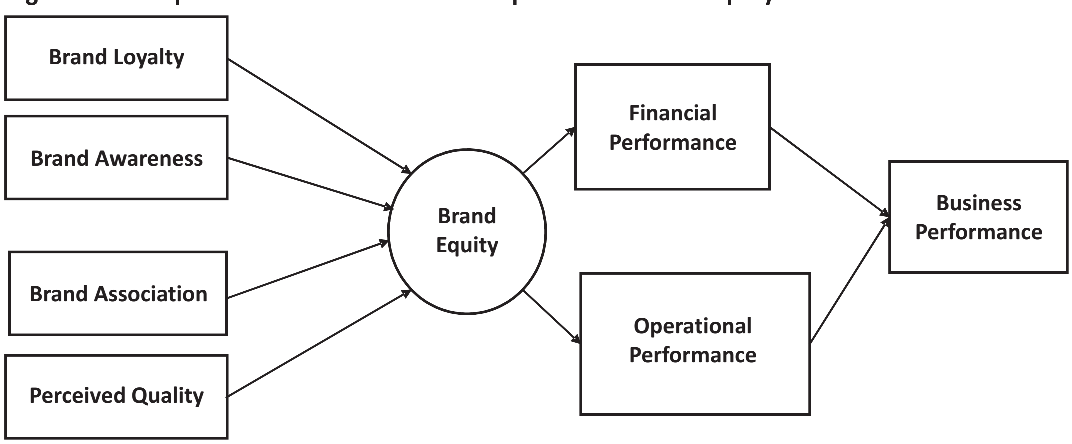
According to Blankson, Kalafatis, Sung Cheng & Hadjicharalambous (2008), firm performance includes both objective measures and subjective measures. According to Morgan & Rego (2009), firm performance includes marketing performance measures and financial performance measures. From the above literature, there is a consensus on the two measures of business performance i.e. financial performance and non-financial performance. The various indicators mentioned by the researchers under these are different. In this study, the sales growth constitutes the financial performance measure. The operational performance measure includes the market share and new-product introductions. The relationship between brand equity and business performance is an area that has not received much research attention. Few studies have empirically tried to prove the relationship between financial performance and brand equity. It was found that a product's brand equity positively affects future profits and long term cash flow (Srivastava & Shocker, 1991). Firms with high brand equity are known to have high stock returns (Aaker & Jacobson, 1994).

CONCEPTUAL FRAMEWORK

An examination based on the literature and consistent with previous research on business performance as well as brand equity models, the study proposes a framework linking brand equity and business performance for the FMCG companies. Hence, for this assumption, the nature of the relationship between brand equity and its components need to be studied. It was also required to find how the brand equity will influence the components of business performance, i.e. operational performance and financial performance. A pilot study was conducted for this. In order to test the reliability of the overall scale and each of the brand equity dimensions, Cronbach's alpha was calculated. The alpha met the recommended levels of 0.70. There have been few studies on the positive relationship between brand equity and business performance (Park and Srinivasan, 1994: Aaker, 1996). Even though literatures support that there is a relationship between brand equity and business performance, not much work has explored how brand equity affects financial performance and the operational performance. It was found that customer-based brand equity constructs are correlated with brand market performance (Tolba & Hassan, 2009) .

In the study conducted by Kim H-b.; Kim W. G.; An J. A. (2003), a review of detailed measures constituting the three variables - brand loyalty, brand awareness, and brand image showed that most measures affect financial performances of hotels. Non-parametric correlation analysis provides fairly convincing evidence of the effect that consumer-based brand equity has on a firm's financial performance in the hotel industry. However, the performance indicator was just one factor- revenue per available room. And here, brand image was considered rather than brand association as one variable of brand equity. Based on the study done in the hotel industry by Prasad Keshav and Dev Chekitan (2000), they suspected a positive correlation between brand equity and financial performance. However, due to limitations of hypothetical data, they could not examine this relationship. Another study by researchers - Kim and Kim (2004) was done in the case of quick service restaurants, classifying restaurants as high sales and low sales. The results showed that brand equity has a strong correlation with performance. In the article by Nurittamont and Phapruke (2008) regarding the research done in the spa business in Thailand, it was found that the greater the Spa firms' brand equity, the more likely that they will achieve better business performance.

Figure 1: Conceptual Model of The Relationship Between Brand Equity and Business Performance



Source: Literature Review

Not many studies have focused on the implication of non-financial indicators on brand equity. Mostly, the study was done for services like the hotel industry. Not much work has happened in the FMCG industry.

Considering all the factors discussed above, the proposed conceptual framework was developed (Figure 1). The figure depicts how brand loyalty, brand awareness, perceived quality and brand associations affect brand equity. The framework also shows the link between brand equity and operational performance and between brand equity and financial business performance.

CONCLUSION

Brand equity is an important topic in the field of marketing. Brands with positive brand equity provide various advantages to an organization. Companies are widely adopting various strategies in branding to capture a place in the minds of the consumers. Companies need to understand how brand equity can be leveraged to enhance business performance. This study provides a model that links customer based brand equity with business performance. Among the different dimensions of brand equity, companies need to understand which of the components of brand equity need to be focused more and which need not be.

REFERENCES

1) Aaker, D.A. & Jacobson, R. (1994). "Study Shows Brand Building Pays Off For Stockholders." *Advertising Age*, 65(30), p. 18.

2) Aaker, D.A. (1991). *"Managing Brand Equity."* The Free Press, New York, pp.15-100.

3) Aaker, D.A. (1996). *"Building Strong Brands."* The Free Press, New York, pp. 118-177.

4) Atilgan, E., Aksoy, S., and Akinci S. (2005). "Determinants of The Brand Equity- A Verification Approach In The Beverage Industry in Turkey." *Marketing Intelligence & Planning*, 23(3), pp. 237-248.

5) Atilgan, E., Serkan, A., Aksoy, S., and Kaynak, E. (2009). "Customer-Based Brand Equity For Global Brands: A Multinational Approach." *Journal of Euromarketing*, 18, pp.115 - 132.

6) Blankson, C., Kalafatis, S.P., Cheng, J.M., and Hadjicharalambous, C.(2008). "Impact of Positioning Strategies On Corporate Performance." *Journal of Advertising Research*, 48(1), pp.106-122.

7) Buil, I., Chernatony, L., and Martı´nez E. (2008). "A Cross-National Validation of the Consumer-Based Brand Equity Scale." *Journal of Product & Brand Management*, 17(6), pp. 384 - 392.

8) Calkins, T., Tybout, A., & Kotler, P. (2005). *"Kellogg On Branding."* Wiley, India, pp. 1-20.

9) Capon, N., Berthon, P., Hulbert, J. M., and Pitt, L. (2001). "Brand Custodianship: A New Primer For Senior Managers." *European Management Journal*, 19(3), pp. 215-227.

10) Cobb-Walgren, C.J., Ruble, C.A. & Donthu, N. (1995). "Brand Equity, Brand Preference, and Purchase Intent." *Journal of Advertising,* 24(3), pp. 25-40.

11) Farquhar, P. H. (1989). "Managing Brand Equity." *Marketing Research*, 1(3), pp. 24-33.

12) Ford, J.D., and Schellenberg, D.A. (1982). "Conceptual Issues of Linkage In The Assessment of Organizational Performance." *Academy Of Management Review*, 7(1), pp. 49-58.

13) Kaplan, R. S., and Norton, P. (1996). "Linking The Balanced Scorecard To Strategy." *California Management Review,* 39, pp.53-79.

14) Kayaman, R. and Arasli, H. (2007). "Customer Based Brand Equity: Evidence From The Hotel Industry." *Managing Service Quality*, 17(1), pp. 92-109.

15) Keller, K. L., and Lehmann, D. R. (2003). "How Do Brands Create Value?" *Marketing Management,* 12(3), p. 26.

16) Keller, K.L. (1993). "Conceptualizing, Measuring and Managing Customer-Based Brand Equity." *Journal of Marketing,* 57(1), pp.1-22.

17) Keller, K.L. (2003). *"Strategic Brand Management."* (2nd ed.), Prentice Hall, Upper Saddle River, NJ, pp. 47-84.

18) Kim, H-B., Kim, W.G., and An, J.A. (2003). "The Effect of Consumer Based Brand Equity On Firm's Financial Performance." *Journal of Consumer Marketing*, 20(4), pp. 335-351.

19) Kim, W. G., and Kim, H-B. (2004). "Measuring Customer Based Restaurant Brand Equity-Investigating The Relationship Between Brand Equity and Firms' Performance." *Cornell Hotel and Restaurant Administration Quarterly*, 45(2), pp. 115-131.

20) Kim, W.G., Sun, B.J., and Kim, J. H. (2008). "Multidimensional Customer-Based Brand Equity and Its Consequences In Mid Priced Hotels." *Journal of Hospitality & Tourism Research*, 32(2), pp. 235-254.

21) Mahajan, V., Rao, V.R. And Srivastava, R.K. (1990). "Development, Testing, and Validation of Brand Equity Under Conditions of Acquisition and Divestment." In Maltz, E. (Ed.), *"Managing Brand Equity: A Conference Summary Report."* No. 91-110, Marketing Science Institute, Cambridge, MA, pp. 14-15.

22) Morgan, N. A. and Rego, L. L. (2009). "Brand Portfolio Strategy and Firm Performance." *Journal of Marketing*, 73(1), pp. 59-74.

23) Neely, A.D., Gregory, M.J., and Platts, K. (1995). "Performance Measurement System Design: A Literature Review and Research Agenda." *International Journal of Operations & Production Management*, 15(4), pp. 80-116.

24) Nurittamont, W., and Phapruke. U. (2008). 'The Influences Of Brand Equity in Competitive Advantage and Performance of Spa Business in Thailand.' *International Journal of Business Strategy*, 8(2), pp. 14-25.

25) Pappu, Rav., Queste, P., and Cooksey, R. W. (2005). "Consumer-Based Brand Equity: Improving the Measurement Empirical Evidence."

Journal of Product & Brand Management, 14(3), pp. 143-154.
26) Park, C.S., and Srinivasan, V. (1994). "A Survey-Based Method For Measuring and Understanding Brand Equity And Its Extendibility." *Journal of Marketing Research,* 31(2), pp. 271-88.
27) Prasad, K., & Dev, C.S. (2000). "Managing Hotel Brand Equity." *Cornell Hotel and Restaurant Administration Quarterly*, 41(3), pp. 22-31.
28) Prieto, I., and Revilla, E. (2006). "Learning Capability and Business Performance: A Non Financial and Financial Assessment." *The Learning Organization*, 13(2), pp. 166 - 185.
29) Rios, R.E., and Riquelme, H. E. (2008). "Brand Equity For Online Companies." *Marketing Intelligence & Planning*, 26(7), pp. 719-742.
30) Safon, V. (2007). "How to Compete and How to Compete Profitably: A Model of Competitive Positions and Business Performance." *Global Journal Of Business Research*, 1(1), pp. 47-59.
31) Sarangapani, A., and Mamatha, T. (2008). "Rural Consumer Behaviour With Regard To Selected Fmcgs Consumption Patterns and Brand Usage: A Study." *The ICFAI University Journal of Brand Management*, 5(3), pp.22-61.
32) Simon, C.J., and Sullivan, M.W. (1993). "The Measurement and Determinants of Brand Equity: A Financial Approach." *Marketing Science,* 12(1), pp. 28 - 52.
33) Srivastava, R.K. & Shocker, A.D. (1991), "Brand Equity: A Perspective on Its Meaning and Measurement Report." *Issue 91-124, Working Paper Series*, Marketing Science Institute, Cambridge, MA, pp.91-124.
34) The Nielsen Company. (2010). *"Challenges Before An Integrated India: Bridging The Urban- Rural Divide."* Federation of Indian Chambers of Commerce and Industry.
35) Tolba, A. H., and Hassan, S.S. (2009). "Linking Customer-Based Brand Equity with Brand Market Performance: A Managerial Approach." *Journal of Product & Brand Management*, 18(5), pp. 356 - 366.
36) Tong, X., and Hawley, J.M. (2009). "Measuring Customer-Based Brand Equity: Empirical Evidence from the Sportswear Market in China." *Journal of Product & Brand Management*, 18(4), pp. 262- 271.
37) Uzma, S, H., and Kumar, N. (2010). "Brand Valuation: Financial - Marketing Interface of Metrics." *Indian Journal of Marketing*, 40(10), p. 54.
38) Venkatraman, N., and Ramanujam, V. (1986). "Measurement of Business Performance in Strategy Research: A Comparison of Approaches." *Academy of Management Review*, 11(4), pp. 801-814.
39) Waggoner, D.B., Neely, A.D. and Kennerley, M.P. (1999). "The Forces That Shape Organizational Performance Measurement Systems: An Interdisciplinary Review." *International Journal of Production Economics*, 60(1), pp. 53-60.
40) Washburn, J.H., and Plank, R.E. (2002). "Measuring Brand Equity: An Evaluation of a Consumer-Based Brand Equity Scale." *Journal of Marketing Theory and Practice*, 10(1), pp. 46-62.
41) Yoo, B., and Donthu, N. (2001). "Developing and Validating Multidimensional Consumer-Based Brand Equity Scale." *Journal of Business Research*, 52(1), pp. 1-14.