LINKING CUSTOMER-BASED BRAND EQUITY WITH BUSINESS PERFORMANCE – A CONCEPTUAL FRAMEWORK

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ABSTRACT

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 .The purpose of this paper is to identify and understand the relationship between brand equity and the business performance.

Building on existing conceptual and empirical data, the study proposes a conceptual framework in which brand equity dimensions - that is, brand awareness, brand loyalty, perceived quality and brand associations are related to the business performance. The study would serve to be a brief Literature Survey in addition to proposing a conceptual model on the Subject.

KEYWORDS: Brand equity, Business performance, Brand awareness, Brand loyalty, Brand association, Perceived quality

Introduction

Brands are at the heart of marketing and business strategy. Brands have a remarkable capability to impact the way people perceive the products. The brand can elevate or diminish the product. Positive customer- based brand equity can lead to greater revenue, lower costs and higher profits, and it has direct implications for the firm's ability to command higher prices, customers' willingness to seek out new distribution channels, the effectiveness of marketing communications and the success of brand extensions and licensing opportunities [1].

Fast Moving Consumer Goods are also known as Consumer Packaged Goods (CPG). FMCGs are products that have a quick turnover at 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. The FMCG sector primarily operates on low margin and therefore success very much depends on the volume of sales.

This study examines the relationship between brand equity and business performance in the Fast Moving Consumer Goods (FMCG) industry. This Study aims to identify and bring greater level of clarity in the relationship between brand equity and the business performance. The objective of this paper is to develop a conceptual framework for improving the performance of the business by influencing brand equity. In this article, an attempt is made to conceptually identify the interrelations between the customer-based brand equity and business performance for fast moving consumer goods (FMCG) industry.

The long term health and stability of the organizations has to be monitored consistently. Managers need to monitor every aspect of the business starting from the cash flow to productivity and the return on investments. Hence the effect of brand equity on the performances of organizations has greater relevance in today's world.

Theoretical and empirical propositions about how the brand equity could affect business performance are discussed. The first part of the paper focuses on the relevant literature on brand equity and business performance. Further, a conceptual framework has been developed linking brand equity and performance.

An initial pilot study was conducted on 100 FMCG consumers to examine the content validity of the questionnaire, aimed at getting feedback concerning technical issues associated with the questionnaire including its structure and length, clarity of the statements and terminologies used, and its layout and presentation. Factor analysis was done to check the internal consistency of the items. The items measuring brand loyalty and perceived quality yielded only one factor indicating high correlation among the items with in the construct. All the items loaded heavily on the constructs.

In the above pilot study, correlations were found between brand loyalty, perceived quality, brand awareness, brand association and band equity. Cronbach alpha of all the measures was above 0.70.

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 based on the value to the customer. The organizational brand equity focuses on using the financial market value of the firm as a basis for valuing brand equity. Simon C J and Sullivan M W [2] 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 merger, acquisition or divestiture purposes. Although a financial approach may provide a more precise insight into the valuation of brand, it may not be useful for brand managers to establish marketing strategies because financial approach is only limited to a brand's value estimation [3].

The two most popular perspectives and approaches regarding the concept of brand equity are given by Aaker (1991) [4] and Keller (1993) [3]. 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.

Brand equity is the "differential effect of brand knowledge on consumer response to the marketing of the brand". Brand knowledge is the key to creating brand equity. The detailed conceptualization of brand knowledge is defined in terms of two components, brand awareness and brand image[3]**.** Brand image can be measured by studying the brand associations. 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 had emerged as a new dimension instead of brand awareness[2]. The study was done for McDonald's 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. Our conceptual definition of brand equity is grounded on Aaker's (1991)[4] 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. In the model by Aaker, there is a fifth component, i.e. other proprietary brand assets. The fifth component, other proprietary brand assets is not relevant to consumer perception. Hence only the first four dimensions are included here.

Business Performance

The conception of business performance centers on the use of simple outcome based financial indicators called "financial performance"[5]. 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. Financial measures of performance alone cannot guide an organization towards market dominance[6]. Non-financial performance indicators also have to be measured and improved. Business performance includes financial performance (using perceptual measures) and non-financial performance. Two types of business performances were identified –market and financial. Financial performance was found to be more complex than market performance. Thus Firms' 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.

Conceptual Framework and Propositions

The framework is built based on the detailed literature review on brand equity models and previous research on business performance (Figure 1). The study also focuses on how the brand equity will influence the components of business performance i.e. operational performance and financial performance.

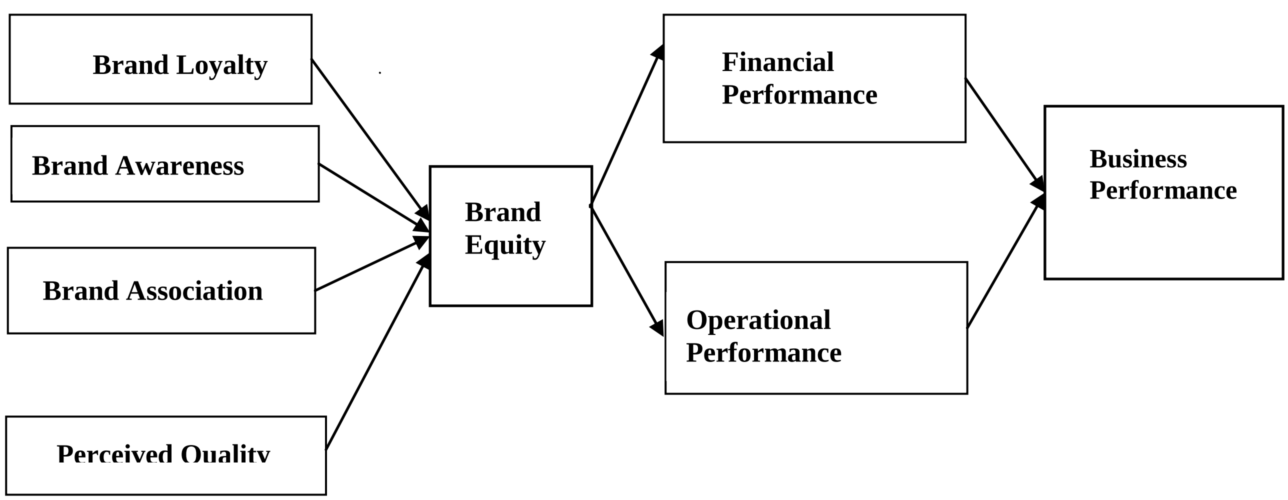

Figure 1 A Conceptual Frame work of the Relationship between Brand Equity and Business Performance

There have been few studies on the positive relationship between brand equity and business performance. Consumer-based brand equity was confirmed as a four-dimensional construct consistent with the conceptualization of Aaker (1991). 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.

Proposition 1: Brand loyalty has a positive direct effect on brand equity in the FMCG industry.

On an examination of the dimensionality of customer-based brand equity, it was found that in hotel industry brand equity is a three-dimensional construct which consists of – loyalty, image and quality. Brand awareness dimension was not found significant in the tested model for hotels [7] **.** Though this is not FMCG, it is a good sample from service industry

Proposition 2: Perceived quality has a direct effect on brand equity in the FMCG industry.

Brand awareness and brand association were not separated into two distinctive dimensions. Therefore, a three-factor brand equity model was suggested by combining brand awareness and brand association into one dimension [8]**.** The findings were supported by other researchers demonstrating the strongest and cleanest fit of the three-factor structure.

Proposition 3: There is a relationship between brand awareness and brand equity in the FMCG industry.

In the beverage industry, brand loyalty was found to have a dominant effect on brand equity. The empirical data and the statistical tests in this study did not give enough support to the existence of a direct causal relationship between the three dimensions – brand awareness, brand associations, and perceived quality – and brand equity. Moreover, brand awareness and brand associations were found to be correlated [9].

On examining the practicality and applications of Aaker's 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. However the relationship of brand equity with perceived quality and brand awareness dimensions was found weak.

Proposition 4: There is a relationship between brand association and brand equity in the FMCG industry.

By examining 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.

To conclude, many researchers agree on the conceptual model of the four components of brand equity but empirical results have not been supportive. Although it is clear that customer based brand equity had multiple dimensions, there is no general agreement about these in current marketing literature.

Even though literature in this domain supports that there is a relationship between brand equity and business performance, not much work has been done to explore 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.

A review of detailed measures constituting the three variables- brand loyalty, brand awareness, and brand image, shows that most measures affect financial performances of hotels. Nonparametric 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.

Based on the study done in hotel industry a positive correlation between brand equity and financial performance was suspected. But due to limitations of hypothetical data this relationship could not be established.

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Proposition 5: There is a relationship between brand equity and financial business performance measure in the FMCG industry.

In a study done in the quick service restaurants, the results show that brand equity has a strong correlation with performance. In a 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. Not much study is available to focus on the implication of non-financial indicators on brand equity. Mostly the study was done for services- hotel industry.

Proposition 6: There is a relationship between brand equity and operational business performance measure in the FMCG industry.

Keeping all the factors discussed above, the proposed conceptual framework has been developed. The framework also shows the link between brand equity and operational performance and between brand equity and financial business performance.

Conclusions

Brands strive to convert intangible into tangible. Because of the significant intangible value of brands, building and managing brand equity had become a priority for companies of all sizes in a wide variety of industries and markets[10]. 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 consumers. About 20 percent of the brands generate 80 percent of the revenue and rests of them remain in the portfolio of companies as under performers. Strategic brand management calls for formulation and implementation of strategies to leverage on brand equity to enhance business performance. Complex interplay between different dimensions of brand equity should be understood so as to focus on that component which triggers performance and leads to competitive advantage.

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