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ADRIAN BRUNELLO[1] Points of view

CUSTOMER-BASED BRAND EQUITY – AN INNOVATIVE APPROACH

Abstract:
Brands are an integral part of today's marketplace. The area of brand equity has received significant research attention in recent years. The fields of brand and innovation management are strongly interrelated. Innovation plays a significant role in establishing brand equity. Strong brands are triggered by innovation, and they also represent a significant source of innovation. The purpose of this article is to summarize the existing literature on brand equity, customer-based brand equity, the relationship between brand equity and innovation and the influence that brand equity has on the purchase decision.
Key words: *Brand equity, innovation, marketing perspective, accounting perspective, purchase decision.*

1. Introduction

Since there are sellers and buyers, producers have tried to differentiate their goods and services from those of the competitors. Yet, branding started to develop in the 18th century when producers began to use names and images in order to strengthen brand associations (Farquhar, 1989). Brands are important incentives of consumers' choices. They are among the most central intangible assets enterprises possess and often can make the difference between very similar products. According to the American Marketing Association (AMA) a brand is a "name, term, design, symbol, or any other feature that identifies one seller's service as distinct from those of other sellers." This definition is very narrow. It is much more appropriate to see a brand as "a set of mental associations and relationships built up over time among customers or distributors" (Kapferer, 2008), as these, often long-term relationships between brands and consumers are one of the main sources of brand equity.

The brand represents a promise a company makes to the customer of what the product is going to deliver. There are two stages which helped marketers define the brand: the first one emphasizes its identification role, whereas the second one adds up new elements that lead to the concept of brand equity.

Brand equity has risen considerably in the third millennium. It is a core concept of marketing. The information pertaining to brands is linked more or less directly to consumer's purchase decisions. The concept of brand equity has been thoroughly analyzed by marketing scholars and practitioners due to its very important role as a key intangible firm asset (Aaker, 1991; Keller, 1998). It is considered an essential driver of customer equity, which represents the total combined customer lifetime value of all of a company's customers (Rust et al., 2004). Brand equity thus represents the customer focused portion of a larger framework which also includes customer equity and brand value.

A basic premise of brand equity is that the power of a brand lies in the minds of consumers and in what they have experienced and learned about the brand over time. In order to create viable brand equity, it is important to identify the various associations that customers

[1] PhD Fellow, SOP HRD/159/1.5/S/133675 Project, Romanian Academy Iasi Branch. E-mail: adrian_brunello@yahoo.com;
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have with the brand as well as perceived quality, customer awareness and the level of loyalty in a way that is different from competitors (Leiser, 2004; Atilgan et al., 2005). Just like other intangible assets, the equity level of a brand is able to provide the qualities that are necessary for the creation of a sustainable competitive advantage. Brand equity adds value to the firms' customers and, at the same time, it helps the company gain sustainable competitive advantage (Delgado-Ballaster and Munera-Aleman, 2005). However, one must be acknowledge that the development of brand equity represents a long and complex process, but once achieved, it cannot be transferred to a different organization with ease.

2. Research hypotheses and research methodology

Marketing literature analyses brand equity from different perspectives according to the researchers' background and field of interest. This article aims to offer an innovative inductive and deductive analysis of the most relevant present-day literature on brand equity, its relationship with innovation and the influence that it exerts on purchase decision. This study reviews the most significant literature on the above mentioned subjects starting from 1989 and ending up in 2014.

- Hypothesis 1: Innovation positively influences customer-based brand equity
- Hypothesis 2: Brand equity dimensions positively influence purchase decision at the consumer level

3. Economically-based marketing models

In marketing, brand equity refers to the value of a brand that is well-known and conjures positive mental and emotional associations. For any given product, service, or company, brand equity is considered a key asset because it helps it remain relevant and competitive. Brand equity can manifest itself in consumer recognition of logos or other visual elements, brand language associations made by consumers' perception of quality, and value among other relevant brand attributes.

When consumers trust a brand and find it relevant, they may select the offerings associated with that brand over those of competitors even at a premium price. For example, Mercedes-Benz can sell cars at a higher price than their competitors because people associate the brand with quality and value. This is why brand equity is oftentimes directly correlated with a brand's profitability. Therefore, brand equity refers to a brand's power derived from the goodwill and name recognition that it has earned over time, which translates into higher sales volume and higher profit margins against competing brands (Subramaniam et al. 2014). It is perceived as a powerful tool which allows marketers to fully utilize available resources, and to avoid bleeding price competitions.

Various researches in brand equity from a consumer perspective resulted in different kinds of dimensions that can be linked to a brand. However, the best well-known models belong to David Aker and Kevin Lane Keller.

Customer-Based Brand Equity represents the differential effect that brand knowledge has on consumer responses to the marketing of the brand (Keller, 2003). Therefore, it is important for the brand to provide some value to customers in order for it to have a high equity level. This is because the power of a brand is determined by what customers hear about it over time. It also includes what they have felt, seen, or heard about the brand. Thus, brand equity can be divided into two sub-constructs: *brand knowledge* and *brand responses*. Here, brand knowledge is defined in terms of brand awareness and brand image, whereas consumer response to marketing refers to the customers' perceptions, preferences, and behavior arising from marketing mix activities. Furthermore, Customer-Based Brand Equity is enhanced by creating favorable response to pricing, distribution, advertising and promotion activity of the brand.

The other widely accepted model states that brand equity is a set of brand assets and liabilities linked to a brand name and symbol, which add to or subtract from the value provided by a product or service (Aaker 1991, 1996, 2000). Connecting the brand to the concepts of equity and assets radically changed the marketing function, enabling it to expand beyond strategic tactics and get a seat at the executive table. This model posits that brand equity has four dimensions - brand loyalty, brand awareness, brand associations, and perceived quality, each providing value to a firm in numerous ways.

Ever since Aaker (1991) identified the explicit dimensions of brand equity and Keller (1998) identified the sources of brand equity, the concepts of brand loyalty, brand awareness, perceived quality, brand associations, and brand image have been well-associated with brand equity and widely tested empirically in related studies (Kim and Kim 2005; Boo et al. 2009). Brand equity impacts the way in which customers perceive the value of the company’s product or service (Baldauf et al. 2003; Kim et al. 2008), increases the utility and value of a brand name (Zhang et al. 2009) and positively affects customers’ loyalty and trust, preferences, purchase intentions, and brand choice.

One could conclude that brand equity from a marketing perspective represents a consumer-oriented approach that implies brand value to both consumers and companies. Customers benefit from enhancing their confidence and driving their satisfaction, and companies benefit by generating profits and capitalizing on their brands to further grow the business.

4. Economically-based accounting models

From a financial perspective, brand equity represents the monetary value of a brand to the firm (Simon and Sullivan, 1993). The financial value of a brand is, however, the final outcome of consumer responses to brands (Christodoulides and de Chernatony, 2010).

Studies that measure brand equity a firm’s perspective consider that it encompasses most of the product market outcome and financial outcome measures of brand equity categorized by Keller and Lehmann (2003). Product outcome measures consist of marketplace performance indicators such as revenue, profit, or price premium, and they are usually calculated from observed market data (Ailawadi, Lehmann, and Neslin 2003). When calculated as a premium measure, they are computed with respect to a base brand that can be a generic or private label brand, the industry average, or a competing national brand with a lower equity relative to the other brands in the market. Financial outcome measures consider the value that shareholders and firms place on the brand as a financial asset, and may include various performance indicators of the brand’s or firm’s value observed in financial markets.

The firm-based perspective has naturally focused on measuring the added value in terms of cash flows, revenues, market share or similar measures. A typical firm-based measure calculates the incremental cash flow resulting from a product with the brand name compared to one without. One of the earliest firm-based measures of brand equity was developed by the Interbrand Group. It uses a subjective multiplier of brand profits based on its performance along different dimensions (Aaker 1991; Keller 1998). Simon and Sullivan (1993) use financial market information to calculate incremental cash flows attributable to branded versus unbranded products as the brand-equity measure while Mahajan, Rao, and Srivastava (1994) use the purchase price when the brand is sold or acquired.

5. Innovation and brand equity

There is a strong connection between innovation and brand equity. They are both significant dimensions that drive businesses today. Innovation represents a primary determinant of brand equity (Staake et al., 2009). When innovation lacks, consumers are likely to experience stress, irritation, annoyance, frustration, and sometimes even rage. These "symptoms" influence the way in which consumers evaluate the firm's innovations and have a negative effect on customer satisfaction. This leads to a loss of customers, a negative impact on the firm's brand equity, and damage to the firm's valuable brand assets (Liao and Cheng, 2014).

The brand allows ownership of the innovation, adds credibility and legitimacy, enhances visibility, and supports communication. Concurrently, successful product/service innovations strengthen brand equity because they may reinforce and in some cases broaden brand meaning, help to revitalize brands, act as an effective measure against private labels, and improve brand value and profitability.

Positive brand equity triggered by state of the art innovations influences future cash flows (Srivastava and Shocker, 1991), merger and acquisitions decisions (Mahajan et al., 1994), and stock price movements (Simon and Sullivan, 1993). Furthermore, the advantages of strong brand equity include consumers' willingness to pay premium prices (Keller, 1993), maximizing shareholder value (Bick, 2009), and enhancing brand performance (Oliveria-Castro et al., 2008). It has also been found to lead to more favorable customer reactions, such as increased satisfaction with recovery efforts (Hess et al., 2003).

In contrast, when customers feel betrayed by a brand they are more likely to display unfavorable responses towards that brand and its innovation. The role of brand equity amplifies the effect of perceived betrayal, especially for the customers who have high brand equity. Thus, a crisis may generate stronger perceived betrayal in customers with high brand equity (Seo and Jang, 2013).

6. The influence of brand equity on purchase decision

People are growing more and more attentive, choosing familiar and favorite brands. Therefore, if companies want to outdo their competition, they have to persuade consumers to positively appreciate and buy their products. Although consumers acquaint themselves with and are willing to buy a product, brand awareness is a key factor in influencing the purchase decision (Macdonald and Sharp, 2000).

Purchase intentions are driven by a pool of multiple criteria and outcomes from each criterion can diverge, making the process itself difficult to manage. Brands are like containers where these criteria are embedded and brand image is often a means with which to simplify the purchasing choice. So it becomes essential to understand which elements associated to brands are most valuable to the consumer.

When individuals want to purchase a product and the name of a brand comes to mind, it means that the respective product has a high level of awareness. Such a product will reach a high market share and its quality will be positively evaluated by the purchasers. Moreover, when consumers pick up a product, they are interested in the perceived quality and the awareness of the brand.

Perceived quality is beneficial in differentiating the products which become brands in the mind of the consumers (Aaker, 1991). Besides all this, companies have to create brand loyalty. Studies show that the cost of attracting only new customers is five times higher than the cost of keeping the loyal customers. Therefore, the higher the brand loyalty, the lower the cost that the companies have to pay will get.

The best-known purchase decision model (Engel, Blackwell and Miniard, 1995) separates the decision-making process in-between five stages: 1) problem recognition, 2) information search, 3) alternative evaluation, 4) purchase, 5) post-purchase behavior. Mention should be made that consumers' decision represents a series of processed results, starting from understanding the problem, searching for solutions, evaluating alternatives and taking decisions.

Engel et al. (1995) consider that the buying intention can be unplanned when people decide to buy a product or brand on location (in-store). This can be considered a purchase under impulse. One can also speak about a partially planned purchase, in which people decide upon the category and features of the product before buying it from a store. The individual attitudes and the unforeseen situations influence the buying intention (Kotler and Armstrong, 2004). Individual attitudes refer to personal preferences, whereas unexpected situations lead to a change in the purchase intention because something happens, for example the price is higher than the clients have expected (Dodds et al., 1991).

Brand equity can help a product to be taken into account even though it is below the level of the other brands included in the initial set. On the other hand, it can trigger off a feeling of loyalty which infringes on the probability of considering other brands, therefore bringing forth a cost of opportunity for the consumer. In order words, the buyer just thinks that this opportunity cost which switches from one brand to another is too high to be projected against. When consumers display loyalty for the brand, they substantially reduce the search for information, sometimes eliminating it completely, which gets a simplification of the decisional process.

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For example, in the automotive industry, car brands such as Rolls Royce or Aston Martin display a feeling of prestige or perceived status. One can also notice at this point the quality and the intrinsic equity of the consumer. As a consequence, the brand contributes to including a particular product into the initial consideration set. Some consumers may take into account only products that have a brand name because they think that the prestige or status associated with the brand projects itself upon them as individuals.

The brand and the equity of a particular product have an impact upon consumer's purchase in every stage of the decisional process. It can represent the main argument for buying a product and determines the purchase despite the other well-known values. The brand strengths are acknowledged and the factors that build and influence the perceptions of consumers represent an interesting field of research (Yoo, Donthu and Lee, 2000; Park and Srinivasan, 1994; Keller, 1993).

If marketing has one goal, it is to reach consumers at the moments that most influence their decisions; that is why it is important for them to be able to see the cars through the windows of show-rooms. Marketing has always sought those moments, or touch points, when consumers are open to influence. For years, touch points have been understood through the metaphor of a "funnel" - consumers start with a number of potential brands in mind (the wide end of the funnel); marketing is then directed at them as they methodically reduce that number and move through the funnel, and at the end they emerge with the one brand they have chosen to purchase.

But today, the funnel concept fails to capture all the touch points and key buying factors resulting from the explosion of product choices and digital channels, coupled with the emergence of an increasingly discerning, well-informed consumer. A more sophisticated approach is required to help marketers navigate across this environment, which is less linear.

Every day, people get feelings of brands from touch points such as advertisements, news reports, conversations with family and friends, product experiences. Unless they are actively shopping, much of that exposure is wasted. But what happens when something triggers the impulse to buy? Those accumulated impressions then become crucial because they shape the initial consideration set: the small number of brands consumers regard at the outset as potential purchasing options.

The funnel analogy suggests that consumers systematically narrow down the originally-chosen set as they weigh down options, make decisions, and buy products. Then, the post-sale phase becomes a probation period determining consumer loyalty for brands and the likelihood of buying their products again. Marketers have been taught to "push" marketing toward consumers at each stage of the funnel process, and thus to influence their behavior. But the qualitative and quantitative research in the automobile, amongst a number of other industries, shows that something quite different now occurs.

Therefore, the decision-making process is a more circular journey, with four primary phases representing potential battlegrounds where marketers can win or lose: initial consideration; active evaluation, or the process of researching potential purchases; closure, when consumers buy brands; and post-purchase, when consumers experience them.

In today's decision journey, consumer-driven marketing is increasingly important as customers seize control of the process and actively "pull" information helpful to them. Traditional marketing is still important, but the change in the way consumers make decisions means that marketers must move aggressively beyond purely push-style communication and learn to influence consumer-driven touch points, such as word-of-mouth and on-line sites.

The experience of US automobile manufacturers shows why marketers must master these new touch points. Companies like Chrysler and GM have long focused on using strong sales incentives and in-dealer programs to win during the active-evaluation and moment-of-purchase phases. These companies have been fighting the wrong battle: the real challenges for them are the initial-consideration and the post-purchase phases, which Asian brands such as Toyota Motor and Honda dominate with their brand strength and product quality. Positive experiences with Asian vehicles have made purchasers loyal to them, which generates positive word-of-mouth that increases the likelihood of their making it into the initial-consideration set. Not even constant sales incentives by US manufacturers can get out of this vicious circle.

The growing complexity of the decision-making process forces companies to adopt new ways of measuring the consumers' attitudes, the brand performance and the efficiency of the money spent on marketing activities all through the buying decision process. That is why validating an empirical research model for every industry is extremely important.

7. Conclusions

Brands represent some of the most valuable intangible assets of the companies and their value is continuously increasing. The value of a brand depends largely on its quality and on consumer based brand equity. Looking at the example set by most valuable global brands, we notice that brand equity is a strong base for managing brands and their value, but it must also be accompanied by the skills of the marketing managers, in order to identify and follow various trends and consumer preferences.

In the past several years the most successful brands were those that used innovations, based on easy-to-use and consumer friendly technologies. Innovation and brand equity are the main elements that guide the businesses of the present. They provide sustainable competitive advantage, ease the decision making process and influence consumer's buying behaviors.

A significant role is played by the brand's ability to communicate truthfully and mutually with its consumers. Social media is continuously developing and favors the strong brands in their attempt to build long-lasting relationships with the customers. The only companies that are truly successful are the ones that manage to convince their clients that their brand delivers on its promise and that it represents an essential part of their lives.

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