A CONCEPTUAL AND OPERATIONAL DEFINITION OF BRAND EQUITY - A NEW APPROACH

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Abstract

Though there is considerable debate regarding brand equity definition, what motivates consumers to pay price premium remains an important theme in brand equity research. Two fundamental motives for studying brand equity exist - financial motive, with the purpose of estimating the value of the brand for accounting purposes and motive derived from more efficient marketing efforts. As customer retention is critical for strategists in the dynamic world of marketing, it is important for operators to devise well-structured programs for securing customers’ base line. This research investigated the brand equity construct and the relationship between brand equity and brand loyalty with a view to develop a conceptual model that explains their connection and harmonise the various definitions. A look at the construct attributes in the existing literature suggests that brand loyalty and brand equity are identical. This study, while observing the relationship between the selected determinants, presumed the mention of brand loyalty to mean the mention of brand equity. The research found that brand loyalty and brand equity are inextricably connected and synonymous. The study recommended that marketers and scholars defocus the concept of brand equity and sustain brand loyalty as the dominant construct to avoid redundancy, improve efficiency and grow profits.

Keywords: Branding, Brand awareness, Brand loyalty, Brand equity, Brand image,

Introduction

Brand equity is the value premium that a company generates from a product with name by making it memorable, easily recognizable, and superior in quality and reliability, through mass marketing campaigns. Brand equity describes the value of having a well-known brand, founded on the notion that the owner of a well-known brand name can generate more money from branded products, as consumers believe that a product with a well-known name is better than products with less well-known names (Aaker, 1991, Ailawadi, Lehmann, Scott & Neslin, 2003, Baltas & Saridakis, 2010, Keller, 2003, Leuthesser, Kohli & Harich 1995). The lack of an effective dialogue between functions that are disparate in philosophy and do not have a common and compatible use of terminology may be a barrier to strategic management within organisations. No more is this evident than between the functions of marketing and accounting. This study seeks to establish the relationships between the constructs and concepts of branding, and to provide a framework and vocabulary that aids effective communication between the functions of accounting and marketing.

A model for the management of brand equity is also offered. Brand equity, like the concepts of brand and added value has proliferated into multiple meanings. Accountants tend to define brand equity differently from marketers, with the concept being defined both in terms of the relationship between consumer and brand (consumer-oriented definitions), or as something that accrues to the brand owner(company-oriented definitions). Though the notion of brand loyalty as a two-component structure is still considered as being highly appropriate for researchers, recent studies have viewed brand loyalty as a multi-dimensional construct, exhibiting identical DNA as brand equity and as such, it is in need of multivariate analyses. From a managerial viewpoint, the Brand Value chain suggests where and how value is created for the brand, and this is critical for an organization, as it allows for a persistent optimization of allocated resources, thus ensuring brand value maximization.
Conceptual Review

According to Aaker, 1991, Ailawadi, Lehmann, Scott & Neslin, 2003, Baltas & Saridakis, 2010, Keller, 2003, Leuthesser and Kohli & Harich 1995, brand equity has three basic components: consumer perception, negative or positive effects, and the resulting value. They assert that firstly and most importantly, brand equity is built by consumer perception (which includes both knowledge and experience) of a brand and its products, which suggests that brand knowledge is a cause/antecedent of brand equity and that the perception that consumers hold about a brand results in either positive or negative effects.

![Figure 1.1: Brand Awareness – Brand Equity](image1)

If the brand equity is positive, the organization, its products and its financials can benefit. This also suggests that financial outcomes/consequences (long term sales revenue, product sales volumes and market share) can be approximated at this point by accountants (Aaker, 1991, Ailawadi, Lehmann, Scott & Neslin, 2003, Baltas & Saridakis, 2010, Keller, 2003, Leuthesser, Kohli & Harich 1995).

![Figure 1.2: Brand Loyalty – Brand Equity](image2)

In addition, the researchers say these positive or negative effects (positive or negative equity) can turn into either tangible or intangible value. If the effect is positive, tangible value is realized as increases in revenue or profits and intangible value is realized as awareness or goodwill. (Aaker, 1991, Ailawadi, Lehmann, Scott & Neslin, 2003, Baltas & Saridakis, 2010, Keller, 2003, Leuthesser, Kohli & Harich 1995). Branding is an effort to give a unique identity to the company’s products and create emotional associations with consumers. Thus, an attempt to define the relationship between customers and brands produced the term ‘brand equity’. Feldwick (1996) simplifies the variety of approaches, by providing a classification of the different meanings of brand equity as the total value of a brand as a separable asset ± when it is sold, or included on a balance sheet; (brand valuation or brand value measure of the strength of consumers' attachment to a brand (synonymous with brand loyalty), a description of the associations and beliefs the consumer has about the brand.Brand loyalty is brand equity according to Daryl (2000). So, what constitutes brand loyalty? In their research, Bloomer and Kasper (1995) assert that a repeat purchase behaviour “is the actual re-buying of a brand” whereas loyalty is driven by “antecedents” or reason/fact occurring before the behaviour. That “reason or fact” appears to be brand equity expressed as awareness, image, perceptions and associations. Could this mean that Brand Equity is an intervening construct/variable between attitudinal loyalty and behavioural loyalty constructs/variables.

![Figure 1.3: Brand Awareness – Brand Equity](image3)
When marketers use the term ‘brand equity’ they tend to mean brand description or brand strength which are both sometimes referred to as consumer brand equity to distinguish them from the asset valuation meaning (most of interest to accountants) which assume a relationship between the interpretations of brand equity. In attempt to harmonise these definitions, brand value seems to be the resultant form of brand equity or the outcome of consumer-based brand equity (Bloomer and Kasper, 1995). According to information economics, a strong brand name works as a credible signal of product quality for imperfectly informed buyers and generates price premiums as a form of return to branding investments (Baltas & Saridakis, 2010). Therefore, strategic investments in communication channels and market education that potentially enhance economic growth in profit margins, market share, prestige value, and critical associations are a sure means of building brand equity over time to deliver a return on investment. Brand can hold tremendous value, which is known as brand equity (Farris, Bendle, Pfeifer & Reibstein 2010). Brand valuation modeling is closely related to brand equity, and combines a brand equity measure (e.g.: the proportion of sales contributed by brand) with commercial metrics such as margin or economic profit.

The extant academic literature does not seem to be able to provide an appropriate measurement method which would potentially allow for a better understanding of the sources and determinants of the brand equity concept (Park & Srinivasan, 1994). The academic community is therefore obliged to pay more careful attention to the development of a more systemic view of brands and products (Shocker et al., 1994, Iglesias et al. 2013). An initial look suggests that brand loyalty and brand equity may be inextricably connected and could be used interchangeably. Hence, this study while observing the relationship between the selected determinants will presume the mention of one to mean the reference to the other synonymously.

**Literature Review**

Most of the descriptions of brand loyalty proffered by contributors has been cross applied to brand equity. They have similar effects or consequences (for accounting professionals it is more of long term brand value based on estimates of potential sales while for marketers is slanted towards present/short term sales volumes and revenues from a pool of customers/consumers). Brand loyalty, according to Aaker (1991), refers firstly, to a constructive mindset toward a brand that leads to constant purchasing of the brand over time, and, secondly, to the attachment or commitment that a consumer has to a brand. Thirdly, he refers to brand loyalty as the attachment or commitment that a consumer has to a brand. Fourthly, he denotes it as the consumer’s decision to resist a shift to competitors. Also, Aaker refers to it as the consumer’s perception of a particular product or brand name. He goes further to assert that it is derived from the marketers’ effort to create advertising aimed at attracting and maintaining ongoing relationship between the consumer and the products while brand equity refers to the marketing and financial value linked to a brand’s strength in the market, including actual proprietary brand assets, name awareness, perceived brand quality and brand association (Pride & Ferrell, 2003).

While Aaker (1991) considers brand loyalty to be a determinant or dimension of brand equity, it has also been considered by Keller and other researchers as a consequence of brand equity factors (Kim, Morris, and Swait 2008, Kuenzel and Halliday 2010). Feldwick considered that using the term brand equity creates the illusion that an operational relationship exists between brand description, brand strength and brand value that cannot be demonstrated to operate in practice. Brand loyalty is brand equity (Daeyl, 2007). To exemplify this point, they rendered a distinction between repeat purchases and actual brand loyalty. In their research, they assert that a repeat purchase behaviour “is the actual re-buying of a brand” whereas loyalty includes “antecedents” or a reason/fact occurring before the behaviour which is brand equity expressed as awareness, image, perceptions and associations. Simon and Sullivan (1993) define brand equity regarding cash flow differences between a scenario where the brand name is added to a company product and another scenario where the same product does not have a brand name.

Travis (2000) asserts that brand loyalty is brand equity and Aaker (1991) says that loyalty is a direct measure of how willing customers are to stick to the products or services bearing brand names and contends that brand loyalty is a
part of brand equity. Other researchers (Kim, Morris, and Swait 2008, Kuenzel and Halliday 2010, Delisha R. Mathews, Junghwa Son and Kittichai Watchravesringkan 2014) instead consider it a result of brand equity factors, bringing into the equation, the implications for sales, market share and profits of effective brand management, and its consequences to the formation of brand value. Feldwick (1996) simplifies the variety of approaches, by providing a classification of the different meanings of brand equity to include a measure of the strength of consumers’ attachment to a brand; (synonymous with brand loyalty).

Aaker (1991) defines brand loyalty as symbolizing a constructive mindset toward a brand that leads to constant purchasing of the brand over time, that brand loyalty is an essential element when it comes to evaluating a brand regarding value because loyalty can generate profit. The advocates believe that constant purchasing of one brand over time is an indicator of brand loyalty. According to Yoo (2000), brand loyalty has the power to influence on customer decision to purchase the same product or brand and decline to shift to competitors’ brands. As a result, Yoo (2000) concludes that brand loyalty is the core of brand’s value. Aaker (1991) defines loyalty as the attachment that a customer has to a brand, and considers it to be a primary dimension of the brand equity (p.39). In contrast, Keller (1993) views loyalty as a consequence of brand equity, when favourable attitudes result in repeated purchase. Customer loyalty offers several benefits: it creates entry barriers for competing brands; makes it possible to charge higher prices; gives the company time to react on competitor's innovations; and also function as a buffer in times of intensive price-competition (Aaker, 1996).

![Brand Loyalty Diagram](Diagram)

Keller (Keller, 1993; p. 2), defines Brand Equity, based on individual consumer preferences, as the differential effect of brand knowledge on consumer response to the marketing of the brand which consists of brand awareness (brand recall and recognition performance) and brand image (associations that the consumer makes with the brand). Customer-based equity occurs when a consumer is already familiar with a brand and has already developed some favourability and/or strong associations with the brand (Keller, 1993). This brings into the equation, the implications for sales, market share and profits of effective brand management, and its consequences to the formation of brand value, meaning that brand description or brand strength is related to the value invested on it by customers and consumers, and often expressed in repeat purchase and market share. It is what customers have learned, felt, seen, and heard about the brand as a result of their experiences over time. It is a valuable source of competitive advantage for a company. Simon and Sullivan (1993) define brand equity regarding cash flow differences between a scenario where the brand name is added to a company product and another scenario where the same product does not have a brand name. The higher the brand equity of a firm, the higher the brand preference that exists in the consumer’s mind (Cobb-Walgren et al., 1995); and this would lead to higher market share as well as higher profits (Farquhar, 1989; de Mortanges and van Riel, 2003).
Researchers’ attempt to define the relationship between customers and brands produced the term brand equity which key benefits include the ability to charge a price premium over and above rivals, the ability to gain market share against them, and the ability to keep customers. Proponents of the financial perspective define brand equity as the total value of a brand which is a separable asset – when it is sold, or included in a balance sheet (Feldwick, 1996) and as the incremental cash flows which accrue to branded products over unbranded products (Simon & Sullivan, 1993). A greater amount of advertising is thus related to brand awareness and positive brand association, which leads to greater brand equity. Also, according to an extended hierarchy of effects model, advertising is positively related to brand loyalty because it reinforces brand related associations and attitudes towards the brand (Shimp, 1997).

Simon and Sullivan (1993) define brand equity regarding cash flow differences between a scenario where the brand name is added to a company product and another scenario where the same product does not have a brand name. Though the research on brand equity is fragmented, some common denominators can be identified. Both are created by the drivers of brand knowledge – brand Communications, brand awareness, brand image, brand association and perception of quality. Customer based brand equity which includes brand loyalty means consumer is ready to pay high price and is depicted in figure 2.5 below.
Sriniwasan et al. (2005) have defined the Brand Equity construct as the brand’s annual incremental contribution when contrasted with a base product. This term is partially misleading because the word “equity” has its origin in the realm of finance, but at its core it takes a subjective view and represents intangible cues that are valued by the consumer. Brand equity should be formally measured, but searching for a single financial performance measure, a silver metric is a misleading endeavor (Ambler, 2008). As a substantial asset to the company, brand equity increases the cash flow to the business and also helps in improving the brand earning by commanding a price premium over its competitive brands (Simon and Sullivan, 1993).

**Price premium as an overall assessment of brand equity**

Price premium is defined as the sum consumers are willing to pay for a brand, compared to other relevant brands, and can be either negative or positive (Aaker, 1996). Price premium is considered to be the most useful measure of brand equity (Aaker, 1996). A dimension that has no influence on the price premium is thus no relevant indicator of brand equity. Aaker (1991) asserts that brand loyalty symbolizes a constructive mindset toward a brand that leading to constant purchasing of the brand over time. Brand loyalty is the ultimate objective and meaning of brand equity, adding that brand loyalty is brand equity. Brand equity is the incremental utility or value added to a product by its brand name, like a Coke, Levi’s, Kodak and Nike. In referring to the customer perspective, brand equity is appraised according to the consumer’s reaction to a brand name (Keller, 1993).

**Brand Loyalty**

Aaker (1991) defines brand loyalty as a situation which reflects how likely a customer will be to switch to another brand, especially when that brand makes a change, either in price or product features. Keller (2003) on the other hand, examines brand loyalty under the term brand resonance which refers to the nature of the customer-brand relationship and the extent to which customers feel that they are in sync with the brand. Some of these assertions suggest that brand loyalty could be both an antecedent (cause) and an indicator (outcome/consequence) of brand equity at the same time. Curiously, in literature, most attributes of loyalty are present in brand equity but absent in brand awareness, brand image, brand association and perception of quality. These definitions of brand loyalty point to a direct relationship between brand loyalty and brand equity where brand loyalty is often known to be a core dimension of brand equity (Aaker, 1991).

However, brand equity as an independent construct has been defined as the consequence of brand knowledge. Brand loyalty is a term used to describe the tendency that consumers have to stick with the products or services bearing brand names they know and trust. Customers and other stakeholders integrate all they see, hear and read about a product with all their experiences using or consuming it to form a single, but often complex, mental image about both the physical
product and the company that makes it and they say awareness, trust, and reputation are the best guarantees of future earnings hence brand loyalty is of paramount importance for marketers and consumer researchers (Aaker, 1991; Reichheld, 1996). The organizations that have a pool of brand loyalists have greater market share and higher rates of return on investments, in turn. Anderson et al. (2004) argued that a loyal and contented customer base helps to increase the organizations’ relative bargaining power regarding suppliers, partners, and channels. So, customer loyalty affects shareholder value in a positive manner by reducing instability and associated risk with expected future cash flows. Kotler and Keller (2005) said that “based on a 20-80 principle, the top 20% of the customers may create 80% of profit for a company”. Therefore, a favorable connection between a company and its customers is lucrative for the business.

Nam et al. (2011) distinguished between brand loyalty and brand equity and mentioned that brand loyalty is not one of component of brand equity. In reality; it is one of the consequences of brand equity, because brand loyalty is behavioural construction connecting to intentions towards repeating purchase/vote whereas brand equity is perception. Therefore, their study aims to expand the brand equity theory (Aaker, 1991) in political brand context empirically and offers a different conception through the discovery of the relationship between the dimensions of brand equity (brand awareness, brand image, perceived quality and trust) with loyalty in developing countries, on the grounds that loyalty is the highest outcome of brand equity (Keller, 1993). Huang and Cai (2015) contended that brand equity is a vital concept to improve brand loyalty. Almohammad et al. (2011) focused on the importance of political brand equity to get more loyal voters.

While Aaker (1991) contends that brand loyalty is a part of brand equity, other scholars consider brand loyalty as a consequence of brand equity (Kim, Morris, and Swait 2008; Kuenzel and Halliday 2010). This study will assess the influence of brand awareness, brand image, brand perceived quality, brand associations and brand loyalty on brand equity. In addition, the relationship between brand loyalty and brand equity be examined as it relates to a brand with high brand equity can be created and demonstrates its benefits, in other words, the antecedents and consequences of brand equity. Karthikeyan. & Karthikeyan.(2013) in an exploratory research, A Theoretical Reading on Brand Loyalty - A Psychological Sensory Approach, wrote that creating customer loyalty is neither strategic nor tactic; rather, it is the ultimate objective and meaning of brand equity. They examined a basic communications model and the process of receiving/filtering messages. and concluded that converging the two constructs of brand equity and brand loyalty may give the required focus and synergy as marketers, communicators, companies, and stakeholders demand more and more accountability for allocated resources.

They asserted that the culmination of this information may help any organization facing brand loyalty issues with their constituents and provide resources to uncover core issues. Constructs properly understood, will guarantee more effective goals setting – the process determines the results. Nebojsa S. Davcik, Rui Vinhas da Silva and Joe F. Hair (2014) in order to synthesize and compile the extant literature, analyzed the application of brand equity paradigm from three distinct domains: (1) sources of brand equity, (2) determinants of brand equity, and (3) applied metrics / research approach related to brand equity. They argue that a creation of unifying brand equity theory must incorporate three business domains: stakeholder value, marketing assets and financial performance of the brand. Brand loyalty provides stakeholder value, it is a marketing asset and provides financial base through purchase and repeat purchase actions.

**Conclusion/Recommendations**

There is ample evidence that brand loyalty and brand equity are consequences of brand awareness, brand image and perceptions which drive the construct of brand associations are also the common drivers of the identical constructs of brand loyalty and brand equity. According to Parker (2012), external variables could improve the power of brand equity theory. It would make available to marketing managers, additional information and ideas for managing brand objectives and field executions. Academics and scholars would access additional information and approaches to aid the design and expansion of curriculum. In the same vein, policymakers including health workers would find additional information as a basis to further review the effectiveness of existing regulatory oversight on brand advertising and various awareness creation platforms deployed by marketers.

Based on the findings of this study, marketing executives should develop a process of evaluating brand equity. This may not only serve as a means of performance assessment but also serve as a means of market position. Marketing executives should incorporate perceived quality, brand awareness, brand association and brand loyalty in the process of evaluating the degree of brand equity. This will help them to enhance brand equity of the non-alcoholic beverages they produce and develop strategies for better performance. The findings will help marketing executives to prioritize and allocate resources across important dimensions in order to enhance brand equity. If both brand loyalty and brand equity are synonymous and have the same DNA, then it is more efficient to discard brand equity and focus on brand loyalty.
construct as the more desired destination goal as per Roberts (2015). The use of brand equity by marketing professionals and scholars should fade away.

This study indicates that the two constructs are imbued with significantly identical capabilities and qualities which suggests that they are independent and can stand alone. It found, uniquely, that brand loyalty and brand equity have common determinants and common outcomes which has challenged the notion in some studies that brand equity is a precedent or an outcome of brand loyalty. Thus, this study not only contributes to the existing literature but will also guide future researchers.

References

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