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November 1993.

ABSTRACT

The research reported on in this thesis focuses on four aspects of brand-added value (BAV):

1. A theoretical framework for BAV which includes a definition of the BAV-construct, the development of a theoretical framework to show how BAV functions and an elaboration upon factors that may contribute to BAV.
2. The development of an instrument for measuring BAV.
3. The determination and explanation of differences in the magnitude of BAV between product classes.
4. An investigation of the influence of advertising on BAV in an experimental setting.

The BAV-construct is defined and elaborated upon theoretically by using Brunswik's Lens model. In this model, BAV is positioned as the consumer's perceived value of the brand name and its related connotations. The brand name (an extrinsic cue) is thought to be of more influence in the consumer decision-making process when a brand's intrinsic cues are hidden (as is the case for products with predominantly experience cues) than when a brand's intrinsic cues are revealed (as is the case for products with predominantly search cues). It is furthermore hypothesized that for products with predominantly search cues, only information on extrinsic cues may add value to the brand. For products with predominantly experience cues (intrinsic cues are hidden) it is assumed that information on intrinsic cues adds more value to the brand than information on extrinsic cues. In elaborating upon factors that may contribute to BAV, three elements of BAV are distinguished: perceived quality, (immaterial) brand associations and brand name awareness. Whereas intrinsic cues may only contribute to the perceived quality of the brand, extrinsic cues may contribute to the perceived quality of the brand, add associations to the brand and / or increase the brand name awareness of the brand.

BAV is operationalized by determining the difference in a consumer's preference between the brand with, and the brand without its brand name (i.e. BAV = BRAND - BLIND). To determine the reliability and validity of this measurement instrument for BAV, BAV-scores were measured for eight brands of beers and eight brands of computers. Consistency and stability (both aspects of reliability), proved to be satisfactory except for blind

scores of beers. An alternative computation for BAV is given in cases where the blind scores appear not to be reliable. As far as the brand scores are concerned, checks on convergent, content, and concurrent validity proved to be satisfactory. Checks on convergent, concurrent, and face validity of the BAV-scores also proved to be satisfactory.

In determining differences in the magnitude of BAV between product classes, BAV-scores were assessed for six brands in twelve different product classes. The degree to which BAV emerged (positive or negative) was taken as a measure for the magnitude of BAV. The results of this study show that the factor search vs experience cues is of most influence on the magnitude of BAV. This magnitude is higher for products with predominantly experience cues than for products with predominantly search cues. In the second place, the factor functional vs expressive cues influences the magnitude of BAV: the magnitude of BAV is higher for products with predominantly expressive cues than for products with predominantly functional cues.

As far as influencing BAV through advertising is concerned, the results of an experiment showed, that for a search product, information on extrinsic cues (i.e. transformational advertising) contributed more to BAV than information on intrinsic cues (i.e. informational advertising). For an experience product, there were empirical indications that informational advertising contributes more to BAV than transformational advertising. However, further research is however needed to corroborate this finding for products with predominantly experience cues.

In the conclusions of this thesis, it is made clear that from the perspective of branding, the BAV-construct is to be preferred over the constructs 'perceived quality of the brand' and 'attitude towards the brand'. In contrasting BAV with brand equity, it is concluded that BAV is a synonym for brand equity, if, in using the brand equity construct it is looked at from the perspective of the value of a brand to consumers. In concluding on the measurement instrument for BAV, it is acknowledged that this instrument has several advantages over other instruments. In discussing the managerial implications, it is concluded that longitudinal tracking of BAV-scores may serve several managerial purposes and that BAV may possibly serve as a major factor in the marketing track-record to be used in brand valuation. Finally, major areas for future research on brand-added value are given.

CONTENTS

PREFACE

In 1955, Gardner and Levy published the article 'The product and the brand' in which for the first time an attempt was made at distinguishing between a product and a brand. Probably one of the first authors who described marketing insights from the perspective of brands was Stephen King. The opening line of his book 'Developing new brands', clearly stressed the importance of differentiating between a product and a brand: 'What makes companies succeed is not products, but brands' (King, 1973 p.v). In his book, King pointed out that one of the differences between a product and a brand is that *values* may be added to brands. This construct of 'added value', had already been described by Young (1963), although Young still talked about products. In using the construct of added value, most authors showed clearly that these values lie beyond the functional values of brands; for example Jones (1989 p.6) refers to added values as 'psychological values'. In point of fact, for most authors, added values have no reference to the physical product at all. The brand Coca-Cola may serve as an example to illustrate the difference between the functional values and the added (psychological) values of a brand. For Coca-Cola, the functional values may refer to a good-tasting thirst-quencher, whereas the added values may refer to fun and pleasure. Although the term 'added value' has been frequently mentioned in articles and books on branding, to our knowledge, no attempt has ever been made to quantify added value.

At the end of the 1980's, the construct of 'brand equity' penetrated the marketing literature (although the term had already been used by U.S. advertising practitioners in the early 1980's) (Barwise, 1993). Broadly speaking, brand equity stood for the financial value attached to brands by a producer. However, within a short time span, brand equity was also used as a term to express the value of a brand for consumers. In his book 'Managing brand equity', Aaker (1991) was one of the first to elaborate on the construct of brand equity by discussing a number of factors that may contribute to the value of a brand from the point of view of the consumer, and by discussing factors that may contribute to the value of a brand from the point of view of the producer. From about 1988 onward, several studies were published on how to measure brand equity (like Shocker and Weitz, 1988; Aaker and Keller, 1989; Kim and Lehmann, 1990; Kamakura and

Russell, 1993). In these studies, the angle from which perspective brand equity was being investigated (i.e. the value of a brand to consumers or the value of a brand to producers) was not always clear.

In 1987, we started a research project that was originally derived from the construct of added value, but that also took findings of studies on brand equity into account. The central construct in this research project is '*brand-*added value', of which the results are described in this thesis. The construct 'brand-added value' has similarities and dissimilarities with both the constructs 'added value' and 'brand equity'. In figure 1, we have tried to point out how these three constructs relate to one another. Whereas added value concerns non-functional values (i.e. psychological values), brand-added value may be based on both functional *and* psychological values. For example, for Coca-Cola, the brand-added value may be based on both the functional values (i.e. that it is a good tasting thirst-quencher) and the added psychological values (referring to fun and pleasure). So, brand-added value may refer to all possible values a brand may provide. With respect to brand equity, brand-added value corresponds to this construct if, in using brand equity, the value provided to consumers is emphasized. So, in this thesis the focus is mainly on the value a brand may provide to consumers. The value of a brand to producers is partly based on the value that a brand may have in the opinion of consumers; other brand assets (like patents and distribution channel relationships) may also contribute to the value of a brand to producers.

Functional value				
Added value	+			
Brand-added value	=	Value of a brand to consumers		*Brand equity*
		Other brand assets	+	
		Value of a brand to producers		

Figure 1: The relationship between the constructs 'added value', 'brand-added value' and 'brand equity'.

In this thesis, particular attention is paid to the role of advertising, however, the role of advertising is limited to its influence on brand-added value. In reality, advertising may of course perform different roles from the one focused on in this thesis (like announcing special offers)[1]. In the research project on brand-added value, the empirical focus has been on three aspects: (1) on how to quantify brand-added value; (2) on detecting differences in brand-added values between product classes; (3) and on influencing brand-added value through advertising. In the current thesis, two empirical studies and one experiment are reported that relate to these three aspects. Below, an outline of the following chapters is given.

An outline of the following chapters

This thesis is divided into three parts. In part I (viz. chapters 1 through 3), the focus is on a theoretical framework in which branding is introduced and in which the construct of brand-added value is elaborated upon. In part II (viz. chapters 4 through 6), two empirical studies and one experiment are described. In part III (viz. chapter 7), the general conclusions of this thesis are drawn and the managerial implications of the research findings of this thesis are discussed.

The first chapter of part one of this thesis starts off with branding, a marketing strategy which a company may use in competing with other companies. In the light of branding, the construct of brand-added value is introduced. Chapter 1 further concentrates on branding itself: the instruments of branding (e.g. advertising), the strategic and financial benefits of branding for the supplier, and how branding may affect consumers. In chapter 2, the characteristics of a branded article are investigated, the construct brand-added value is defined and contrasted with constructs that may overlap with it. In chapter 3, factors that may contribute to brand-added value are discussed, and propositions are formulated that express how each factor may contribute to brand-added value; factors that may explain differences in the sensitivity to brand-added value between product classes are discussed first. Subsequently, all brand-related characteristics that may contribute to brand-added value are elaborated upon (like the intrinsic characteristics of a brand, the price of a brand and the advertising for a brand). At the end of chapter 3, research questions are formulated of which three are addressed empirically in chapters 4, 5 and 6.

1: In elaborating on how advertising works, Young (1963 p.49-73) distinguished five roles for advertising: familiarizing, reminding, spreading news, overcoming inertia, and adding a value not in the product.

In chapter 4 of the second part of this thesis, a measurement instrument for brand-added value is described and a report is given of an empirical study in which the focus is on the reliability and validity of this instrument. In chapter 5, a study is reported in which brand-added value was measured in twelve different product classes. This study aimed at detecting differences between product classes in terms of their sensitivity to brand-added value. In doing so, several factors are discussed that may explain the differences found. In chapter 6, a report is given of a study on the influence of advertising on brand-added value.

In the third part of this thesis (chapter 7), the focus lies on the general conclusions of this thesis. In describing the contribution of this thesis to the body of knowledge relating to brand-added value, the theory on brand-added value is reviewed, and the advantages of using the brand-added value construct and the advantages of using the measurement instrument developed, are discussed. Subsequently, the focus of chapter 7 is on the managerial implications of the research findings of this thesis. Finally, the major areas for future research with respect to brand-added value are highlighted.

PART I

THEORETICAL FRAMEWORK

CHAPTER 1

BRANDING AS A MARKETING STRATEGY

In this chapter, the focus will be mainly on the managerial context of brand-added value, the central construct of this thesis. The rationale behind branding as a marketing strategy will be examined in detail. Section 1.1 gives an introduction to branding as a competitive marketing tool, section 1.2 deals with the benefits of branding and advertising, and in section 1.3 the question of how branding may affect consumers is addressed.

1.1 Competition through branding

Companies have different ways of competing with one another. Competition is a form of action whereby one company tries to realize a larger market share at the cost of the market shares of other companies operating on the same market. Some authors describe competition from a strategic and organizational point of view (e.g., Porter, 1985; Daems and Douma, 1989), while other authors describe the battle for market shares in terms of warfare (e.g., James, 1984; Ries and Trout, 1986). Ries and Trout (1986 p.46) go as far as comparing the battle for market shares with the military battle for ascendancy. When engaging in competition, a company may use different instruments (or weapons) to beat its competitors. In table 1.1, five strategies are listed that a company may use in competing with other companies. Among these five is 'marketing strategy', in which six different instruments are distinguished. In this thesis, the focus is firmly directed towards branding, a marketing strategy that uses a combination of the marketing instruments listed in table 1.1. In branding, a producer labels his product with a brand name and / or a trade mark (hereafter 'brand name' will be referred to as BN). The product then becomes a branded article, which is recognizable for consumers and distinguishable from products of competitors. In the early days of branding, a BN was often used as a guarantee for constant (mechanistic[1]) quality; consumers could learn from experience that a branded article remained the same for a long time (the BN

1: 'Mechanistic quality' views quality as an objective aspect or feature of a thing or event (Holbrook and Corfman, 1985 p.33). See section 2.3, for a further discussion on quality.

served as a means of recognizing a specific brand). Nowadays, branding should not only focus on constant (mechanistic) quality, but also on adding information to the product (mainly through packaging and advertising; see below). Such information should be appealing to certain types of consumers. So, through branding a product, a company may compete with other companies in the same market. In fact, a brand may develop into a sustainable competitive advantage (Aaker, 1989) (Arnold, 1992 p.95-96).

Table 1.1: Five competition strategies based on the key deterrent strategies of James (1984 p.32).

Marketing strategy	: Quality, Distribution, Promotion, Pricing, Franchise, Service.
Production strategy	: Capacity, Utilization, Equipment.
Financial strategy	: Costs, Economics.
Technological strategy	: Innovation, Information.
Managerial strategy	: Acquisitions, Mergers, Alliances.

The discussion so far has concentrated on competition through branding, but if the topic is developed, many questions arise, like: which instruments may be used in branding? May branding be applied to any types of goods or service? What are the benefits of branding? Before answering these questions, let us first focus on the features of branding.

Features of branding

According to Murphy (1992a p.3) branding consists of:

> *the development and maintenance of sets of product attributes and values which are coherent, appropriate, distinctive, protectable and appealing to consumers.*

Murphy describes branding in terms of focusing on (product) *differentiation*[2], which, in our opinion, is a major characteristic of branding. Through branding, a company may distinguish its product from those of its competitors on the basis of material and immaterial characteristics. If consumers perceive a particular brand as different from other brands (in a pos-

2: Porter (1985 p.11 ff) distinguishes two competitive advantages: cost leadership and differentiation.

itive way), the brand has a competitive advantage in terms of consumer demand.

How may a company differentiate its brand from those of its competitors? Two classes of brand cues are relevant here, namely intrinsic and extrinsic brand cues. Szybillo and Jacoby (1974) describe intrinsic cues as:

> ...*cues which, if changed, would produce a resultant change in the physical product itself (e.g., flavor and aroma cues for beer)*...

Thus, intrinsic cues refer to the physical product itself, whereas extrinsic cues do *not* refer to the physical product. Extrinsic cues may refer to other physical elements (like packaging), and to non-physical elements (like the BN and the price of the brand). Intrinsic cues may appeal more to consumers on rational (or cognitive) grounds, whereas extrinsic cues may appeal more to consumers on emotional (or affective) grounds (we elaborate further upon this proposition in section 1.3). In many product classes it is difficult to compete merely on intrinsic cues. For example: in 1990, 93 different cigarette brands[3] were sold on the Dutch market; thus making it almost impossible for a company to differentiate its brand merely on intrinsic cues (like taste). What remains then, is differentiation on extrinsic cues (e.g., by building an image around a brand of cigarette, like the Marlboro cowboy image). Thus, if differentiation on intrinsic cues proves very difficult, differentiation on the basis of extrinsic cues may be a solution. There are two reasons why differentiation on the basis of extrinsic cues is so important in a brand strategy (based on Arnold, 1992 p.23):

1. The associations that extrinsic cues ~~may add to the~~ brand are very difficult for competitors to copy.
2. Consumers may get more involved in the associations invoked by these extrinsic cues than in the associations invoked by intrinsic cues.

Especially in saturated markets, differentiation on the basis of extrinsic cues may be the sole source on which a brand can be differentiated from competitive brands.

Thus, branding focuses on differentiation through intrinsic and extrinsic cues. However, for successful branding, information on these intrinsic and

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3: Source: 'Voorlichtingsbureau voor Sigaretten en Shag' (VSS) (information office for cigarettes and tobacco), The Hague. Please note: each brand may comprise different varieties (like filter and non-filter).

extrinsic cues should be communicated to the consumer (often these cues cannot be deduced directly from the brand). It is important to communicate these cues explicitly through, for instance, packaging and advertising. To take a concrete example: beer brand X does not contain any synthetic ingredients (competitive brands do contain synthetic ingredients), and this absence of synthetic ingredients is appealing to consumers. However, in all probability, consumers will not be able to taste the difference between beer brand X and competitive brands. If beer brand X is to be exploited to its best advantage, the producer must clearly communicate the beer's plus points to consumers by means of information on the packaging and through advertising.

Recapitulating, we may state that branding focuses on differentiation (on intrinsic and / or extrinsic cues) and on communicating this differentiation to consumers. In fact, through branding, a manager may attach specific information to the brand. Accordingly, consumers may attach a certain value to this information (in terms of liking, disliking, or indifference), which may for its part result in stronger preferences and buying intentions. So, adding information to a BN may result in a consumer attaching a certain value to this BN, in which this added information may refer to both intrinsic and extrinsic brand cues. Although these added values are by many authors restricted to non-functional values (see Young, 1963 p.69-73; King, 1973 p.9 ff; Jones, 1986 p.28 ff; Franzen, 1988 p.39-40; Jones, 1989 p.6; Murphy, 1992a p.3; Chernatony and McDonald, 1992 p.9 ff), we apply this concept of added values to functional and non-functional values[4]. In this thesis, this phenomenon of added value will be referred to as 'brand-added value' (which from now on we shall abbreviate as BAV).

Instruments used in branding techniques

What instruments may be used in branding a product? We distinguish four basic instruments (see Kotler and Armstrong, 1989 p.248):

1. A distinct name (the 'brand name'), that is recognizable to consumers and can easily be remembered.
2. A mark or a symbol (the 'brand mark' or 'logo'), which may be made out of a combination of letters, figures, colours and pictures.
3. A design for the product and its packaging, which distinguishes the brand from those of its competitors (and that reflects uniqueness).

4: This proposition will be worked out in greater detail in chapter 2 (see also box 2.1).

4. A form of legal protection to ensure that others will not use the BN and or the brand mark, unless given explicit permission to do so (then we call it a 'trade mark')[5].

A fifth (and probably most powerful) instrument of branding is *advertising*. By communicating the existence of a brand, and by adding information to a brand, consumers may be convinced that a brand is able to fulfil their needs and their desires. Advertising may function to increase product differentiation (a main objective of branding), and through advertising a brand may become known on a larger scale than it might have been without advertising. Prior conditions for branding, are a fairly constant price, sufficient distribution, and sufficient shelf space for the brand involved (these conditions should be met to sell the brand to consumers). In box 1.1, a taxonomy of brands is formulated that is based on the distribution coverage and the advertising level of a brand. In subsequent sections and chapters this taxonomy will sometimes be mentioned.

The most salient cue of a brand is the BN. Below, we formulate general criteria for an acceptable BN (based on Collins, 1974 p.354-355; Room, 1991 p.15 ff):

1. The BN must be instantly visual comprehensive, and must be memorable (because of this, short names may be favoured over long names).
2. The BN must be easy to pronounce in all the countries where the brand is marketed.
3. The BN must have favourable associations, and must not have an undesirable meaning in the countries where the brand is marketed ('international appropriateness')[6].
4. The BN must be applicable to products in other product classes, if the manager is intending to extend the BN to other product classes in the future.
5. It must be possible to protect the BN legally.

Relevant for point 4 (see above), is Murphy's BN spectrum. In this spectrum, a BN may range from being 'completely descriptive' (like Vidal Sassoon's Wash & Go), 'associative' or 'suggestive' (like Coca-Cola), to

5: In the U.K. and other common-law countries, there is little difference between a brand and a trade mark. The reason is that the English courts have ruled that 'nobody has the right to represent his goods as the goods of somebody else' (Fogg, 1989). So, if a brand mark is used in the U.K. it more or less becomes a trade mark.

6: For example, in Portugal, the literal meaning of Nescafé is 'it is not coffee' (Collins, 1974).

'completely free-standing' or 'coined' (like Kodak) (Murphy, 1990 p.80-82; 1992b p.96). One must realize, that especially a 'completely descriptive' BN is more difficult to extend to other product classes. If a manager is intending to use the BN in other product classes in the future, a 'freestanding' or 'coined' BN fits a new brand best.

Box 1.1: A taxonomy of branded articles
For branded articles, a distinction is made between A-, B-, C-, and trade or distributors brands (CEBUCO, 1981; Leeflang and Beukenkamp, 1987 p.22 ff) (the examples given, refer to the Dutch market): 1. **A-brands**: brands with a well known name, a distribution coverage of seventy to eighty percent that are supported by national thematic advertising. Consumers tend to attribute a high quality level to these brands. Examples are: Heineken beer, Pampers diapers and Coca-Cola. However, in our opinion, a well known national advertised brand with a high perceived quality, but with a selective or exclusive distribution, may also be labelled as an A-brand (like Rolex and Rolls Royce). 2. **B-brands**: locally distributed and / or locally advertised brands. Examples are: Hengelo beer, various dairy products (like eggs). 3. **C-brands**: brands for which the responsibility for marketing activities lies with the distributors. Examples may be found in the furniture sector, in which distributors advertise for the brands they sell. **Trade or distributors brands** are brands sold by traders (or a combination of traders) with a BN of their own[7]. These brands are also called 'D-brands', 'private-label products', 'distributor-owned brands' (DOB) or 'store brands'. Examples are: Albert Heijn (AH) toothpaste, Super eggs. Trade or distributors brands may be positioned as an A-, B-, or C-brand.

7: In the case of fast-moving consumer goods, DOBs have become a threat for A-, B-, and C-brands during the last decades. The main cause of this threat was due to retailer concentration (see for the Dutch market: NPO, 1979). Due to over-allocation of shelf space and low prices, DOBs took over a substantial part of the market share of B- and C-brands (Peckham, 1983 p.49). In recent years, DOBs have gained additional market share, by attacking A-brands (Liesse, 1993). Besides DOBs, generics (i.e. 'unbranded' products) may also threaten the sales of branded articles (Harris and Strang, 1985).

Applicability of branding
Now that we know what instruments may be used in branding techniques, the question is addressed as to whether all products can be differentiated from each other through branding. Jones (1989 p.5) names three requirements that must be met for successful branding: (1) differentiation of the product should be possible; (2) the product should be widely available to the public; (3) one should be able to add values to the product through advertising. The first and the third requirement both stress product differentiation (the latter only in an immaterial way). In fact, the key question here is whether products are differentiable. Regarding this, Levitt (1980) claims that:

> *There is no such thing as a commodity. All goods and services are differentiable.*

According to Levitt, a 'generic product' may be transformed into an 'expected product' (which represents the customers' minimal purchase conditions). An expected product may for its part be transformed into an 'augmented product'. An augmented product also includes voluntary or unprompted augmentations to the expected product, thus exceeding the expectations of the buyer. An augmented product may finally be transformed into a 'potential product' (including everything that might be done to attract and hold customers). So, according to Levitt (1980) every good and service is differentiable (from a generic - expected - augmented - to a potential product). Following this principle, branding may also be applied to any good or service. Corroboration of Levitt's proposition (that all goods and services are differentiable) is given by Murphy (1990), who gives several examples of successful branding for products, services, and industrial products (like raw materials). However, it should be realized, that in some product classes branding is almost non-existent (like for vegetables and potatoes). This falsifies Levitt's proposition; in fact, branding may be less applicable to some classes of product. We shall return to this topic in chapter 3 and chapter 5.

1.2 Benefits of branding and advertising for the supplier

Branding and advertising may result in two kinds of benefits for the supplier: strategic and financial benefits. In discussing these benefits, we limit our scope to thematic advertising, which focuses mainly on building brand images (and not on communicating temporary price discounts).

Strategic benefits

The strategic benefits of branding imply that the competitive position of the producer is strengthened due to branding. These strategic benefits may refer to both (potential) competitors and retailers. With respect to (potential) competitors, branding and advertising may lead to 'reputation monopolies' (Lambin, 1976 p.95), or as Backman (1967 p.52) states: 'The company that owns the brand has a *monopoly* of its use'. It is often argued, that the main effect of advertising is that it makes consumers *brand loyal* (Franzen and Holzhauer, 1990 p.4 and p.45-48), or that advertising merely influences brand-loyal consumers (Tellis, 1988). Advertising may generate goodwill for the advertised brand, and in so doing make it difficult for new companies to enter the market[8]. What is suggested here, is that due to successful branding and advertising, the strategic position of established companies may become stronger. As a consequence, potential entrants to a market might face a *barrier to entry* (Karakaya and Stahl, 1989)[9]. However, the results of various studies do not corroborate the proposition that advertising creates barriers to entry (for a review on these studies, see Floor and Van Raaij, 1994 p.86-88). Holak and Reddy (1986) even report on a study that seems to indicate that an absence of advertising leads to a higher barrier to entry. Holak and Reddy showed (on the basis of data on the cigarette industry's ad ban in the U.S.A.), that the ban on television advertising lead to *higher* levels of brand-purchase inertia (i.e. a decrease of brand switching behaviour), creating a higher barrier to entry for new entrants to the market. However, the results that Holak and Reddy report, may be explained by the fact that, due to the absence of televised cigarette advertising, *brand loyal* consumers are no longer exposed to brands other than the brand they regularly smoke. Now, if sampling is destructive (as is the case for cigarettes), consumers will stick to their own brand. So, brand-purchase inertia may have arisen here because brand loyal consumers were not informed anymore about other brands. However, for consumers who regularly switch between brands and for former non-smokers, a lower brand-

8: In some situations a brand has an 'ownership' of a product class (i.e. consumers hold only one BN in their awareness set, like the BN Bacardi for rum). Farquhar (1990) refers to such a situation as 'brand dominance'.

9: According to Schmalensee (1982) and Carpenter and Nakamoto (1989), barriers to entry may also arise due to 'pioneering advantage'. According to Carpenter and Nakamoto (1989) 'consumers appear initially to organize product knowledge around prototypical examples, using them as cognitive referents'. Due to this prototypicality, pioneer brands may gain a superior position in the product class.

purchase inertia may have arisen after the ban on television advertising. The conclusion to be drawn here, is that there is no empirical evidence corroborating the proposition that advertising creates barriers to entry.

Another strategic benefit of branding and advertising may emerge from consumer demand. If a brand appeals to consumers, retailers are forced to stock it. Branding and advertising generate a so-called 'pull effect'; consumers may urge retailers to adopt a specific brand. In such a case, the manufacturer can 'reach over the shoulder of the retailer direct to the consumer' (Murphy, 1990 p.8 and p.67) (see also: Jones, 1986 p.22). So, successful brands may serve as a strategic benefit in the relation between manufacturer and retailer.

Financial benefits

The financial benefits of branding are not usually immediate. The reason for this is that large investments have to be made when the brand is introduced (costs arising mainly from packaging and advertising). However, if sales and market share increase due to advertising, this response is normally a delayed response (a so-called 'carry-over effect'; advertising influencing the sales volume in subsequent periods; see Clarke, 1976; Peles, 1979). Lambin (1976 p.90-100), Little (1979 figure 13), and Erickson (1985) among others, give econometric evidence on the advertising - sales relationship. However, Lambin (1976 p.100) also reports that:

> *Advertising quantitative impact on brand sales is not particularly impressive in absolute value.*

Schmalensee (1972 p.123-124 and p.211 ff) reports that advertising has little influence on sales and market share. However, a subtle distinction should be made here: Lambin and Schmalensee did not consider mediating variables that may influence the advertising - sales relationship. Different message characteristics may, for example, lead to different consequences (sales). On the advertising - sales relationship, Jones (1989) reasons backwards: he reports nineteen cases of *successful* advertising (his research is however of a more qualitative nature). In answering the question 'Does it pay to advertise?', Jones (1989 p.321) concludes:

> *For one thing, successful brands are the exception, not the rule, in the real world.*

So, it seems that advertising may influence sales, but that there are mediating variables that influence the magnitude of the effect of advertising on sales. Such mediating variables may be: the content of advertising (i.e. message characteristics), the media vehicles used, the media scheduling, and the tuning of advertising to other communication instruments (like sales promotion) (see Albion and Farris, 1981 p.16 ff).

Thus, advertising *may* lead to higher sales. However, advertising also requires investments that may increase the cost price of the brand involved[10]. As a result, the producer faces a lower net margin. However: an increase in sales implies an increase in production, which may consequently lead to economies of scale in production terms. In fact, advertising may - due to economies of scale in production - result in a net reduction of the producer's costs (Steiner, 1973). Jones (1989 p.6) reports that heavily advertised brands (A-brands) have a strong consumer demand, and that - due to this - producers of A-brands may increase their selling price, thus increasing their net margin. If, for the moment, we assume that the final consumer prices are not affected by advertising, then retailers face lower margins. On this subject, Farris and Albion (1980) remark that:

> *...if a manufacturer can generate strong consumer demand through advertising and is able to sell more at higher prices to the retailer, consumer prices will not necessarily reflect the manufacturer's decreased price elasticity. Because retailers still face a situation in which consumers are price sensitive, they will lower their gross margins and prices in order to be more competitive with other retail outlets.*[11]

Steiner (1973) supports the latter argument: more rapid turnover will compensate for retailers' lower margins. Steiner even argues that advertising lowers the consumer price of competing non-advertised brands within the same product class (in order to compete with advertised brands, these non-advertised brands have to lower their prices)[12].

10: Concerning cost price, sometimes companies may be better off without advertising. For example: in the U.S.A. the ban on television advertising (which became effective in 1970) did not decrease the sales of cigarettes (it instead continued to grow), resulting in a greater cost efficiency in terms of advertising (Teel et al., 1979). Holak and Reddy (1986) conclude that the advertising ban made product demand more price sensitive and that it resulted in a higher brand-purchase inertia.

11: Farris and Albion (1980) discriminate two price levels: the factory level (the manufacturer's price for a brand charged to retailers) and the consumer level (the retailer's price for a brand charged to consumers).

12: According to the four stages of the Steiner Model (as summarized in Farris and Albion, 1980), the levels of the factory price, the retail margin, the consumer price

The discussion as to whether A-brands may be sold at premium prices or not, hinges on the topic of price sensitivity. Marketing practitioners often assume that an increase in advertising leads to a decrease in consumer price sensitivity (Krishnamurthi and Raj, 1985). Others (like Stigler, 1961)[13] argue that advertising will lead to an increase in price sensitivity. In summarizing studies (on the advertising - price-sensitivity relationship) Farris and Albion (1980) conclude that:

> *With a single exception, those studies reporting that advertising increases price sensitivity looked at consumer prices and those studies reporting that advertising decreases price sensitivity examined factory prices.*

Wittink (1977), Eskin (1975), and Eskin and Baron (1977) report studies which support the first conclusion. Krishnamurthi and Raj (1985) report on a study in which the subjects (households) were split into two segments: a low and a high price-sensitivity segment. The conclusion for the high price-sensitivity segment is:

> *...that increased advertising enables a brand to have a higher price without losing as much sales as it would in the absence of increased advertising.*

The conclusion for the low price-sensitivity segment is, that price elasticity decreases because of an increase in advertising:

> *...though the magnitude of the decrease is not as great as in the high sensitivity segment.*

The conclusion to be drawn here, is that the influence of advertising on consumer price sensitivity is not unequivocal. Lilien and Kotler (1983 p.661-662) note that the sign and the magnitude of the interaction between these marketing-mix elements seem dependent on the structure of the market and the nature of the advertising (like the content of the message).

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and the market penetration may vary as a function of the stage of the so-called 'advertising life cycle' (these stages are: non-advertised, initial advertising, growth, and maturity). According to the Steiner Model, factory prices tend to increase during the advertising life cycle, retail margins and consumer prices tend to decrease, whereas market penetration tends to increase.

13: According to Stigler (1961), advertising identifies the sellers of particular types of goods for consumers and gives information on prices. So, if a consumer is exposed to advertisements and if he is willing to pay a certain amount for search costs, he is able to compare prices between relatively more retail outlets compared to when advertising is absent.