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Brand equity of defectors and never boughts in a business financial market

Svetlana Bogomolova *, Jenni Romaniuk [1]

Ehrenberg-Bass Institute for Marketing Science, University of South Australia, GPO Box 2471 Adelaide SA 5000, Australia

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ABSTRACT

Buyer acquisition is important for any supplier looking to maintain or expand its customer base. This study uses a brand equity perspective to compare the future customer potential of those who used the brand in the past but stopped (defectors), with the potential of those who have never bought the brand. On the surface, both groups possess the same propensity to consider the brand for future purchase. However, the underlying reasons for these propensities differ. Defectors hold both positive and negative information about the former brand. In contrast, those who have never bought the brand possess largely neutral opinions. The results imply that managers should consider treating these two groups separately because they require different acquisition strategies.

1. Introduction

A new broom sweeps clean, but the old brush knows all the corners (an old saying)

For any supplier, buyer acquisition is essential to replace recently lost buyers or to grow a customer base (East, Wright, & Vanhuele, 2008). However, buyer acquisition is recognised to be difficult and costly. Consequently, there is a need to improve strategies to recruit new business buyers. The number of potential business buyers is mostly fixed in mature business markets (Johnston & Lewin, 1996). It consists entirely of buyers who have either used the brand sometime in the past but defected ('defectors'), or those who have never bought the brand ('never bought'). Therefore, both groups are very important in B2B markets. This importance makes it inevitable that acquisition strategies should include both of these currently non-buying groups. Yet, we do not know whether the same acquisition strategies apply to both groups, or whether each should be treated uniquely in order to address differences in their prior brand experience.

Several researchers have recently pointed out that defectors have extensive brand knowledge, a result of their past experience (Griffin & Lowenstein, 2001; Homburg, Hoyer, & Stock, 2007; Stauss & Friege, 1999; Tokman, Davis, & Lemon, 2007). Examples of such knowledge, especially relevant for business relationships, include location and method of purchase, the company's product range, product specifications, established personal contacts, and logistics. This brand knowledge might indicate increased defector receptivity to a brand's acquisition activities compared with never boughts who lack such existing brand knowledge.

However, defectors could have sufficient negative brand experience rendering them resistant to future acquisition efforts (or 'win-back') by the supplier. Indeed, another stream of research suggests that negative brand knowledge, resulting from poor brand experience and defection, significantly decreases a buyers' intention to ever buy from that brand again (Gregoire & Fisher, 2008). From this perspective, defectors would be less likely prospects than buyers with no prior brand experience. Given these two differing research trends, it is unclear which group, defectors or never boughts, would be more likely to buy the brand in the future.

The important role of prior brand experience in influencing future behavior has been widely acknowledged in business-to-business (B2B) literature (Heide & Weiss, 1995; Patterson & Dawes, 1999; Wuyts, Verhoef, & Prins, 2009). However, to the best of our knowledge, our research is the first to address heterogeneity amongst potential business buyers caused by a difference in prior brand experience. In this paper, we compare brand knowledge and brand evaluations (two major components of customer-based brand equity) held by defectors with knowledge and evaluations of those who have never bought the brand. The method includes a survey with a representative sample of businesses about their experiences and choices of financial service suppliers, an essential decision for operation of every business.

* Corresponding author. Tel.: +61 08 8302 9170; fax: +61 08 8302 0442.
E-mail addresses: Svetlana.Bogomolova@marketingscience.info (S. Bogomolova), Jenni@marketingscience.info (J. Romaniuk).
[1] Tel.: +61 08 83020706; fax: +61 08 83020442.

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2. Literature review

2.1. Supplier selection in the business buying process

Most authors agree that the supplier selection process consists of two stages (Heide & Weiss, 1995; Wuyts et al., 2009). At the first stage, a potential buyer forms a list of suppliers to consider or to invite to bid for business. At the second stage, the buyer makes a choice among the shortlisted suppliers. Buyers often base their decision on formal, detailed specifications, requested as part of the tender process. While both stages are of crucial importance, failure to move into the initial consideration stage leaves the supplier with virtually no chance of being selected. Therefore, the major challenge for most service providers is to get on the list of potential suppliers (Heide & Weiss, 1995; Wuyts et al., 2009).

Some authors present evidence that short listing is a rather subjective process. Patterson and Dawes (1999) show that buyers rely on past experiences and market brand knowledge. Further to this, Heide and Weiss (1995) demonstrate that the level of a buyers' product experience and decision importance partly determines the likelihood of considering a new supplier. Wuyts et al. (2009) suggest that good interpersonal relationships, the ability to offer advice, and a strong brand name/reputation contribute to the supplier's chances of being shortlisted. Such an informal short listing process based on personal judgment, experience, associations, and evaluation is particularly common for smaller businesses, which usually have only one decision maker (Johnston & Lewin, 1996).

These studies demonstrate that business buyers hold perceptions and evaluations of supplier brands and the accumulation of those (in the form of customer-based brand equity) may exert an impact on supplier choices (Michell, King, & Reast, 2001; Webster & Keller, 2004). This link between customer-based brand equity and business buyer choice is even greater for service brands (such as financial services), as opposed to tangible products, as buyers of service brands lack tangible evidence on which to base their decisions (Grace & O'Cass, 2004; Roberts & Merrilees, 2007).

2.2. Brand equity of business suppliers

Following the seminal work by Aaker, Keller and co-authors (Aaker, 1991; Keller, 1993; Keller & Lehmann, 2006), we define customer-based brand equity as a brand's assets residing in the minds of customers. Literature offers many different dimensions of customer-based brand equity (see the work of Keller, 1993, 2003a for a complete exposition). In this paper, we examine two overarching elements present in the vast majority of brand equity models: brand knowledge and overall brand evaluation (Aaker, 1991; Keller, 1993, 2003b).

2.2.1. Brand knowledge of business buyers

Brand knowledge consists of the associations between the brand name and qualities ('attributes') of the brand that reside in customers' memories (Keller, 1993, 2003a). These associations can influence propensities to consider the brand, by acting as retrieval cues (Holden & Lutz, 1992). For example, a supplier known for having competitive rates, being flexible, and understanding business customers could be more likely to be considered by a potential customer as a provider for a business loan, if these cues were used to select brands for consideration (a process referred to as 'brand retrieval'), which is a precursor to the brand being chosen. Therefore, brand associations play a crucial role in the choice of suppliers (Bendixen, Bukasa, & Abratt, 2003).

The associations buyers hold in regards to a particular brand can be positive or negative (Krishnan, 1996). Positive associations are likely to encourage future purchase, while negative ones are likely to discourage purchase (Winchester, Romaniuk, & Bogomolova, 2008). The literature discusses different dimensions of brand associations influencing supplier choice. As this paper does not attempt to invent a new measure of brand associations, we adapt the existing framework suggested by Beverland, Napoli, and Yakimova (2007), to the context of financial services. We now discuss the common groups of attributes that are proposed in literature as being important for business supplier choice.

Two universally important areas are quality and price. Quality is one of the cornerstone attributes desired by business buyers (Abratt, 1986; Bendixen et al., 2003; Gordon, Calantone, & di Benedetto 1993; Michell et al., 2001). In financial services, the product is described through an ability to obtain finance (Turnbull & Gibbs, 1989), a range that can satisfy needs (Chan & Ma, 1990), and technological capacity (Mols, Bukh, & Blenker, 1997; Zineldin, 1996). Price reflects the core (monetary) nature of the product (Mols et al., 1997; Zineldin, 1996). Supplier's fees, commissions, interest charged on loans, and interest paid on investments comprise this dimension (Chan & Ma, 1990).

The ability to easily access the product or service plays a crucial role in business operations (Gordon et al., 1993; McDowell-Mudambi, Doyle, & Wong, 1997). Branch location, speed of decision making, and operation efficiency represent important logistics-related attributes in financial services (Chan & Ma, 1990; Zineldin, 1996). The flexibility in adapting the product to specific needs of a buyer is another important attribute for business buyers who might have different operational requirements (Chan & Ma, 1990; Zineldin, 1996).

Intensified competition in many business markets has pushed competing suppliers to match each other on tangible characteristics, such as product and price (Mudambi, 2002). This matching has led potential suppliers to seek brand differentiation through intangible associations (McDowell-Mudambi et al., 1997; Webster & Keller, 2004). Quality of service and relationship (Mols et al., 1997; Turnbull & Gibbs, 1989), along with trustworthiness (Zineldin, 1996) and helpfulness (Chan & Ma, 1990), are some of the most important attributes for financial service selection.

2.2.2. Overall brand evaluations

In addition to the specific information that business buyers hold in memory about the supplier brands, buyers also make overall judgments, which can be positive, negative or neutral (Solomon, 1992; Wilkie, 1986). While the individual brand associations play a role, as salience and importance of each dimension moderate this evaluation (Ajzen & Fishbein, 1980). Overall, evaluations can act as a heuristic in themselves without any recourse to the component beliefs (Park & Srinivasan, 1994; Percy & Rossiter, 1992). These evaluations can also be influenced independently of the knowledge held about the brand (Nedungadi, 1990). Therefore, it is important to understand the overall evaluation of the brand in addition to the individual brand associations that potential buyers hold.

2.3. Prior brand experience and brand equity

One of the moderating factors contributing to the formation of brand equity is the level of prior experience with the brand (Bird, Channon, & Ehrenberg, 1970). Prior experience moderates thoughts, feelings, emotions, and knowledge of the brand in a buyer's memory. By understanding how prior experiences can influence a buyer's memory about a brand, we can draw inferences about how the buyer is likely to react to the brand in the future (Keller, 2003a).

While the literature on customer-based brand equity within the B2B arena is still scarce, some links between prior brand experience and supplier brand equity have been found. Gensch (1984) found that the level of past brand experience, overall evaluations, and intentions predicted whether an industrial purchaser would buy from a supplier. Gordon et al. (1993) found satisfactory past experiences exerted a positive impact on brand equity. Positive prior brand experience increased loyalty to existing suppliers by decreasing the likelihood of