



Seeing the forest despite the trees: Brand effects on choice uncertainty

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ABSTRACT

Prior research on brand equity suggests that consumers use brands as signals to reduce uncertainty and perceived risk. Erdem and Swait (1998) developed a conceptual framework based on information economics and signaling theory to explain how equity is created, maintained and transferred over time that involves seven theoretical constructs. This paper reviews the impact of brand-equity-associated brand utility on the scale of the indirect utility function (i.e., the inverse of the error variance); we argue that higher brand-equity-associated brand utility reduces the need for consumers to review previously formed preferences. We combine a brand utility experiment with a brand feature experiment to estimate the effects of brand-equity-associated brand utility scores on choice. We find that higher brand-equity-associated brand utility leads to higher choice consistency, which can drive increases in market share.

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1. Introduction

The concept of a brand (defined as “a name, term, sign, symbol or design, or a combination of them which is intended to identify the goods and services of one seller or a group of sellers and to differentiate them from those of competitors”; Kotler, 1997, p. 443) is widely regarded as a key marketing principle. Different research streams focus on different roles that brands play in consumer choices. One stream focuses on the impact of brands on consumer utility in random utility choice models (e.g., Kamakura & Russell, 1993; Louviere & Johnson, 1988; Park & Srinivasan, 1994). A second stream focuses on price premiums that consumers are willing to pay (e.g., Kamakura & Russell, 1993; Park & Srinivasan, 1994) or differences in price sensitivity for strong brands (e.g., Keller, 1993; Sivakumar & Raj, 1997). Other streams focus on ways to measure brand health and brand satisfaction, among other issues (e.g., Ailawadi, Lehmann, & Neslin, 2003; Bloemer & Kasper, 1995).

In this paper, we adopt the perspective of Erdem and Swait (1998), who view brands in an information economics framework. They propose that markets are characterized by imperfect and asymmetric information and that “consumer uncertainty about product attributes may exist even after active information gathering (for experience attributes) or after consumption (for long-term exposure or credence attributes)” (Erdem & Swait, 1998, p. 138). Companies can reduce this uncertainty by sending signals about their product quality, for example, through advertising (Milgrom & Roberts, 1986) or manufacturers’ warranties (Lutz, 1989). In the information economics perspective on brand equity, a brand name itself serves as a signal, and

thus, “consumer-based brand equity is defined as the value of a brand signal to consumers” (Erdem & Swait, 1998, p. 133). For example, umbrella branding (in which firms use the brand name of established products for new products) is one way to send a quality signal about a new product to consumers. This perspective on brand equity ascribes costs to information acquisition processes that consumers use to resolve uncertainty. Higher brand equity, which is defined as a strong brand signal, reduces these information costs, in turn leading to higher brand utility (Erdem & Swait, 1998).

Over the past several decades, product markets have become more variable, with a proliferation of SKUs in many product categories.¹ Additionally, and more recently, major supermarket chains across the world have begun to move into private-label products, further increasing the number of choices and diversity available to customers. Not only are more signals and more diverse signals being sent by firms about an increasing number of brand offers, but the proliferation of these signals now also occurs across many more communication channels, such as Facebook, Twitter and other new media. Moreover, the availability of consumer product ratings via consumer-review websites and e-commerce websites, such as <http://www.yelp.com/>, <http://www.walmart.com/> and <http://www.amazon.com/>, increases the complexity of brand signals.

A potentially important issue that has been largely ignored in the brand equity literature is the impact of a brand name on choice consistency. Choice consistency is one of several possible unobserved utility components in random utility theory-based choice models.²

¹ We recognize that there is a trend, particularly in the USA, for some retailers to restrict assortments of products.

² We are only aware of a study by Swait and Erdem (2007), which showed that one basic component of brand utility, namely, brand credibility, has a positive impact on decision makers’ ability to discriminate between product utilities in choice situations.

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That is, the stochastic component of utility (the so-called “error component”) can be decomposed into several possible subcomponents, such as variability in choices due to mistakes, inattention, differences in familiarity with choice options and model misspecification. We propose that brands that provide strong signals to consumers are also likely to exhibit more consistent choices in scanner panel and choice experiment data sources. Strong brands help a “decision maker more strongly discriminate between that brand and others, because the evaluation of the former product may be less subject to idiosyncratic uncertainties (e.g., different levels of knowledge about attributes) compared with that of other brands” (Swait & Erdem, 2002, p. 307). This discrimination further suggests that stronger brands can simplify consumer decision processes and reduce the need to reevaluate products, making purchase decisions easier for consumers.

One measure of choice consistency is the scale of the indirect utility function, which is inversely proportional to the standard deviation of the error component. This scale determines how “in different contexts and for different decision makers, the same systematic utility difference can result in more-extreme choice probabilities” (Swait & Erdem, 2007, p. 682). As Swait and Louviere (1993), Louviere, Hensher, and Swait (2001, Chapter 8), Salisbury and Feinberg (2010) and Fiebig, Keane, Louviere, and Wasi (2010) indicate, if individuals differ in their scales, there can be significant implications for marketing policies that rely on choice modeling results. For example, suppose there are two segments of consumers, one with considerable experience in a category that makes very consistent product choices, and a second that is new to the category and makes much less consistent choices. Even if the consumers in these two segments use identical decision rules (i.e., choice models and associated indirect utility specifications) to make choices, their observed (and predicted) choice probabilities (i.e., proportions) will differ. That is, the segment that makes choices more consistently should exhibit a wider range of choice probabilities in any particular context (e.g., choice set, choice occasion, etc.) than the less consistent segment. Indeed, at the extreme of almost perfect choice consistency, observed choice probabilities will be close to zero and one whereas when choice consistency decreases, observed choice probabilities will be close to $1/J$, where J is the number of choice options offered.

Thus, managers need to better understand that the range of predicted choice shares is likely to be smaller/larger for segments (individuals) with lower/higher error variances or choice consistency, and this should be taken into account when making marketing policy decisions. In turn, this implies that choice consistency or the scale of the utility estimates is likely to be useful for positioning and targeting. Prior literature identified several factors that are associated with differences in the scale of the indirect utility function, including information frames (e.g., Swait & Adamowicz, 2001), labeled alternatives in choice sets (e.g., brand names) and individual differences, such as education/literacy, age and involvement (see, e.g., Louviere et al., 2001, Chapters 8 and 13).

Consequently, the purpose of this paper is to test whether brand names affect consumer choice consistency, which in turn affects consumer choices. We show that brands systematically affect consumer choice consistency in a series of discrete choice experiments, and our results suggest that if managers understand and can predict differences in effects on choices due to “pure preferences” and choice consistency, it should be possible to make more effective use of a brand’s marketing mix so as to affect both preferences and choice consistency. For example, managers can manipulate the strength of a brand signal by carefully choosing suitable advertising and product line extension branding strategies, which send out consistent quality signals to the consumer and thus strengthen a brand’s credibility. Similarly, different advertising and communications media also likely vary in their credibility, and thus, managers can likely improve brand credibility and other equity signals by appropriate media choices, a topic that we leave for future research.

In a practical sense, differences in choice consistency matter in marketing research because, as noted by Fiebig et al. (2010) and Salisbury and Feinberg (2010), if scales differ across contexts, segments and individuals (among other things), these scale differences must be accounted for in traditional choice models (including models that attempt to capture preference heterogeneity) to avoid confounding partworth estimates with these differences. Scales are likely to differ by brand and attribute as well as by the individual, as shown by Louviere and Eagle (2006) and Louviere and Meyer (2007). If the estimated utility of a particular brand is due in part to pure preference for the brand and in part to the choice consistency associated with that brand, existing choice models such as conditional logit or its extensions (i.e., random effects or latent class models) can potentially yield incorrect and misleading results. That is, ignoring error variability differences in choice models may result in biased parameter estimates rather than a simple loss of efficiency (Swait & Erdem, 2002).

This paper tests the hypothesis that brand-equity-associated brand utilities affect unobserved choice consistency. To empirically examine this proposition, we rely on the Erdem and Swait (1998) theory of brand equity in a discrete choice setting using respondents’ choices from two related discrete choice experiments (DCEs) (Louviere & Woodworth, 1983; Street, Burgess, & Louviere, 2005). One DCE asks participants to choose among alternatives described by the Erdem and Swait theory constructs (a brand equity DCE), and a second DCE asks them to choose among choice options described by attributes/features (a traditional DCE). Thus, the brand equity DCE is used to measure brand equity as defined by signaling theory, and we test the effects of the brand equity measures on choice consistency in the second DCE. To determine the magnitude of the choice consistency effect, we use recent advances in random utility models to estimate a more flexible and general model that simultaneously allows for a distribution of scale and a distribution of preferences. In particular, we develop and apply a model that combines the Generalized Multinomial Logit, or G-MNL model (Fiebig et al., 2010), with a variant of the Random Coefficients Generalized Scale Multinomial Logit (RGCSMNL) model by Swait and Erdem (2002).

The remainder of the paper is organized as follows. We first describe the two discrete choice experiments and then discuss conceptual and statistical model considerations, followed by the presentation of results from six empirical datasets. We conclude by discussing the managerial implications of this study and directions for future research.

2. Research approach

2.1. Description of the discrete choice experiments

We designed and implemented two DCEs for each of six different product categories. The categories are cross-country airline flights, car insurance and four electronic products categories that we categorize as follows: a) listening devices, b) visual entertainment devices, c) auditory devices and d) after-market add-on devices to enhance communication. We disguise the last four product categories and their associated features/levels to ensure confidentiality but note that product features are not germane to the tests that we conduct. The airline flights and car insurance data sets were collected with the sole purpose of testing the hypotheses in this paper, but the four other DCEs were designed and implemented as part of a larger project conducted in collaboration with a major electronics producer. Thus, the data from the last four categories lack several features that we outline below.

The two DCEs in each category were as follows: 1) a brand-anchored design (Louviere & Johnson, 1990) in which choice alternatives (hereafter, choice “options”) are described as “like brand A” (where “A” is a real brand name) on each of the Erdem and Swait brand equity constructs (see Appendix A.1 for a DCE screenshot of

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