



The performance of global brands in the 2008 financial crisis: A test of two brand value measures

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ABSTRACT

Previous literature has argued that high brand equity helps stabilize financial returns and reduce share price volatility. This research investigates how some of the strongest brands in the U.S. market fared in terms of financial performance during the Fall 2008 stock market downturn. Initial results using a financially based measure of brand value (Interbrand) show that, counter to expectations, these top brands did not outperform the market as a whole. However, the findings are in the hypothesized direction when an alternative, consumer-based brand equity measure (EquiTrend) is used to replicate the analysis. After first employing the three Fama–French factors to evaluate stock performance, we assess the added brand equity effect using both aforementioned measures. The consumer-based measure shows a significant incremental effect on stock performance after controlling for risk and financial fundamentals. Furthermore, this positive effect also applies to share volatility and firm betas. None of these effects hold for the financially based measure.

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1. Introduction

Relating marketing indicators to financial indicators of stock market performance and shareholder value has been the focus of several recent publications in the academic marketing literature (e.g., Mizik & Jacobson, 2009b; O'Sullivan, Hutchinson, & O'Connell, 2009; Srinivasan & Hanssens, 2009). These analyses have shown that some of the firm's customer-level assets, such as *customer satisfaction*, *customer equity*, and *brand equity*, have a significant impact on financial performance (Fornell, Mithas, Morgeson, & Krishnan, 2006; Krasnikov, Mishra, & Orozco, 2009; Kumar & Shah, 2009). Specifically, the brand equity of a firm brand has been shown to have a significant positive impact on stock market performance. For example, Barth, Clement, Foster, and Kasznik (1998) used a sample of 1204 brand value estimates from 1991 to 1996 and found them to be positively related to stock prices and returns. Madden, Fehle, and Fournier (2006) juxtaposed a portfolio of 111 firms' brands from the Interbrand list of most valuable brands between 1994 and 2001 to a benchmark market portfolio and observed higher returns and lower risk for the Interbrand set. Finally, Rego, Billett, and Morgan (2009) used data from 252 EquiTrend listed firms between 2000 and 2006

to show that high brand equity reduces volatility and, thus, the risk associated with a brand's stock.

Despite the published research on the topic, there is no strong agreement in the marketing literature on how to define and measure brand equity. Two basic approaches can be distinguished. Brand equity can be measured either at the consumer level (Aaker, 1996) or at the financial markets level (Simon & Sullivan, 1993). Researchers following the consumer-level approach view brand image, consumer affinity, and customer loyalty as the main drivers of brand value (e.g., Aaker, 1996, Keller, 2007). Examples of commercially available, customer-based brand measures include Harris Interactive's EquiTrend measure and Young & Rubicam's Brand Asset Valuator. Alternatively, researchers employing financially based measures (e.g., Madden et al., 2006) focus on financial metrics, such as projected revenues and return on investment, to determine a brand's net present value. Commercially available monetized values of brands include the Interbrand Brand Value measure and Millward Brown's BrandZ. Whereas the consumer-based approach defines brand equity according to levels of consumer engagement, the financially based approach essentially translates intangible assets into financial figures by assessing a brand's ability to generate future earnings.

It is not a priori obvious that the two approaches will concur in terms of what brands are more valuable. In fact, the two corresponding measures employed in this research (EquiTrend and Interbrand)

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only correlate at $r = .22$ (*ns*) during 2008 ($N = 50$). Previous literature does not explain the reasons for such a low correlation. For example, brands ranked high according to consumer mindset measures supposedly command deep customer loyalty and are highly visible in consumer markets. These benefits ensure steady revenue levels and reduce firm idiosyncratic risk as well as its cost of capital (Rego et al., 2009). Alternatively, brands that fare well on financial markets-based measures tend to belong to firms with greater revenue streams and more predictable earnings (i.e., the so-called “large cap firms”). Large cap firms have a wider shareholder base and more prominent research coverage among analysts (Brennan & Subrahmanyam, 1996; Chordia, Subrahmanyam, & Anshuman, 2001). Thus, both types of measures suggest lowered risk and possibly higher returns for high equity brands. To date, no empirical comparison of the two types of measures has been undertaken. The purpose of this research is to present one such comparison.¹

The effect of brand equity on stock performance has been shown to be particularly beneficial in an economic downturn, when firms face reduced consumer demand (Deleersnyder, Dekimpe, Sarvary, & Parker, 2004) and thus earn lower revenues and profits (Srinivasan, Lilien, & Sridhar, 2011). In an economic crisis, firms with high brand equity would thus be more likely to sustain revenues than firms with lower equity. Furthermore, because investors are likely to search for less risky investments in such an environment, high equity brands should become particularly attractive as “safe harbor.” One would therefore expect the share prices of the strongest brands to lose less than those of weaker brands in an economic downturn. The financial crisis of 2008 and the stock market downturn in the Fall of 2008 (i.e., the September to December period when the market lost over 30% of its value) offer an ideal opportunity to test this general hypothesis.

In what follows, we analyze the stock market performance of 50 of the Interbrand Top 100 global brands from September to December of 2008. The 50 brands selected represent the subset where brand and stock market shares are directly related, and for which we have corresponding EquiTrend measures. We compare the Fall 2008 stock returns for the selected brands against the rest of their industries and the overall market. Initial results are consistent but not encouraging: shares of the highly rated brands did not drop significantly less than the market. The study then uses the three-factor Fama–French model (Fama & French, 1993) to account for differences in market-based risk for the 50 brands. The model shows that brands scoring the highest on brand equity as measured by EquiTrend do in fact show superior performance, in line with the basic hypothesis. We then introduce the financial fundamentals in order to avoid spurious inferences and to identify the incremental contribution from EquiTrend brand equity. For each of three dependent variables (stock returns, volatility, and betas) we investigate the additional explanatory power of brand value by introducing the Interbrand and the EquiTrend scores associated with each stock. Throughout the analyses we test for omitted variables and model misspecification by introducing additional variables and testing alternative functional forms (including an explicit consideration of the Fama–French market factors). Results are robust: within the sample, the EquiTrend measure is more successful than the Interbrand measure in identifying the brand equity that matters.

The rest of the article is organized as follows: the next sections develop the hypotheses and describe the data and the methodology used. A subsequent section presents the results and interpretation of the findings. The paper concludes with a discussion section,

which includes an explanation of the differential impact of the two measures.

2. Hypothesis development

The year 2008 offers a dramatic example of a financial crisis. Over that year, the S&P 500 Index lost 38.5% and the Dow Jones Industrials (DJI) average dropped 33.8%. The vast majority of stocks (almost 9 out of 10 of those in the broader S&P 1500 Index and more than 90% of those in the S&P 500) lost value during the year. On average, losing stocks dropped more than 40% of their value and almost \$7 trillion in market value was wiped out. Shares of large firms with value-priced stocks, generally considered a safer part of the market, lost 38% of their value as measured by the Vanguard Value exchange traded fund. The 4-month period from early September through the end of December was particularly turbulent and included notable events such as the federal takeover of Fannie Mae and Freddie Mac, Lehman Brothers' bankruptcy, and AIG's \$85 billion bailout. The Volatility Index (VIX) of the Chicago Board Options Exchange, known as the market's “fear index,” reached an intraday all-time high of 89.53 during the year's 4th quarter.

For the comparison of the two brand equity measures during the crisis, we focus on the critical period between September and December of 2008 (see Figure 1). If brand equity lowers risk, the effect should manifest itself most clearly in this time of great turbulence. The key comparison to make is which of the two measures better protected stock returns in this period.

2.1. Hypotheses

Brand equity is the added value that a brand name and its associated logo confer upon a product or service. For example, Aaker defines brand equity as “a set of brand assets and liabilities linked to a brand, its name and symbol, that add or subtract from the value provided by a product or service to a firm and/or that firm's customers” (Aaker, 1991, p.15). The assets and liabilities “can be usefully grouped into five categories: *brand loyalty, name awareness, perceived quality, brand associations* in addition to perceived quality, and *other proprietary brand assets—patents, trademarks, channel relationships, etc.*” (Aaker, 1991, p.16).

A “strong” brand is one that can sustain and raise high positive brand equity over time, maintaining customer loyalty and successfully defending itself against competitive encroachment (Aaker, 1996). A brand that possesses high equity should be able to sustain both a price premium and a relatively stable revenue stream. The awareness associated with high equity will reduce consumer search costs and should facilitate repeat purchases (Kamakura & Russell, 1993). Further, the loyal consumer will be less susceptible to competitor appeals and will do less comparison shopping. In addition, the association of brand equity with high perceived quality will increase customer satisfaction and reduce the incentive to consider brand substitution (Berthon, Hulbert, & Pitt, 1999; Chaudhuri & Holbrook, 2001; Oliver, 1997).

Past research demonstrating the positive relationship between brand equity and share prices also suggests that investors recognize the positive effects (e.g., Aaker & Jacobson, 1994; O'Sullivan et al., 2009). This recognition is partly attributed to reputation, as investors tend to prefer well-known brands and brands with higher advertising spending (Joshi & Hanssens, 2010; McAlister, Srinivasan, & Kim, 2007). The share prices of high equity brands will rise to incorporate the advantages and the volatility of the shares should decrease to reflect the lower risk (Rego et al., 2009). Although the evidence on the extent to which the stock market prices efficiently incorporate high brand equity is still tentative (Mizik & Jacobson, 2008; O'Sullivan et al., 2009; Srinivasan, Pauwels, Silva-Risso, & Hanssens, 2009), the effect on the risk reduction is well established

¹ This research does not claim that either consumer mindset-based or financial market-based measures are superior at capturing the brand equity construct. We simply undertake an empirical exercise, wherein we juxtapose one representative measure from each camp to assess their relative predictive power on stock performance.

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