ELSEVIER

Intern. J. of Research in Marketing 23 (2006) 31 – 44

International Journal of Research in Marketing

www.elsevier.com/locate/ijresmar

Brand equity in the European fruit and vegetable sector: A transaction cost approach

Marta Fernández-Barcala, Manuel González-Díaz *

Universidad de Oviedo, Departamento de Administración de Empresas, Facultad de Económicas, Avda. del Cristo s/n, 33071 Oviedo, Spain

Abstract

We link both marketing and transaction cost economics (TCE) literature to explain factors determining brand equity from the buyer's perspective. We argue that TCE offers an appropriate framework for understanding the value added by each brand name. We claim that brand names are more valuable by buyers when contractual hazards (opportunism) in the transaction are higher. Results from an exploratory analysis of fourteen EU fruit and vegetable brand names indicate that the price premium (as a proxy for the brand equity) will be greater when the brand name addresses less informed parties and when search/measurement costs are substantial. Furthermore, consumers seem ready to pay a higher price premium for co-branded products. We consider this as an indicator that each brand name is specialized in guaranteeing different attributes and that they complement each other.

Keywords: Brand equity; Price premium; Case studies; Marketing; Transaction cost economics

1. Introduction

How brand equity operates is one of the most interesting questions academics have tried to explain.[1] Marketing researchers argue that brand equity is made up of assets such us loyalty, awareness, perceived quality and brand associations (Aaker, 1992). These assets provide value to the customer as well as to the firm. On the one hand, they improve the firm's efficiency by reducing marketing costs and improving prices and margins. On the other hand, they help a customer to interpret and process information about the product and also affect the customer's confidence in the purchase decision. Assessment of brand equity has been shown empirically through both consumer/buyer *surveys* (see, for example, Erdem, Swait, & Louviere, 2002; Keller, 1993; Mudanbi, 2002; Netemeyer et al., 2004; Rao & Bergen, 1992; Río, Vázquez, & Iglesias, 2001; Sethuraman & Cole, 1999; Skuras & Vakrou, 2002) and *interviews* of managers for national or regional retail chains (see, for example, Collins-Dodd & Louviere, 1999; Nijssen & Van Trijp, 1998).

However, it is worth noting that although marketing scholars have applied transaction cost economics (TCE) to a wide range of marketing phenomena,[2] this has hardly been used to explain brand equity. This is despite the agency theory arguments of Klein and Leffler (1981)[3] whereby companies develop reputational capital (brand names) to solve informational asymmetry between producer and consumer. Since quality is usually difficult to evaluate before the purchase (especially in agrifood), the producer repeatedly provides the promised (high) quality in order to show that he is not exploiting his informational advantage regarding the actual quality. In exchange for this guarantee that he will not be cheated, the consumer is willing to pay higher prices than he would for a

* Corresponding author. Tel.: +34 8 510 28 09; fax: +34 8 510 28 07.
E-mail addresses: mbarcala@uniovi.es (M. Fernández-Barcala), mgdiaz@uniovi.es (M. González-Díaz).

[1] See Aaker (1991, 1996b) and Rao and Monroe (1996) for a revision.

[2] These phenomena include vertical integration decisions, foreign market entry strategy, sales force control and compensation, industrial purchasing strategy and distribution channel management. See Rindfleisch and Heide (1997) and the quotes therein for a synthesis of contributions to TCE by marketing scholars.

[3] This research line, closer to principal-agent theory than to TCE, has been notably developed by Landon and Smith (1998), Milgrom and Roberts (1986), Montgomery and Wernerfelt (1992), Shapiro (1983), and Wernerfelt (1988).

0167-8116/$ - see front matter
doi:10.1016/j.ijresmar.2006.01.004

similar quality product without this guarantee. The difference between these two prices constitutes the "premium" (Klein & Leffler, 1981) that should, in equilibrium, offer a normal return on investments in reputational capital. Menard (1996) also constitutes a noteworthy contribution to understand branding from TCE perspective because he links the success of a brand name ("Label chicken", a government-protected certification of quality) with the use of a hybrid mechanism of governance to reduce the particular asymmetric information problem of consumers of "battery-reared' chickens" in the late sixties in France.

The aim of this paper is to bridge both marketing and TCE literatures, determining factors that explain brand equity and why consumers are willing to pay an extra price for a product. We show that TCE can be helpful for understanding these marketing problems. Using price premium as a proxy for brand equity, we extend Klein and Leffler's (1981) argument to claim that brand name is more important in situations in which transaction costs are potentially higher because of asymmetric information, high search/measurement costs, unreliable quality control and absence of co-branding. The buyer is worried about being cheated in these situations and he positively valuates brand names, being ready to pay a price premium.

The paper is organized as follows. First, we set up the TCE conceptual background that may be applied to typical marketing problems such as guaranteeing product quality. Second, we define the research propositions. Evidence to back our arguments is shown in fourteen case studies from the European fruit and vegetables sector that are described in Section 4. The research propositions are discussed in Section 5. Section 6 concludes and points out the main limitations and the path for future research.

2. Transaction cost economics background

Ronald Coase (1937) was the pioneer in emphasizing the importance of transaction costs in marketing. He argued that the use of price mechanisms generates costs such as searching for prices, reaching an agreement and enforcing the commitments. Later, Williamson (1996) and Milgrom and Roberts (1992) explained that the amount of transaction costs depends on several dimensions or features of transactions and particularly they pointed out specificity, uncertainty, frequency and search/measurement cost. The latter is crucial in many marketing transactions. In fact, a classical marketing problem lies in the difficulty for consumers to evaluate ex-ante the actual quality of purchased products. This information asymmetry increases the chances of opportunism,[4] which may even prevent the transaction from taking place if the costs generated to solve the problem are too high.[5]

The intensity of this problem depends on the characteristics of the product. Three types of product attributes have been identified that determine their potential controversial nature.[6] Search attributes are those that the consumer can determine before purchasing (observing whether the product has them or not), by means of a process of searching for and comparing the necessary information (for example, color or shape). Experience attributes are those with which the consumer can determine the product's real quality only once he has used or consumed it (for example, taste). Finally, there is a third category, credence attributes, which are those in which the consumer cannot determine the real quality level or, at the very best, can only do so in the long run (for example, the effect that consumption of a product has on one's health). The greater the influence of experience and confidence attributes in the consumer utility function, the greater the information asymmetry problem and transaction costs.

Economic agents develop safeguard mechanisms to lessen these problems and share the costs they generate. A safeguard mechanism is valuable when the total surplus generated in the safeguarded transaction (i.e. considering the costs generated by the safeguard mechanism) is greater than in a non-safeguarded transaction. This led Williamson to propose his idea of "economizing" (Williamson, 1991a,1991b, 1996). The argument is that economic agents introduce the mechanisms that economize most in transaction costs. Brand name may therefore be an example of investment in a safeguard mechanism whose objective is to save on marketing cost. This means that brands are more valuable by the buyer depending on their ability to better solve contractual problems to the consumer.

Brand name as a safeguard works as follows.[7] When informational asymmetry on quality is relevant, the informed party (the producer) signals his private information (actual quality) by adopting behavior (investing in a brand name) that, properly interpreted (he would not invest in client-specific assets if he were not offering the quality promised), reveals the information to the non-informed party (the consumer). What the producer is doing by fulfilling the promised quality in repeated transactions is creating a reputation for his brand name that will be used later as a guarantee for future consumers. Thus, after repeated purchases of goods (with experience and credence attributes), consumers gradually realize that the quality offered is suitable and consistent over time, and can trust that they will not be deceived. In exchange for such superior quality, consumers will gradually become willing to pay a price increase or "premium" for that brand name in comparison with other products that have not been signaled and that do not offer such guarantees.[8] Since they understand that developing the brand name is costly and that its strength depends on maintaining the promised quality, they consider this as a credible commitment to quality and an effective way of signaling to them that the producer is not taking advantage of his private information. In

[4] See, for example, Williamson (1985, pp. 47–48).

[5] See, for example, Akerlof's classic work (1970) about cars ("lemons").

[6] See Darby and Karni (1973) and Nelson (1970).

[7] See Klein and Leffler (1981) and Shapiro (1983).

[8] This argument is totally coherent with marketing literature. For example, Aaker and Joachimsthaler (2000) argue that the development of brands is the only way to remove oneself from commodity status and price competition resulting in price premiums and consumer and trade loyalty.