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Brand equity and the exacerbating factors of product innovation failure evaluations: A communication effect perspective

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ABSTRACT

When both high-equity and low-equity brands experience an innovation failure, does the high-equity brand fare better? This study investigates this question by exploring how consumers view and evaluate brands following an innovation failure. The researchers examine whether brand equity, preannouncement of the innovation, and word-of-mouth from an opinion leader exacerbate or alleviate the negative impact of the failure. Two experiments with a total of 816 subjects show that high-equity brands suffer less than low-equity brands from the adverse effects of innovation failures. However, innovation failures are more detrimental to high-equity brands that have preannounced the innovation and to low-equity brands that do not receive supportive word-of-mouth from an opinion leader after the failures occur.

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1. Introduction

Innovation and brand equity are two important dimensions that drive businesses today; innovation in particular is a primary determinant of brand equity (Staake et al., 2009). Although the research on explanations for innovation failures is plentiful (e.g., Guo, 2002; Matear et al., 2002; Rizova, 2006), few researchers have investigated the effect of innovation failures on consumers' evaluations of brands. For example, when a firm's innovation fails, consumers are likely to experience stress, irritation, annoyance, frustration, and sometimes even rage (McColl-Kennedy & Sparks, 2003; Smith & Bolton, 2002). Roehm and Brady (2007) suggest that "consumers' frustration is compounded by the high expectations attached to brands of strong stature" (p. 537). Frustration, annoyance, and anger with a firm influence how consumers evaluate the firm's innovations (Dube & Maute, 1996) and negatively affect customer satisfaction (Andreassen, 2000). The result may be a loss of customers, a negative impact on the firm's brand equity, and damage to the firm's valuable brand assets (Sparks & McColl-Kennedy, 2001).

This article investigates (1) the effect of brand equity on consumers' brand evaluations when a brand innovation fails and (2) the moderating effects of innovation preannouncement and an opinion leader's post-failure word-of-mouth (WOM) to determine the respective roles of these two communication factors in mitigating or exacerbating the catastrophic influence of innovation failures. Preannouncing a new product is a fast and relatively inexpensive way of preparing target markets for a forthcoming innovation (Schatzel & Calantone, 2006). Although by some estimates more than 50% of new products are preannounced (Bayus et al., 2001), it is unknown to what degree preannouncements affect brand equity in the context of innovation failure. In addition, after an innovation fails, firms may try to seek out supportive WOM from opinion leaders to mitigate the damage (Maxham, 2001). Thus, both the preannouncement and the opinion leaders' WOM should affect consumers' post-failure evaluations.

This study contributes to the literature in the following ways. First, it sheds light on how consumers evaluate brands in the context of innovation failure, an important issue that has received limited theoretical attention and empirical assessment. Second, it uses theories on communication effects, expectation–disconfirmation, brand schema, the halo effect, and the buffering effect (Andreassen, 2000; Boulding et al., 1993; McDaniel, 1999) to provide insight into how firms' endogenous and exogenous communication in the form of preannouncements and WOM allay or aggravate failures of brands of different stature.

The remainder of this article is organized as follows. The researchers first describe the theoretical background in terms of communication effects and innovation failure. They then develop hypotheses and present the experimental designs, measures, and results. Finally, they discuss the results, the limitations of the study, and the implications of the findings for future research.

2. Theoretical background

This study draws from prior research (Aaker, 1996; Yoo et al., 2000) to propose that marketing communications influence brand equity

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when a product innovation fails. Any marketing action (e.g., marketing communications) has a potential effect on brand equity because brand equity represents the accumulated impact of investment in the brand. In this context, *brand equity* is a set of assets linked to a brand that add value to or subtract value from an innovative product in its relationship with customers. More details about the association between marketing communications and brand equity appear in the following sections.

2.1. Communication effects

Communication plays an important role in brand equity both theoretically (Gray & Balmer, 1998) and empirically (Chaudhuri, 2002). van Riel (1995) identifies three types of communications: marketing, management, and organizational. The focus of the present research is on marketing communications. *Marketing communications* refers to "the function of communicating a service product to customers in the pre-entering stage and/or the stages of further experience" (Ma et al., 2002, p. 21). A major role of marketing communications is to disseminate information about new products in a way that reduces the uncertainty of quality associated with the launching (Narayanan & Manchanda, 2010). Marketing communications also help producers explain and recover from disadvantages in their new products. New product announcements and WOM are pivotal in modifying the effect of innovation failure.

Based on Eliashberg and Robertson (1988), this article defines a *new product preannouncement* as a formal, deliberate communication before a firm actually undertakes a particular new product development action, such as making changes in a product function or product line. Firms mostly use new product preannouncements as a strategic marketing tool (Su & Rao, 2010). Firms preannounce new products far in advance of actually introducing them (Koku et al., 1997). Therefore, new product preannouncements are a strategic tool associated with uncertainty for both firms and customers. Studies on new product preannouncements have focused on the timing (Büschken, 2000; Kohli, 1999; Lilly & Walters, 1997) and content (Popma, Waarts, & Wierenga, 2003) of preannouncements and the reasons for making them (Farrell & Saloner, 1986; Heil & Robertson, 1991); however, none have addressed their relationship with brand equity in the context of an innovation failure.

WOM refers to interpersonal communications among consumers concerning their personal experiences with and evaluations of a firm or a product (Richins, 1983). Such communications have a powerful influence on consumers' purchase behaviors, such as new product purchases (Duan, Gu & Whinston, 2005). Scholars have long recognized WOM as an important external source of information for new product purchases (Godes & Mayzlin, 2009).

As implementing a WOM campaign requires firms to identify effective disseminators of information, *opinion leaders*, the active users or influencers who interpret the meaning of media message content for others, play vital roles in the context of WOM in marketing communications (e.g., Bloch & Richins, 1983; Jacoby & Hoyer, 1981; Rogers, 2003). Opinion leaders are interested in particular product domains, expose themselves to mass media sources, and serve as trusted sources of advice for opinion seekers (Godes & Mayzlin, 2009).

A number of studies have examined the role of opinion leaders in such fields as value co-creation (e.g., Tynan et al., 2010), politics (e.g., Ozer, 2010) and Internet purchases (e.g., Cheema & Papatla, 2010). Yet research on the influence of opinion leaders on new product adoption seems to focus more on the role of opinion leaders in the innovation dissemination phase (e.g., Carter et al., 2001; Leonard-Barton, 1981, 1985) and on how opinion leaders publicize the initial success of an innovation (Webster, 1970) and less on how opinion leaders' post-failure WOM may help firms recover from the negative impact of the innovation failure on brand equity.

2.2. Product innovation failure

Existing research lacks a definition of product innovation failure. OECD (2005) defines *product innovation* as the introduction to the market of "a product whose technological characteristics or intended uses differ significantly from those of previously produced products" or "an existing product whose performance has been significantly enhanced or upgraded" (p. 32). Innovation failure can be due to shortcomings in the innovation itself, the user of the innovation, or the provider of the innovation (Marwa & Zairi, 2008); given the focus here on product innovation failure, deficiencies in the innovation itself is most applicable. In addition, considering the effect of new product announcements, which focus on a company's future products (Calantone & Schatzel, 2000), the researchers focus on specific product innovation failures instead of routine ones. The definition of *product innovation failure* used here thus becomes the failure of an innovation to meet consumers' expectations in terms of new product functions or new product performance.

3. Hypotheses

3.1. Brand equity and post-failure brand evaluations

From a product perspective, *brand equity* refers to the value a brand name brings to a product (Ailawadi et al., 2003). Brand equity reflects consumers' favorable, strong, and unique attitudes and associations with a branded product (Ailawadi et al., 2003; Keller, 2003). Brands that have higher brand equity also tend to have higher market shares and prices than competing brands (Batra & Homer, 2004).

Chandon et al. (2000) distinguish high-equity brands from low-equity brands. Compared with the latter, high-equity brands provide more brand benefits and value, have a higher perceived quality, and have a lower information cost and lower risk, all of which can increase brand evaluations. Evaluations of brand equity form in the minds of consumers as they experience and learn about the brand over time (Bridges et al., 2000).

According to the expectation–disconfirmation theory, the intensity and direction of the gap between expectation and perceived performance determine consumer satisfaction (Oliver & DeSarbo, 1988). An individual is likely to feel satisfied if the product performance meets (confirmation) or exceeds (positive disconfirmation) his or her expectations and dissatisfied if it falls below his or her expectations (negative disconfirmation). Thus, consumers who experience the failure of a high-equity brand will feel more upset than they would if the same had happened with a low-equity brand (Wood & Moreau, 2006). In addition, failures of high-equity brands lead to a more pronounced decline in consumers' brand evaluations after the failures occur (Brady et al., 2008).

However, Choi and Mattila (2008) argue that failures may not result in decreases in brand evaluations because of the brand schema effect of consumers' overall quality perceptions for the strong brands. Consumers use their prior expectations as reference points to evaluate a brand's current performance (Oliver, 1997), and they tend to rely more on overall perceptions of quality than on new information when the overall impression of the firm is positive (Bolton, 1998; Tax et al., 1998). When a firm has a stellar reputation, consumers easily disregard a single failure, thus minimizing the negative impact of the failure on the overall impression of the firm. The effect of a single poor performance on consumers' overall impressions of the quality of a firm thusly appears to be minor (Weiner, 2000).

Hess (2008) also suggests that brand equity acts as a kind of buffer to make consumers somewhat more forgiving of the strong brand's failure. As high brand equity helps to offset the negative fallout from an innovation failure (Sloot et al., 2005), and when such an incident does occur, consumers' evaluations of these brands remain relatively intact. Based on this argument, consumers' evaluations would change a little in the wake of the failure (Brady et al., 2008).

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