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Brand stability as a signaling phenomenon — An empirical investigation in industrial markets

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ABSTRACT

The present study investigates the interplay between brand stability and customers' response toward the brand in an industrial buying context. Based on an information economic perspective, the authors develop a conceptual framework that incorporates perceived brand stability, risk reduction, brand loyalty, and customers' willingness to pay a price premium. This framework is empirically tested based on a survey with one hundred and forty nine key informants from business units within the food industry. In order to analyze the proposed relationships, the authors employ structural equation modeling. The present research contributes to a deeper understanding of the role of brands in business-to-business contexts by highlighting the signaling effects of brands in an industrial buying context. Second, the present research empirically demonstrates that brand stability is a key factor to (1) reduce perceived risk, (2) build brand loyalty, and in turn (3) achieve a price premium.

1. Introduction

Brands and branding have been used since the earliest times to distinguish the goods or services of one seller from those of another. For customers, brands promise a particular quality level, reduce risk, and engender trust in the performance of goods and services (e.g., Erdem & Swait, 1998; Rao, Qu, & Ruekert, 1999). This tendency may be in particular apparent with difficult-to-assess products and thus within markets characterized by imperfect and asymmetrical information structures (Wernerfelt, 1988). Here, brands have been identified as important signals, providing benefits for customers by serving valuable functions (e.g., Erdem & Swait, 2004; Erdem, Swait, & Louviere, 2002; Keller, 2002).

A brand signal is composed of the past and present marketing mix strategies and activities associated with the brand, reflecting a firm's brand positioning decisions (Keller, 1993; Keller & Lehmann, 2006). As firms can control and manipulate marketing mix strategies and activities associated with the brand, they determine the content of a brand signal. Thus, a brand signal as it will be perceived by customers depends on the firm's brand positioning strategy (Sujan & Bettman, 1989) and the specific properties of the marketing mix activities and programs associated with the brand (Erdem & Swait, 1998).

Considering the fact that many industries are highly competitive environments that challenge firms not only to build but also to defend already established market positions, managers might be encouraged to rethink or even change brand positioning strategies according to current trends and developments. According to Aaker (1996, p. 225), the temptation is "to dig in, diagnose the problem or trend, and take action — even when the "action" course may actually end up hurting the brand." While such actions might result in short-term brand success, in the long-term they affect the content of the brand signal as it is perceived by buyers. Within this context, prior research highlights the critical role of the stability of brand attribute associations over time as an important predictor of customers' response toward the brand (Aaker, 1996; Day & Pratt, 1971; Erdem & Swait, 1998; Penrose & Moorhouse, 1989). We define brand stability as the degree to which a brand's attributes are perceived as permanent (i.e., stable over time), allowing customers to confidently anticipate the future performance of the brand.

As a literature review reveals, prior research involving brand stability primarily investigates this concept from the firm's perspective focusing on the extent to which a brand brings stability to organizations through enabling them to predict future streams of revenue (e.g., Ailawadi, Lehmann, & Neslin, 2003; Simon & Sullivan, 1993). Research on brand stability from the customer's point of view still remains limited or is mainly conceptual in nature (e.g., de Chernatony & Dall'Olmo Riley, 1998; Rubinstein, 1996).

Against this background, the objectives of this research are twofold. First, we aim to extend existing knowledge on branding research by conceptually analyzing and empirically investigating the construct perceived brand stability. Second, we aim to gain a deeper understanding of the interplay between perceived brand stability and customers' response in an industrial buying context. As prior research reveals, there is a paucity of research on business-to-

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business branding (Lynch & de Chernatony, 2004). Based on an information economic perspective, we develop a conceptual framework that incorporates perceived brand stability, risk reduction, brand loyalty, and customers' willingness to pay a price premium. To realize these aims, we conducted a quantitative study that consists of a survey with one hundred and forty nine key informants from business units within the food industry. In order to analyze the proposed relationships, we employed structural equation modeling.

The main contributions of this study are as follows: The present research contributes to a deeper understanding of the role of brands in business-to-business contexts by emphasizing perceived brand stability as an important brand characteristic having the potential to stimulate signaling and bonding effects. Second, the present research empirically demonstrates that brand stability influences customer response in terms of (1) reducing perceived risk, (2) building brand loyalty, and in turn (3) achieving a price premium.

The article is organized as follows. The next section discusses the theoretical background of this study. After that, we present the conceptual framework, explain the focal constructs, and discuss the hypothesized relationships between these constructs. Then, attention turns toward methodological aspects, focusing on sample selection, data collection, and measures. The research method used to test the model and the results of the empirical investigation are then reported. The last section outlines the implications of our study.

2. Theoretical background

The present research applies signaling theory to explain customers' perceptions of brand stability and their response toward this brand characteristic. Signaling theory draws from information economics (e.g., Nelson, 1970, 1974; Spence, 1973, 1974) that is based on the premise that different parties to a transaction often have different amounts of information regarding the transaction, resulting in a state of asymmetrical information. The problem of information asymmetry has been recognized as an important consideration in the study of marketplace exchanges. According to Spence (1973), the critical elements in these situations are as follows: (1) there is an informational gap between buyers and sellers. (2) Buyers usually know less about the offering than sellers. Vice versa, sellers are usually better informed about their offerings than buyers. (3) Sometimes, in the course of transaction, sellers emit a signal. (4) The signal emitted depends in part upon the buyers' response to the signal.

The role of marketing stimuli as signals to solve problems that occur under asymmetric information has been widely acknowledged in marketing literature (Dawar & Parker, 1994; Kirmani & Rao, 2000). In particular the investigation of brands under the lens of signaling theory is justified by a rich body of literature that highlights the critical role of brands as signals (e.g., Brucks, Zeithaml, & Naylor, 2000; Erdem, Swait, & Valenzuela, 2006; Erdem, Zhao, & Valenzuela, 2004; Rao et al., 1999; Wernerfelt, 1988). For example, Rao et al. (1999) note that brands can signal quality on the basis of their investments in reputation. Furthermore, Brucks et al. (2000) reveal that customers search for price and brand names in particular when evaluating prestige quality dimensions. In addition, Erdem et al. (2006) demonstrate that brands as signals of product positioning are important across different cultures. In summary, prior research suggests that the brand signal provides benefits to customers in situations characterized by imperfect and asymmetrical information structures by indicating product quality (Rao et al., 1999) and decreasing perceived risk and information costs (Erdem et al., 2006). Furthermore, prior research emphasizes the relevance of characteristics of the brand signal as perceived by customers. For instance, Erdem and Swait (1998) show that brand credibility is an important predictor of customers' expected utility. Drawing from signaling theory and the research presented above, this study investigates brand stability as perceived by customers and its effects on customers' response toward the brand.

3. Conceptual framework

We present our conceptual framework in Fig. 1. In sum, this framework incorporates five variables: brand stability, risk reduction, brand loyalty (i.e., purchase loyalty and attitudinal loyalty) and customers' willingness to pay a price premium. In what follows, we briefly describe the focal constructs of this study and summarize the related research. Further, we explain the linkages between the framework variables.

3.1. On the relationships between brand stability, risk reduction, and brand loyalty

As noted earlier, brand stability refers to the degree to which brand attributes are perceived as permanent over time. Thus, brand stability reflects a low variation of brand attributes over time (Erdem & Swait, 1998) and in turn allows customers to confidently anticipate the future performance of the brand (e.g., "Rolls Royce always produces high-end luxury cars"). As this definition implies, brand stability can be related to the confidence value of a signal, that is, the degree to which customers' are confident in using and judging a signal accurately (e.g., Cox, 1967; Olson, 1972). According to the signaling theory, a receiver reads a signal, interprets it in the light of experience, and reacts accordingly. The receiver adjusts its interpretation based on the sender and the signal characteristics. This feedback loop fine tunes the process and the next time a signal is encountered the receptor can – with more confidence – judge a signal (Herbig & Milewicz, 1994). In this respect, brand stability increases the confidence value of the brand signal because this concept per definition involves a long-term perspective including repeated encounters with a brand signal. Based on these considerations, we will now derive the hypotheses of this study.

We suggest that the stability of a brand as perceived by customers is an important brand signal characteristic having the potential to influence customers' response toward the brand. In particular, we propose that there is a positive relationship between brand stability and the risk reduction benefit that a brand provides (i.e., the benefit of decreasing customers' subjective risk about a good or service). This reasoning follows a research stream that focuses on the role of brands in reducing customers' perceived risk. According to the literature, choosing a brand-name good or service decreases customers' perceived risk of making a wrong buying decision (DelVecchio, 2000; Kapferer, 2008). At the brand level, customers' perceived risk is defined as the expectation of losses associated with purchase (Peter & Ryan, 1976). By promising a particular quality level, brands engender trust in the expected performance of the good or service (Ambler, 1997; Keller & Lehmann, 2006) and in turn decrease the risk perceived. A low variation of brands attributes as perceived by customers presumably leads to a decrease in perceived risk as brands constantly signalize a promise to customers. Based on these considerations, we predict that:

H1. *There is a positive relationship between brand stability and the risk reduction benefit that a brand provides.*

The next two hypotheses refer to the relationships between brand stability and brand loyalty. According to Oliver (1999, p. 34), brand loyalty refers to "a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior." This definition emphasizes the two different aspects of brand loyalty — attitudinal and purchase loyalty (Bennett, Härtel, & McColl-Kennedy, 2005; Chaudhuri & Holbrook, 2001). While attitudinal loyalty refers to the degree of dispositional commitment toward the brand, purchase loyalty consists of repeated purchases of the brand (Chaudhuri & Holbrook, 2001). We anticipate that brand stability has a positive impact on both purchase and attitudinal loyalty. The reasoning is supported by