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NORTH-HOLLAND

Industrial Marketing Management 33 (2004) 371–380

INDUSTRIAL MARKETING MANAGEMENT

Brand equity in the business-to-business market

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Received 2 January 2003; received in revised form 2 August 2003; accepted 12 October 2003

Available online 26 November 2003

Abstract

Brands have been developed by consumer companies but have been slow to develop in business-to-business marketing. This article explains the concept of brand equity in a specific industrial marketing setting. In addition, the sources of brand equity are investigated as well as the appropriate communications strategy and the relative importance of brand relative to other purchase criteria. The research method used was a conjoint analysis experiment. The subjects were decision-making unit (DMU) members of industrial companies in South Africa that purchase medium-voltage electrical equipment. Research results suggest that while brand equity has a role to play, price and delivery were more important. However, a price premium can be obtained when a company has high brand equity. Implications for managers are discussed.

Keywords: Business-to-business market; Brand equity; South Africa

1. Introduction

While brands and their management have dominated the marketing of goods and services to consumers, the idea has been slow to take hold in business-to-business marketing. This problem rests partly in the belief that because brands are irrational, they have little significance when dealing with a corporate entity that makes buyers' decisions on a rational basis (Rosenbroijer, 2001).

Most discussions of marketing in technical fields focus on the performance characteristics of the product or on the needs of buyers addressed by tangible features of the product (Shaw, Giglierano, & Kallis, 1989). However, studies do point out cases where price and the hard tangible factors of the physical product do not fully explain the purchase decision. Intangible aspects such as overall supplier reputation matter even in rational and systematic decision making (Mudambi, Doyle, & Wong, 1997).

The question that arises is whether the industrial buyers who are rational trained professionals and who normally operate within buying centers can be influenced by brand images that are based on nonfunctional and subjective attributes. According to Gordon, Calantone, and di Benedetto (1993), business-to-business product and service providers stand to gain sustainable competitive advantages through the development and strategic use of brand equity, particularly when competing in today's global economy.

The objectives of this study are to explore the existence of brand equity in a specific business-to-business product setting and to investigate the sources of brand equity and its appropriate communication channels and the relative importance of brand relative to other purchase decision criteria.

2. Theoretical background

2.1. Brand equity

Brand equity is derived from the overall brand image created by the totality of brand associations, perceived by customers (Michell, King, & Reast, 2001). Therefore, the attainment of a positive image on core values and any other values that differentiate it should be of the highest priority to any company (Hague & Jackson, 1994). Aaker (1996) identified four major sources of brand equity as brand loyalty, brand awareness, perceived quality, and brand associations, while Keller (1998) combines the sources of brand equity into brand awareness and brand image.

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0019-8501/$ – see front matter
doi:10.1016/j.indmarman.2003.10.001

The competitive advantage of firms that have brands with high equity include the following: a price premium can be attained; increased demand by customers; brands can be extended easily; communications will be more readily accepted; there will be better trade leverage; larger margins could be obtained; and the company will be less vulnerable to competitive marketing actions (Aaker, 1996; Hague & Jackson, 1994; Keller, 1998; Quelch & Harding, 1996; Wood, 2000).

Brands tended to be associated with products but there has been a refocus on corporate brands (Mottram, 1998). A strong and favorable corporate brand is seen as an important discriminator in an increasingly competitive environment (Balmer, 1995). According to Ackerman (1998), the corporate brand offers managers a comprehensive discipline for clarifying, humanizing, organizing, and communicating how the company creates value. In industrial markets, the company itself is often the brand; but in consumers markets, the emphasis is usually on the products or a limited group of them (Hague & Jackson, 1994). It would be expensive for industrial companies to brand every item in their wide product range. For many industrial companies, there is scope for only one brand and that is the company name (Hague & Jackson, 1994). According to De Chernatony and McDonald (1998), industrial buyers are primarily concerned with the company's overall brand identity rather than with the specific product they want to buy. For a recent literature review of branding in B2B marketing, see Mudambi (2002).

Studies on industrial branding show mixed results. Saunders and Watt (1979) studied the attempts made by the man-made fibers industry to overcome the problem of loss of identity by branding at the ultimate consumer level. The study concluded that due to the large numbers of brands available, consumers were confused and really did not know what to expect from the different types of fiber. Sinclair and Seward (1988) reported on a survey of established producers of wood and plywood panels who decided to brand their products. This study concluded that the emphasis on price and availability at the retail level tended to suggest that these products were still being produced on a commodity basis. The high dependence on price suggested a low effectiveness of manufacturers' branding strategies.

More recent studies found that branding in the business-to-business sectors were successful. Shipley and Howard (1993) attempted to gain insights into the use of brand names, the nature of brand-name strategy, and the perceived importance among industrial companies. They concluded that industrial companies perceived benefit from using brand names and that large firms valued the benefits of brand names more highly than small firms. Firth (1997) studied the pricing of accounting services in New Zealand. He found that the use of names of the big name accounting firms resulted in a 4% price premium. In a study published in 2001, Michell et al. (2001) found that industrial companies believed branding to be important and provided competitive benefits and increased brand equity. Hutton (1997) studied professional buyers in the personal computer, copies, fax machines, and computers floppy disks industries. This study concluded that there was brand equity in industrial markets and there was a brand equity "halo effect" in which brand evaluations transferred from one category to another and that buyers were prepared to pay a premium for their favorite brand.

In 1993, Gordon et al. studied the U.S. electrical circuit breakers market. The setting used for this empirical study was the electrical products and components markets. This study provided conclusive evidence that brand equity was alive and well in the business-to-business sector.

2.2. Intangible attributes

The literature that deals with the topic of organizational buying has identified and measured nonproduct characteristics and intangible elements of the buying decision in a number of ways (Mudambi et al., 1997).

Levitt (1995) found that the company's overall reputation was generally more influential than the sales presentation, and that technical personnel in high-risk situations relied more heavily on company reputation than on the presentation.

Lehmann and O'Shaughnesssy, (1974) examined, across product types, how U.S. and U.K. purchasing agents rated attributes in choosing a supplier. The 17 attributes rated included basic brand factors such as technical specification, tangible examples of brand augmentation such as training, and even more intangible factors such as overall reputation. Their finding that supplier reputation is one of the most highly rated attributes is particularly interesting since reputation lies at the heart of branding strategy (Mudambi et al., 1997).

Abratt (1986) analyzed the industrial buying process for high-technology products to identify the relative importance of the factors influencing supplier selection. Intangible attributes such as supplier's reputation and perceived product reliability were judged more important than a tangible attribute such as price. Shaw et al. (1989) found that a "sizeable portion of the population of buyers report that vendor-related intangible attributes are more important than product performance attributes." They concluded that promotional activities should reflect this concern.

Tangible aspects are quantifiable by measures such as the number of defects, the product life, the lead time, the number of late deliveries, the technical support, the financial services, and the supplier financial stability.

Intangible aspects include factors such as perceived quality, incomplete or conflicting information about the product, ease of ordering, general reliability, willingness of the company to respond in an emergency, service quality, degree of rapport between customers and service providers, understanding between service providers and customers, company reputation, country of origin, pleasantness, and