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To invest, or not to invest, in brands? Drivers of brand relevance in B2B markets

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ABSTRACT

When allocating resources to brand investments, managers should consider the relevance of brands to the purchase decision process. Past research on consumer markets shows that brand relevance generally is driven by three functions: image benefits as well as information cost and risk reductions. This study is the first to investigate these underlying mechanisms of brand relevance in a business-to-business setting. Our main contribution is that, in contrast with consumer markets, brand relevance in industrial markets depends primarily on risk and information cost-reducing effects. Therefore, business-to-business firms should invest in their brands using tactics that support the reduction of risk and information search costs for customer decision making. This article also demonstrates that brand relevance differs across product categories, such that depending on the specific category, investing in brands may or may not be a promising strategy.

1. Introduction

In addition to well-known consumer brands, such as Coca-Cola and Apple, many business-to-business (B2B) brands—including IBM, Intel, General Electric, Cisco, Oracle, and SAP—are among the world's most valuable brands (Interbrand, 2010). Brands are therefore relevant not only in business-to-consumer (B2C) markets, but also in B2B markets (for an extensive review see Glynn, in press). We interpret brand relevance as the "overall role of brands in customers' decision making" (Fischer, Völckner, & Sattler, 2010, p. 824). Prior research conducted in B2C markets indicates differences in brand relevance across product categories (Fischer, Hieronimus, & Kranz, 2002; Fischer et al., 2010; Hammerschmidt, Donnevert, & Bauer, 2008), but no previous studies addressed product category-specific brand relevance in B2B markets. Yet, B2B firms need to understand whether or not brand relevance varies across product categories, as well as what drives their brand relevance. This study addresses both of these fundamental questions.

If brand relevance differs across product categories, then information about category-specific levels should determine resource allocations for brand-building efforts. Investing in brands that operate in low brand relevance categories might be a less efficient investment than devoting resources to a brand with high brand relevance on a category level. Although we find in our empirical study that brand relevance differs significantly across categories, the small absolute amount of the differences suggests that brand relevance is not only driven by product-categories. We therefore assess additional drivers of brand relevance in a B2B context. In line with previous research, we measure the relative importance of brand functions that should determine brand relevance. In particular, brands reduce perceived purchase risks, reduce information costs involved in decision making, and evoke specific image effects, such as status. In B2C markets, image-related brand functions are the most important driver of the brand's influence on purchase decisions (Fischer et al., 2002) we test whether these results transfer to B2B markets. In contrast with findings from B2C markets, we find that risk reduction is the most important brand function for B2B settings. This might be due to the specificity of organizational buying behavior (Homburg, Klarmann, & Schmitt, 2010). This ranking regarding the relative influence of brand functions is highly important as it can determine appropriate strategies and marketing actions to increase the influence of brands and thus ultimately enhance brand equity.

Accordingly, this study is motivated by both theoretical and practical interests. From a theoretical perspective, we detail contextual factors that may influence brand relevance in B2B markets and assess the effect of the category on brand relevance. From a practical perspective, our results offer guidelines to managers with regard to focusing on specific brand functions when developing communication strategies. Finally, our study offers researchers a means to explain heterogeneity in brand-building studies.

In Section 2, we present our conceptual background and derive our hypotheses. In Section 3, we describe our study design and the methodological approach, before presenting the empirical study

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results in Section 4. We conclude with a discussion of our study contributions, implications for managers, and avenues for further research.

2. Conceptual background

2.1. Brand relevance

Among other determinants, brands can influence purchasing decisions. In this context, brand relevance refers to the decision weight of a brand, in relation to other product benefits in a category (Fischer et al., 2010).[1] Assessing brand relevance is important for three reasons: First, past research provides hints that the relevance of brands might differ across product categories in B2B markets (Glynn, in press). Second, companies that invest to build their brands in categories with low brand relevance levels are likely wasting their money; these investments are unlikely to generate the expected financial returns. Significant brand investments are not a sensible strategy for just any product category (Hammerschmidt et al., 2008), and brand relevance measures can help firms prioritize their investment allocations (Fischer et al., 2010). Customers in high brand relevance categories should exhibit a higher brand-related willingness to pay and greater loyalty to their preferred brand (Fischer et al., 2010; Solomon, Bamossy, Askegaard, & Hogg, 2010). Third, brand relevance relates to brand equity, in that only brands that influence decision making can be strong brands. It is therefore a worthwhile goal to consider typical drivers of brand relevance.

Brand relevance in B2B contexts differs considerably for various customers. Mudambi (2002) notes that branding's relevance depends on customer and purchase characteristics, such that she defines three customer groups: highly tangible, branding-receptive, and low-interest. Members of the first group pay close attention to price and physical products and care little about intangible attributes such as brands; those in the last group do not care about any of these attributes. Only the brand-receptive group pays significant attention to branding (Mudambi, 2002).

Instead of differences between customers, we consider differences across product categories. Customer involvement differs across product categories in B2C markets (Laurent & Kapferer, 1985); it seems likely that brand relevance does as well. Brand relevance is based on the predisposition of customers towards brands in a specific market. In some categories, brands offer important decision-making cues—but not in all of them (see Fischer et al., 2010; Hammerschmidt et al., 2008; Solomon et al., 2010 for B2C markets and Glynn, in press for a B2B context). We assess in particular whether similar variations based on product category emerge in B2B markets. Secondly, we assess the drivers of brand relevance, i.e. the respective brand functions.

2.2. Brand functions

When assessing brand functions two distinctive research streams can be identified. Some studies focus on the results of highly relevant brands (for an extensive review in B2C markets, see Hoeffler & Keller, 2003; Yoo, Donthu, & Lee, 2000), such as the positive influences of strong brands on marketing mix elements. Thus strong brands enhance product evaluations (e.g., Wernerfeldt, 1988), and greater brand familiarity increases people's confidence in their purchase decision (Laroche, Kim, & Zhou, 1996). Brands also might influence customers' willingness to pay (see Keller, 2002). Van Riel, de Mortanges, and Streukens (2005) offer similar findings in a B2B context, in which the brand's product-related strength derives mainly from R&D investments in products and distribution strategy. Strong brands also realize price premiums in B2B markets (Bendixen, Bukasa, & Abratt, 2004; Beverland, Napoli, & Lindgreen, 2007; Davis, Golicic, & Marquardt, 2008; Glynn, in press; Hutton, 1997).

In contrast, other studies focus on the underlying mechanisms of these effects, or the drivers of brand relevance. The three main drivers that emerge from B2C research are risk reduction, reduced information costs, and the symbolic meaning of brands evoked by a specific image or status (Fischer et al., 2002). In this study, we focus on these drivers of brand relevance; brand functions are thus the main variables in our model.

Little research considers the relative importance of these brand functions for brand relevance, in either B2C or B2B markets. Actually, no study has assessed brand relevance in a B2B context. In a B2C market, Fischer et al. (2002) survey more than 2500 people about the influence of brand functions on brand relevance for 48 product categories. Image benefits contribute most, with an importance weight of 40%, followed by reduced search costs (37%) and risk reduction (23%). Hammerschmidt et al. (2008) use another multi-item measure to assess brand relevance across 26 randomly B2C categories; they find that brand relevance differs considerably across categories, though they do not consider whether brand functions drive brand relevance. Finally, Fischer et al. (2010) focus on the risk reduction and image benefit (social demonstrance) brand functions, whose importance differs across both product categories and countries.

2.2.1. Effect of brands on perceived risk

Customers often cannot assess product quality in advance (e.g., experience, credence products) and therefore turn to heuristics to make quality predictions (Dawar & Parker, 1994). Incomplete information about product quality or alternatives further encourages the use of decision heuristics, which help decision makers reduce their purchase risk. Typical information cues include the price, country of origin, or brand (Agarwal & Teas, 2001). Because brands provide a bundle of information about product attributes (Zeithaml, 1988) they deliver a high-quality signal from an information economics perspective. When making product quality inferences based on brand information one assumes that companies invest in brands and thus have a strong incentive to maintain their quality; any violation might jeopardize brand equity and thus reduce the brand owner's profits (Hoeffler & Keller, 2003; Keller & Lehmann, 2006; Rao, Qu, & Rueckert, 1999; Wernerfeldt, 1988). In this sense, quality relates negatively to perceived performance risk, such that "higher perceived quality may serve to mitigate the risk that accompanies the uncertainty of whether a product will satisfactorily perform its intended function" (Shimp & Bearden, 1982, p. 39). In a B2B setting, organizations might additionally assume that their competitors also buy well-known brands, so their similar choice will not cause them a competitive disadvantage (Aaker, 1991; Homburg et al., 2010). Brands thus can create confidence in decision making (Erdem & Swait, 1998; Hoeffler & Keller, 2003; Laroche et al., 1996).

Homburg et al. (2010), Glynn (in press) and Van Riel et al. (2005) suggest that strong brands in B2B markets reduce perceived functional

[1] This definition is somewhat similar to the definition of brand equity. Keller (2008, p. 86) defines brand equity as the "differential effect that brand knowledge has on consumer response to the marketing of that brand." Both concepts thus assume that brands create additional utility. However, other studies use the term "brand relevance" differently; Agres and Dubitsky (1996) define it as the perceived personal appropriateness of a brand in a product category free context. Other studies such as Ratnatunga and Ewing (2005, 2009) consider industry-specific factors that may influence the context-dependent profitability of brand investments, but their approach focuses on the financial influence of investments on brand recognition capability and aims to predict future values, according to subjective estimates of brand managers. In contrast, we attempt to determine actual values for the status quo of brand relevance based on customer's evaluations. Our results could help verify managerial estimates or define brand capability values though.