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Brand relationships and brand equity in franchising☆,☆☆

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ABSTRACT

Previous research suggests that building brand equity enhances the competitive advantage of retailers in B2B markets. However, limited attention has been paid to the concept of brand equity in B2B retailing contexts, particularly in franchise channels. This study seeks to understand how brand relationships can be leveraged to enhance brand citizenship behavior and ultimately brand equity in franchise channels. Accordingly, this study explores franchisees' perceptions of their franchise brands, leading to a new conceptualisation of *'franchisee-based brand equity'*. An interpretive research design is employed, comprising of semi-structured interviews with key informants. Findings suggest that franchisors play an important role in promoting brand citizenship behaviour of franchisees, which in turn enhances brand equity. The study provides insight on how to effectively manage brand relationships to enhance franchisees' brand citizenship behaviour and brand equity. The concept of brand relationships has been discussed widely in consumer markets, but has received limited attention in B2B contexts. In response, this study provides new insight in B2B branding and specifically, in how brand relationships may enhance brand citizenship behaviour and brand equity in B2B markets.

1. Introduction

For many business-to-business (B2B) firms, the development and effective management of their brand(s) is critical in creating sustainable competitive advantage (Randall, 1997). According to Keller (2003, p. 60), brand equity is "…the differential effect of brand knowledge on consumer response to the marketing of the brand." Brand equity also refers to the added value bestowed by the brand to the product (Farquhar, 1989). Consequently, firms with strong brands are able to attain a sustainable point of differentiation (Aaker, 1996) and achieve greater financial leverage (Ind, 1997) compared to those without. For example, Katherine Sampson, the founder and Managing Director of Healthy Habits franchise in Australia, states that "The best way to solidify the business's position in the market is to develop the brand" (Chandler, 2009, p. 62). Guided by this philosophy, Healthy Habits managed to achieve a 480 percent increase in revenue from $2.5 million to $14 million and grew from 2 stores to 32 in 18 months (BrandsRPeople2, 2010). This evidence illustrates the importance of brand equity in B2B channels. However, whilst brand equity is one of the most salient topics to both academics and practitioners, it remains under-researched in B2B markets (Han & Sung, 2008).

Brand building is as important in B2B markets as it is in business-to-consumer (B2C) contexts (Mudambi, 2002) as building brand equity can insulate firms against competitors and enhance market share (Keller, 2003; Lynch & de Chernatony, 2004). Thus, brand equity is an important strategic tool for retailers as it can lead to improved performance in terms of sales and profitability (Davis & Mentzer, 2008; Nannery, 2000). However, despite the increased focus on retail brand management, limited attention has been paid to the concept of retail brand equity in prior literature (Pappu & Quester, 2006). Further, limited prior research on B2B branding has explored strategic and tactical issues related to building and managing of B2B brands (Lindgreen, Beverland, & Farrelly, 2010). Thus, despite the increased recognition of the role brands play in B2B markets compared to B2C operations, we know comparatively less about brand building and brand management in B2B markets (Lindgreen et al., 2010). Since brand equity is a result of the overall brand image created by the sum of brand associations as perceived by customers (Michell, King, & Reast, 2001), it is important for managers to clearly comprehend the contribution made by retailers in B2B brand building. Firms in the modern era have grown to understand their staff and other stakeholders as brand ambassadors in the brand building process, in particular those involved in delivering the brand promise (de Chernatony, Cottam, & Segal-Horn, 2006). Thus, in the current study, we explore franchisees' perceptions of factors that are

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viewed as fundamental in building franchise brands in such B2B channels.

Brand equity from the retailer's perspective is encapsulated in three conceptual ideals, namely; (i) the equity associated with the retailer's brand, (ii) the equity associated with the retailer's store brand, and (iii) the retailer's perceptions of the brand they sell (Baldauf, Cravens, Diamantopoulos, & Zeugner-Roth, 2009, p. 2). In this paper, we capture franchisees' perceptions of the brand they are associated with; as a result we introduce the term *franchisee-based brand equity* (FBBE). Whilst a number of brand equity models have been advanced in recent years (e.g., Baldauf et al., 2009; Broyles, Schumann, & Leingpibul, 2009; Yoo & Donthu, 2001), there is need for additional models that present more detailed empirical research on brand equity in various contexts (Keller, 2003).

In particular, despite the uniqueness of brand management in franchise channels (see Pitt, Napoli, & Merwe, 2003) no distinct models have been advanced to explain brand equity in this particular marketing channel. Bordonaba-Juste and Polo-Redondo (2008) describe a franchise channel as a system of interdependent firms that make products or services available to consumers through negotiation and exchange. In conventional B2B channels, dyadic relationships can be assumed to be equal, yet this is not the case in franchise systems. Specifically, in a franchise channel the franchisor sells contractual rights to market goods and services using its brand name and business practices to franchisees (Combs, Michael, & Castrogiovanni, 2004). Consequently, the distribution of products in franchises is governed by a contract which is a vehicle to centralise operations and control the efforts of other members in the distribution channel (Ronald & House, 1971). In such constrained business environments, franchisees need to form strong attachment with the franchise brand name to enhance its brand value. Thus, besides the legal/contractual relationship, there is need to understand other factors that can create value for the franchise brand and the franchise channel as a whole. Given this background, this paper addresses the following two research questions, based on *franchisees' perceptions*:

(i) *How to promote brand equity in franchise channels?*
(ii) *What promotes franchisees' brand citizenship behaviour?*

This study seeks to understand how brand relationships can be leveraged to enhance brand citizenship behaviour and subsequently brand equity in franchises. The paper is structured as follows: First we discuss the theoretical foundations underpinning this study, followed by a review of literature on brand equity (focusing on franchisees), brand relationship management and brand citizenship behaviour. The research methodology and results are then presented. The paper concludes with a discussion of the results, research implications for scholars and managers and directions for future research.

2. Theoretical background

In prior literature, a number of theories have been advanced to explain how brands enhance relational and economical value. For example, Louro and Cunha (2001) posit that relational theories conceive brand management as a continual dynamic process, in which brand value and meaning are concurrently created through interlocking behaviours, collaboration and competition between firms and consumers. Other researchers conceptualise brand equity as a relational market-based asset that is an external resource that resides in the relationships of final users of the brand (e.g., Davis & Mentzer, 2008; Delgado & Munuera, 2005). Thus, "…brand equity ultimately derives in the market place from the set of brand associations and behaviours that have been developed towards the brand" (Delgado & Munuera, 2005, p.188). Fournier (1998) suggests that brands can serve as relationship partners that have a personality that consumers can form a dyadic relationship with. Therefore, by establishing strong relationships with the brand, franchisees can differentiate themselves from competitors and non-franchised retailers (Gupta, Grant, & Melewar, 2008).

Some theorists have used the resource constraint, agency and search cost approaches to explain franchising (Hopkinson & Hogarth-Scott, 1999). However, these theories have failed to fully capture the behavioural issues that surround relational exchanges within franchise channels (Combs et al., 2004; Harmon & Griffiths, 2008). One such theory that has been used to explain relational benefits and inter-firm relationships in industrial marketing is social exchange theory (SET). Hence, drawing on SET we build our thesis of brand relationship management effects on brand citizenship behaviour and brand equity. By definition, SET is a continuous mutual process in which actions are voluntary and dependent on rewarding reactions from other parties (Das & Teng, 2002). SET has been applied in franchise relationships, where reciprocity is recognised as a key driver of relationship value (Harmon & Griffiths, 2008). Thus, exchanges are primarily driven by self-interest, characterised by cooperation and reciprocity in terms of mutually economic and non-economic results (Frazier & Rody, 1991; Metcalf, Frear, & Krishnan, 1992). SET suggests that it is the non-contractual values of an exchange such as trust and its sources namely ethics, kinship and friendship that enhance extra-role behaviour in agents (Blau, 1964; Li, 2010). Thus, our study considers SET as a strong theoretical grounding for understanding factors that enhance franchisees' brand citizenship behaviour and brand equity.

3. Literature review

3.1. Franchisee-based brand equity (FBBE)

There is some agreement amongst scholars (Brodie, Glynn, & van Durme, 2002; Keller, 1993; Keller & Lehmann, 2006) that there are at least two distinct brand equity perspectives namely customer-based and financial-based brand equity. However, prior literature has paid limited attention to brand equity in B2B markets, resulting in brand equity being dubbed the 'intellectual step-child' (Ohnemus, 2009, p.159) in extant B2B branding literature. Webster (2000) argues that discussing brands from a consumers' view is a traditional approach that can result in inadequate analysis of brand equity and consequently, in ineffective management of B2B brands. Davis (2003, p. 2) similarly warns that "…focusing exclusively on managing the brand in consumer markets ignores the needs of important downstream customers such as distributors and retailers and fails to capitalise on the potential for leveraging brand equity to create added value with upstream suppliers." Thus, in an attempt to extend knowledge in brand building, some authors have conceptualised brand equity in various B2B markets, resulting in terms such as trade-based brand equity (Davis, 2003), customer-based retailer equity (Pappu & Quester, 2006), B2B brand equity (Kuhn, Alpert, & Pope, 2008) and retailer-perceived brand equity (Baldauf et al., 2009). The present paper builds on this stream of literature and conceptualises brand equity based on franchisees' perceptions as *'franchisee-based brand equity'*. Based on Aaker's (1991) definition of brand equity in which he posits that the brand creates value for all members of the channel, we define FBBE as: a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a franchisee.

Business partners in a marketing channel tend to gain sustainable competitive advantage through the creation of brand equity (Gordon, Calantone, & di Benedetto, 1993). Consequently, building brand equity is crucial if retailers wish to maintain and improve their financial performance. From the franchise channel perspective, both franchisees and franchisors share the incentive to promote and sustain franchise brand equity. However, franchisees may at times have little incentive to safeguard the franchise brand equity if there are no negative effects on their short-term profits (Watson & Johnson, 2010). In other words, "…for those franchisees whose business is characterised