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Brand value chain in practise; the relationship between mindset and market performance metrics: A study of the Swedish market for FMCG

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ABSTRACT

For decades, managers have analysed, planned and implemented long-term brand strategies based on customer mindset metrics (MSMs). Typically, such MSMs are customer satisfaction, liking, brand preference and Net Promoter Score (NPS). One of the core pillars, in brand management literature, is the assumed link between certain customer-based brand assets, often operationalized as MSMs, and future long-term market performance. However, few studies have systematically and broadly evaluated how the most common MSMs relate to actual performance data. This study investigates the link between the customer MSMs, most commonly used by practitioners, and their relationships with actual market performance. The paper explores 10 MSMs and 14 market performance metrics, in 10 categories, in the Swedish fast-moving consumer goods (FMCG) market. The study is based on survey data from 2007 that is compared to purchase panel household data from 2007 and 2010. Although MSMs are highly correlated to each other, their relations to brands' long-term market performance differ. A more nuanced approach to the MSM-market performance link is proposed, as there appears to be no single "silver bullet" MSM to rely on. Using a cash flow-oriented framework, the authors recommend opting for different MSMs depending on which of the three generic types of market performance (enhanced, sustained or accelerated) are targeted.

1. Introduction

In brand management literature, the financial value of a brand is assumed to be entrenched in consumers' mindsets, and can be understood and evaluated in terms of associations and attitudinal loyalty (cf. Aaker, 2014; Aaker, 1996; Keller, 1993). This assumption has been made visible in various brand models, such as Keller and Lehmann, 2003 brand value chain and similar models (Feldwick, 1996; Wood, 2000; Gupta and Zeithaml, 2006; Anselmsson and Bondesson, 2013). The chain of events according to these models is that brand equity is something that builds up in the minds of the customers, and then converts to market performance and cash flow. Another central assumption, in this field, is that investments in the brand do not necessarily pay off in short-term sales effect, but slowly build equity in the minds of customers that in the long run, lead to more stable sales and market performances (Lodish and Mela, 2007). However, they urge for more research and a better understanding and analysis of the long-term effects on future sales, profitability and cash flow.

In our view, current brand related and empirical research is characterized by a rather weak, un-nuanced and scattered focus on the market performance outcomes of different brand-related customer attitudes. There are, for example, some branding studies that seem to support an assumed relationship (Kerin and Sethuraman, 1998; Barth et al., 1998; Mortanges et al., 2003; Bandyopadhyay and Martell, 2007; Romaniuk et al., 2014; Srinivasan et al., 2010), but these studies have focused only on one or very few customer-based MSMs and their relationships to one or a few different performance-related outcomes, mostly from a short-term perspective. The most common approach is to limit the study to the mindset phase and measure the relationships between different associations and attitude-based loyalty or customer intentions rather than actual market performance.

The explanation for the narrow academic focus, according to our view, is an increasing specialisation that the marketing area has experienced over recent decades. Scholars, as well as practitioners, often strive for a single "silver bullet metric" and several customer mindset concepts and metrics that have been described as critical for business success: satisfaction (cf. Fornell, 1992; Gupta et al., 2006; Hallowell, 1996; Anderson et al., 2004; Ittner and Larcker, 1998; Rucci et al., 1998) and Net Promoter Score (see Reichheld, 2003). There are several forms of cash flow-related market performance metrics, such as sales volume, price premium, purchase loyalty, market penetration, and market share. Few of the scholars that assume a relationship between MSMs and market

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performance are specific about the exact type of market performance that their MSM is–or is not – supposed to drive. Vague outcomes, such as business success, increased cash flow, or growing revenues are often used.

These knowledge gaps are problematic and highly relevant for practical management as companies in spite of uncertainty about economic outcomes spend increasingly more time and money analysing MSMs and how their brands are perceived (Inside Research, 2005). Some MSMs that emerge from the analytical process are reported to key stakeholders within the company because they are believed to be particularly important for overall business success. These are often referred to as Key Performance Indicators (KPI) or Key Performance Metrics (KPM). Similar to the brand value chain model, Ambler (2000) divides KPIs into MSMs or performance measures. The latter are based on hard market performance data, such as the number of customers/penetration, sales/market share and relative price level, that reflect true consumer behaviours, while MSMs reflect target consumers' subjective perceptions and these are based on survey data, for example: perceived quality, customer satisfaction and purchase intention. The MSMs often work as an early warning system and a way to evaluate strategies, set goals and reward personnel and management.

Consequently, a better understanding of the mindset-market performance link is important both to brand management and the brand equity research field. The purpose of the present study is to better understand how customer MSMs found in brand management literature and practical brand management relate to long-term market performance. Our ambition is to develop a broader and nuanced understanding where we compare the commonly used MSMs and market performance metrics. The study has a focus on FMCG, which is one of the sectors that spends the most resources on brand and marketing research in terms of both mindset and market performance data. In addition, FMCG brands are frequently referred to in the brand management literature.

2. Theoretical framework–brand equity and the link between customers' MSMs and market performance

2.1. Brand value chain

Keller and Lehmann, (2003) and their *brand value chain medel* (see Fig. 1) is entrenched in the *brand equity* concept (Aaker, 1991; Keller, 1993), which is becoming increasingly employed by practitioners and researchers alike and has an inherent ambition to seize the tangible economic value from the more intangible and broader *brand* concept. Brand equity, today, has developed in a number of definitions; however, the brand value chain, which has been presented in some of the most formally acknowledged literature on marketing management (Kotler and Keller, 2010), serves as a good reflection of what is considered to be the basic dimensions of brand equity. Several others have presented models with similar causal logic; for example: Srivastava and Shocker (1991), Feldwick (1996), Wood (2000), Keller and Lehmann (2003), Keller (1993), Gupta and Zeithaml (2006), and Anselmsson and Bondesson (2013).

The *marketing programme* element deals with those efforts in which brand-owning firms take to influence their brand. It can deal with products that are offered under the brand name as well as pricing, channel decisions (place), and promotion (Keller and Lehmann, 2003). The *customer mindset* includes associations linked to the brand in a customer's memory, or "everything that exists in the minds of customers with respect to a brand (e.g. thoughts, feelings, experiences, images, perceptions, beliefs and attitudes)" (Keller and Lehmann, 2003. Numerous mindset concepts can be found in previous studies (cf. Brodie et al., 2002; Agarwal and Rao, 1996; Kapferer, 2004; Knowles, 2005; Anselmsson and Bondesson, 2013), including brand preference, satisfaction, perceived quality and attitude-based loyalty and purchase intention. Market and brand managers often translate these concepts into survey questions or MSMs (Keller and Lehmann, 2003). *Market- or brand performance* can be defined as how customers react or respond in the marketplace to the brand in a variety of ways, as in what customers actually have done in relation to a brand, which is manifested in market performance data, such as: market share, sales, sales growth, market penetration, (actual) price premium or share-of-wallet. What these responses have in common is that they decide the cash flows that a brand contributes. While it should be self-evident, it is important to highlight that a 100% link between mindset and performance is never present and a brand's market performance is not solely influenced by its status in the customer's mindset (contextual factors, such as competitive actions, distribution and relations to channel partners, moderate the relationship). In the literature that deals with the brand value chain, the relationship between the two boxes of mindset and market performance is often not specified and there are no commonly agreed-upon assumptions about what mindset dimensions relate to which market performance data. The overall assumption behind the brand value chain is that building a strong brand in the customer mindset contributes to long-term market performance and ultimately to the *shareholder value* that a firm creates. Several methods can be applied to measure how much the brand contributes to this value, such as: stock price, P/E ratio and market capitalisation (Kotler and Keller, 2010).

Marketing-related KPIs can be extracted at each step in this chain; however, the focus of the present paper is on the customer mindset-market performance relationship. Although shareholder value is defined as the ultimate goal for marketing efforts, it falls too far from what the typical marketing or brand manager is responsible for and can have a direct influence.

2.2. Brand equity-related customer MSMs

The specific customer MSMs presented in this article (see Table 1) are both commonly used in practise and essential to the brand management and equity literature. All MSMs can be found

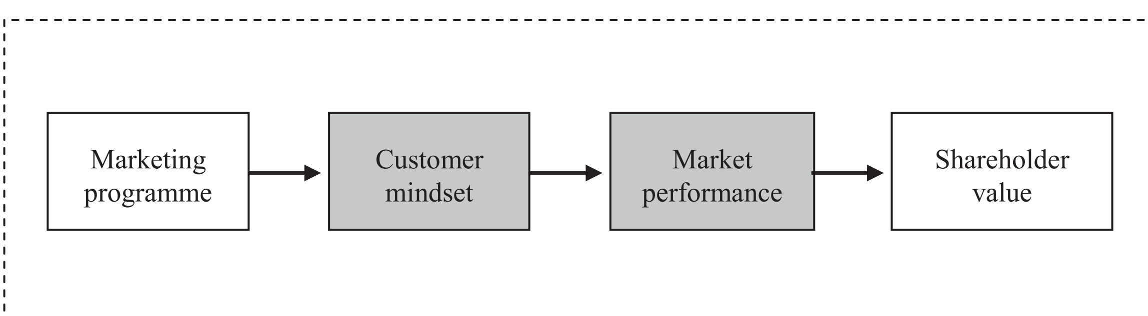

Fig. 1. The brand value chain (Keller, 2006. p. 561). The grey areas indicate the main empirical focus of this study.