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The roles of brand equity and branding strategy: A study of restaurant food crises

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ABSTRACT

Food crises, such as food borne illnesses, are a major threat to the restaurant industry. However, consumer responses to a food crisis are expected to differ depending on the brand equity and branding strategy of the restaurant involved. In order to test the roles of brand equity and branding strategy in a food crisis situation, this study used a scenario-based experimental survey with a 2 (brand equity: Low/High) × 2 (branding strategy: Corporate branding/House-of-brands) × 2 (presence of crisis: No/Yes) design. The results of the study supported the "amplifying" perspective by providing evidence of the negative role of brand equity during a crisis. Moreover, the three-way interaction between brand equity, branding strategy, and presence of crisis revealed the effectiveness of the corporate branding strategy, which varies depending on the level of brand equity, under crises. The findings of this study will enable marketers to develop appropriate post-crisis strategies based on predicted consumer responses depending on the level of brand equity and branding strategy. Further discussion and implications are provided in the text.

1. Introduction

Due to well-developed distribution channels and high volume production systems that allow potentially deadly products to be distributed nationwide very quickly, a food crisis is a major threat to restaurant companies (Harvard Business Essentials, 2005). It has been demonstrated that the restaurant industry is highly vulnerable to food crises, such as foodborne illness outbreaks, which can damage a firm's reputation, sales, and financial value (Howes et al., 1996). The Center for Disease Control and Prevention (CDC) reported that foodborne illness cause 48 million illnesses, 128,000 hospitalizations, and 3000 deaths every year in the United States, and almost half of those incidents were associated with restaurants (CDC, 2008). In 1993, Jack in the Box suffered from a devastating *Escherichia coli* outbreak, which resulted in 700 illnesses and 4 deaths and caused the firm to lose millions of dollars recovering from the crisis (Braun-latour et al., 2006). Moreover, Chichi's restaurant went bankrupt following an *E. coli* outbreak that occurred in 2001. Further, negative publicity related to a finger supposedly found in Wendy's chili in 2005 cost the firm $20 million to restore the brand image. Considering the enormous impact of food crises on restaurant companies, it is important to identify factors influencing consumer responses to a food crisis, such as brand equity and branding strategy.

Brand equity is a valuable, yet fragile, firm asset. The role of brand equity under failure situations can be viewed through two contradictory lenses: the "buffering" perspective and the "amplifying" perspective. The traditional view on brand equity focuses on the advantageous side of strong brand equity, which is the so-called "buffering" perspective. This theory asserts that strongly built brand equity increases future cash flow (Srivastava and Shocker, 1991; Aaker and Jacobson, 1994) and enhances marketing efficiency (Keller, 2002). In contrast, another stream of brand research, the so-called "amplifying" perspective (Bolton and Drew, 1998; Aaker et al., 2004; Grégoire and Fisher, 2008), highlights the negative side of strong brand equity under failure situations. This is supported by the old proverb "the higher you are, the harder you fall" (Brockner et al., 1992). Most early brand equity research has focused on the "buffering perspective," while research on the "amplifying perspective" has been more recent and sparse. Furthermore, unexpected food borne illnesses threatening public health raised the need for better understanding of consumer behaviors under crisis or failure situations. In this respect, it is important to understand whether strong brand equity protects or threatens a restaurant during a crisis.

In order to build strong brand equity, firms can utilize several strategies to manage their brands (Murphy, 1989; Laforet and Saunders, 1994). Once a firm begins to have multiple products or restaurants it needs to decide whether to use a single brand name or distinctive names for each product. A "corporate branding"

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strategy refers to a firm using a single name that is connected to the parent company. This strategy has been widely used by restaurant companies such as McDonalds, Wendy's, and Jack in the Box. On the other hand, firms often choose to use different names for each product or restaurant rather than explicitly connecting the parent company to a product. This is called the "house-of-brands" strategy and is used by Darden Restaurant Inc, Yum brands Inc, and Frisch Restaurant Inc. In general, the corporate branding strategy has been considered more effective than the house-of-brands strategy for building strong brand equity more quickly and easily (Rao et al., 2004). However, this easy association between a parent company and a product may endanger the whole company if there is a crisis, even if the crisis is only related to a particular product or restaurant brand. Thus, it is arguable whether the corporate branding strategy actually helps or threatens firms during a crisis situation. The highly visible image of a parent company in relation to a product can have a negative impact on a parent company. In this sense, a question arises: Which branding strategy is beneficial to restaurant companies facing a food crisis?

With regard to the relationship between brand equity and branding strategy, a branding strategy is a firm's strategic decision in order to build strong brand equity. In this respect, the level of brand equity may be a result of how effectively the branding strategy was utilized by a firm. In other words, strong brand equity may demonstrate the success of a branding strategy, while weak brand equity may signal that a firm failed to utilize effective branding strategies or is in the initial stages of building brand equity. Thus, identifying the role of brand equity, which varies with the effectiveness of the branding strategy, in a food crisis may broaden our understanding of the relationship between branding strategies and brand equity. For example, firms using the corporate branding strategy that are successful in building high brand equity may have an advantage compared to firms that failed to build high brand equity. The negative impact of using the corporate branding strategy may vary depending on the level at which brand equity is either alleviated or amplified. Moreover, while previous research identified factors that influence the type of branding strategy used, such as corporate ability, corporate social responsibility, involvement, and fit (Roehm and Brady, 2007), the level of brand equity has not been examined in relation to the effect of branding strategies.

Hence, the focus of this study is to investigate the impact of brand equity and branding strategy on restaurant customers' responses to a food crisis. More specifically, this study examines (1) the effect of brand equity during a food crisis, (2) the effect of branding strategy during a food crisis, and (3) the joint interaction effects of brand equity and branding strategy during a food crisis. Despite extensive research on brand equity and branding strategies, the hidden side that potentially threatens firms in a crisis situation has not been examined. Highlighting this negative aspect of strong brand equity may suggest a unique view that can broaden and enrich brand-related research in contrast to previous views of brand equity. Moreover, by identifying which branding strategy is most effective during crisis situations, this study provides important evidence for managers to determine the optimal branding strategy. Further, a better understanding of the interactive effects of brand equity and branding strategy can enable crisis mangers to handle product-harm crises more effectively.

2. Literature review

2.1. Brand equity

Brand equity has received much attention from marketing academics and practitioners due to its significant role as a key intangible firm asset (Aaker, 1991; Keller, 1998). Brand equity is considered one of the major drivers of customer equity, which is defined as the total combined customer lifetime value of all of a company's customers (Rust et al., 2004). Keller and Lehmann (2006) asserted that brands simplify customer choices, promise a particular level of quality, engender trust, and reduce risk. They also noted that brands play an important role in influencing the effectiveness of marketing efforts, such as advertising and channel placement. The accrued value from these benefits is called brand equity. Using a customer-based approach, brand equity is defined as "the differential effect of brand knowledge on consumer response to the marketing of the brand" (Keller, 1993, p. 8). According to this definition, a brand with a high level of brand equity might generate favorable customer responses to marketing efforts such as promotion and distribution of the brand (Aaker, 1991; Keller, 1993). Conversely, a low level of brand equity could generate an unfavorable response. This is referred to as the "buffering" perspective.

Most previous brand equity research, besides that on the "buffering" perspective, focused on the positive role of brand equity on firm performance (Hess et al., 2003; Oliveria-Castro et al., 2008; Tax et al., 1998). This is driven by two motivations: finance-based (e.g., estimating the value of a firm) and strategy-based (e.g., improving the efficiency of marketing expenses). Examining these two motivations, researchers have found that brand equity has a positive effect on future cash flows (Srivastava and Shocker, 1991), merger and acquisitions decisions (Mahajan et al., 1994), and stock price movements (Simon and Sullivan, 1993). Furthermore, the advantages of strong brand equity include consumers' willingness to pay premium prices (Keller, 1993), maximizing shareholder value (Bick, 2009), and enhancing brand performance (Oliveria-Castro et al., 2008). Service failure research suggests that strong brand equity functions as a cushion to protect firms from the negative impacts of service or recovery failures (Mattila, 2001; Priluck, 2003). Strong brand equity has also been found to lead to more favorable customer reactions, such as increased satisfaction with recovery efforts (Hess et al., 2003). Brand Equity mitigates the effects of a poor recovery on loyalty, commitment, and trust (Mattila, 2001; Tax et al., 1998) and alleviates the desire for retaliation (Grégoire and Fisher, 2006).

In contrast to this previous stream of brand equity research, research focusing on the negative aspects of strong brand equity under failure situations has emerged as another important view, referred to as the "amplifying" perspective. Strong brand equity was actually found to threaten companies in certain circumstances. For example, if a customer perceives a service interaction as violating their relational norms (Aggarwal, 2004), feels a recovery effort is unfair (Grégoire and Fisher, 2008), or possesses substantial time and the capacity to evaluate a severe failure (Roehm and Brady, 2007). Customers who feel a strong association with a brand are more likely than others to take offensive actions when the brand fails to satisfy them. Such perceived betrayal was introduced as a key driver of customer retaliation behaviors, which activates the "love becomes hate effect" (Grégoire and Fisher, 2008). Customers who feel betrayed by a brand were more likely to display unfavorable responses toward that brand. The role of brand equity amplifies the effect of perceived betrayal, which means that perceived betrayal may be felt more intensely by customers who have high brand equity. Thus, a crisis may generate stronger perceived betrayal in customers with high brand equity.

Based on the above rationale, this study proposes the existence of an interaction effect between brand equity (high versus low) and the presence of a crisis (yes versus no) on customer intentions to visit the restaurant. In other words, customers with high (low) brand equity may display higher (lower) intentions to visit a restaurant, but the presence of a crisis is more likely to reduce the intentions of customers with high brand equity than those customers with low brand equity customers. This is an example of