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The relationship between brand equity and firms' performance in luxury hotels and chain restaurants ☆

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Abstract

There is a growing emphasis on building and managing brand equity as the primary drivers of a hospitality firm's success. Success in brand management results from understanding brand equity correctly and managing them to produce solid financial performance. This study examines the underlying dimensions of brand equity and how they affect firms' performance in the hospitality industry—in particular, luxury hotels and chain restaurants. The results of this empirical study indicate that brand loyalty, perceived quality, and brand image are important components of customer-based brand equity. A positive relationship was found to exist between the components of customer-based brand equity and the firms' performance in luxury hotels and chain restaurants. A somewhat different scenario was delineated from the relationship between the components of customer-based brand equity and firms' performance in luxury hotels and chain restaurants.

Keywords: Customer-based brand equity; Firms' performance; Chain restaurants; Luxury hotels; Brand awareness

1. Introduction

Brands have been increasingly considered as primary capital for many businesses. Financial professionals have developed the notion that a brand has an equity that may exceed its conventional asset value. Indeed, the cost of introducing a new brand to its market has been approximated at $100 million with a 50 percent probability of failure (Ourusoff, 1993; Crawford, 1993). Long-standing brand power, instead of management strategies for short-term performance, has been re-evaluated by many American companies. In addition, some firms seeking growth opportunities have preferred to acquire existing brands, thus establishing brand management as a formal component of corporate strategy. For example, instead of developing a new luxury hotel brand, Marriott International Inc. decided to acquire an existing luxury hotel chain, the Ritz-Carlton, in 1995. Thus, the concept and measurement of brand equity has interested academicians and practitioners for more than a decade, primarily due to the importance in today's marketplace of building, maintaining and using brands to obtain a definite competitive advantage.

A brand symbolizes the essence of the customers' perceptions of the hospitality organizations. The term "brand" has multiple connotations. At one end of the spectrum, brand constitutes a name, a logo, a symbol, and identity, or a trademark. At the other end, brand embraces all tangible and intangible attributes that the business stands for (Prasad & Dev, 2000).

Although numerous local or global brands of different product categories have been employed to measure the brand equity, literature on brand equity within the hospitality industry has not been fully investigated. Only recently, Prasad and Dev (2000) demonstrated that brands would be a quick way for hotel chains to identify and differentiate themselves in

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the minds of the customers. They showed a method for converting customers' awareness of a brand and their view of a brand's performance into a brand equity index. The computation of brand equity allows top managers of hospitality companies to compare the strength of brands in a competitive set, to track a hotel brand's equity over time, and to formulate remedial marketing strategies (Prasad & Dev, 2000).

A hospitality company can use an endorsed brand extension strategy to extend the power of well-accepted brand identity to a number of diverse concepts differentiated by market segment (Jiang, Dev, & Rao, 2002). The endorsed brand strategy puts a well-established name on a cluster of products or services. By endorsing a range of products, the lead brand can lend its good name and image to the entire brand family (Muller, 1998). In service marketing, the company brand is the primary brand, whereas in packaged goods marketing the product brand is referred to as the primary brand (Low & Lamb Jr., 2000). In the hospitality industry, customers often base their purchase decisions on their perceptions of a company's brand (e.g., Marriott, Hilton, Hyatt, McDonald's, Burger King, Wendy's, Chili's, Applebee's, and TGI Friday's). That is, customers develop company brand associations rather than the brand association of product items.

A strong brand increases the consumer's attitude strength toward the product associated with the brand. Attitude strength is built by experience with a product. The consumer's awareness and associations lead to perceived quality, inferred attributes, and eventually, brand loyalty (Keller, 1993). This perspective is labeled as customer-based brand equity (Shocker, Srivastava, & Ruekert, 1994). The advantage of conceptualizing brand equity from this perspective is that it enables marketing managers to consider how their marketing programs improve the value of their brands in the minds of consumers (Keller, 1993). As a result, effective marketing programs on branding foster greater confidence of consumers. This confidence induces consumers' loyalty and their willingness to pay a premium price for the brand.

A strong brand provides a series of benefits to a service firm, such as greater customer loyalty and higher resiliency to endure crisis situations, higher profit margins, more favorable customer response to price change, and licensing and brand extension opportunities (Keller, 2001). For example, adding the "by Marriott" name tag on distinctive brand names aids the Marriott corporation in maintaining the differentiation, lowers operating risk, limits new-product introduction costs, and results in an improvement in corporate performance (Muller, 1998).

There have also been some assertions concerning the positive correlation between brand equity and a firm's performance (Park & Srinivasan, 1994; Aaker, 1996). The rationale of the hotel industry, for example, is quite straightforward—hotels with strong brand equity are expected to command higher occupancy and average room rates, due to high customer satisfaction and a positive price–value relationship. It will result in higher operational performance, RevPAR[2] (Prasad & Dev, 2000). Little empirical research, however, actually demonstrated the correlation between brand equity and corporate performance in hospitality brands.

The purpose of this study is to examine the possible relationship between customer-based brand equity and firms' performance in the hospitality industry through an empirical study. Logical reasoning behind the study hypothesizes that the more customers are satisfied, the more they prefer the brand and the more they return. This should translate into higher sales revenue. The study's results could offer a diagnostic decision-making tool to help top hotel managers maximize the value of their brands.

2. Literature review

2.1. Different perspectives of brand equity

The issue of brand equity has emerged as one of the most crucial topics for marketing management in the 1990s (Leuthesser, 1988; Keller, 1993; Cobb-Walgren, Ruble, & Donthu, 1995; Lassar, Mittal, & Sharma, 1995; Aaker, 1996; Dyson, Farr, & Hollis, 1996). Brand equity has been considered in many contexts: the added value endowed by the brand name (Farquhar, 1989); brand loyalty, brand awareness, perceived quality, brand associations, and other proprietary brand assets (Aaker, 1991); differential effect of brand knowledge on consumer response to the marketing of the brand (Keller, 1993); incremental utility (Simon & Sullivan, 1993); total utility (Swait, Erdem, Louviere, & Dubelaar, 1993); the difference between overall brand preference and multi-attributed preference based on objectively measured attribute levels (Park & Srinivasan, 1994); and overall quality and choice intention (Agarwal & Rao, 1996). These numerous definitions imply that brand equity is the incremental value of a product due to the brand name (Srivastava & Shocker, 1991).

There have been three different perspectives for considering brand equity: the customer-based perspective, the financial perspective, and the combined perspective. The customer-based brand equity subsumes two multi-dimensional concepts of brand strength and brand value (Srivastava & Shocker, 1991). Here, brand strength is based on perceptions and behaviors of customers that allow the brand to enjoy sustainable and differentiated competitive advantages. Brand value

[2] Revenue Per Available Rooms.