

The Effectiveness of Brand Management Instruments in Building and Leveraging Component Supplier Brand Strength

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Abstract

While B2B researchers have placed considerable emphasis on the effectiveness of establishing close buyer-supplier relationships, we know only little about the effectiveness of specific brand management activities in the business marketing domain. This paper examines in which ways component suppliers can use various brand management instruments to build and leverage their brand strength among their customers' customers. Survey data from 241 firms indicate that direct and joint communication, visibility, and – to some extent, exclusivity – represent effective brand management instruments. Also, the effects of direct communication and joint communication are found to be mutually reinforcing.

Keywords: B2B Marketing, Brand Management, Buyer-Supplier Relationships

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Introduction

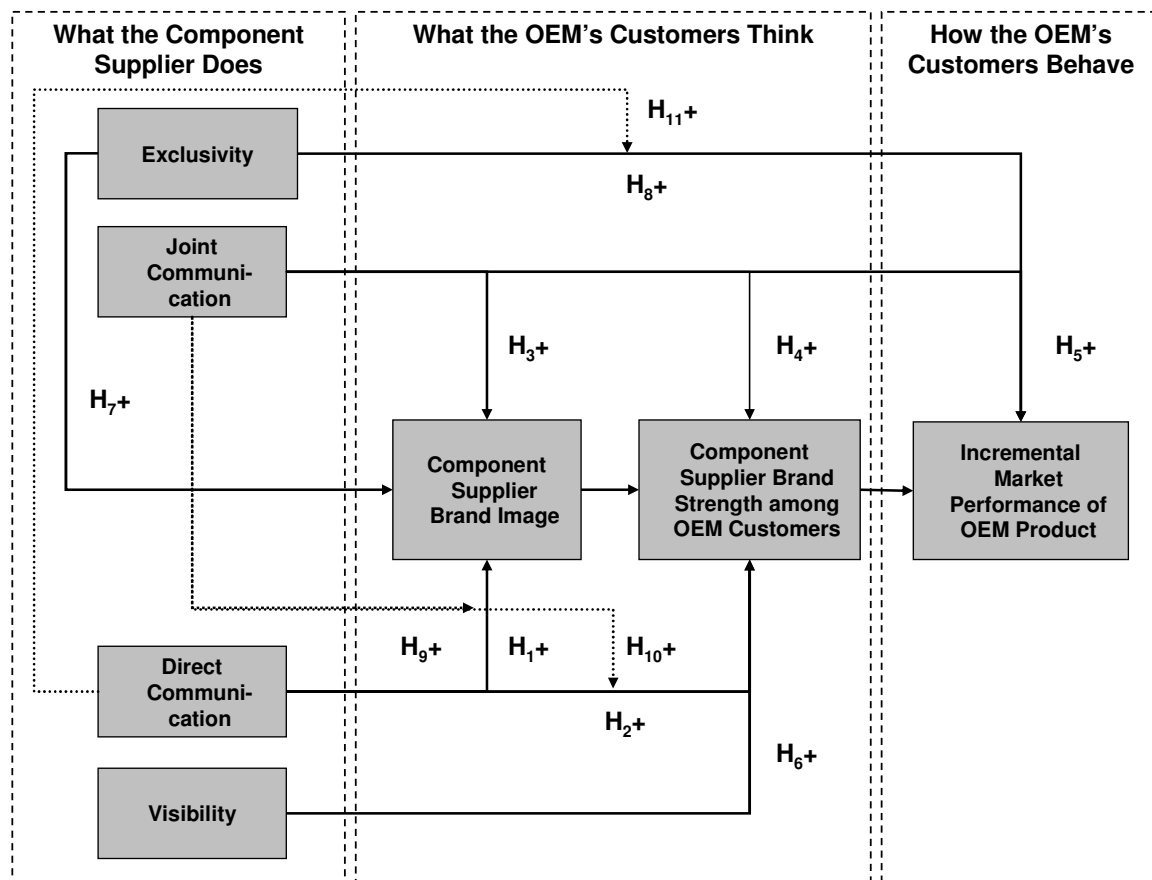
Suppliers of components in many business markets today are faced with intense global competition, the trend towards supply base consolidation, and increasing product commoditization (Rangan and Bowman, 1992; Ulaga and Eggert, 2006). As tangible product features have lost much of their power as differentiators, there is an increasing awareness of the importance of intangible market based assets in differentiating an offer and attaining a competitive advantage. The building and leveraging of brand equity, however, which is considered a crucial market-based asset in consumer markets, has only received scant attention from business marketing academia (Bendixen, Bukasa, and Abratt, 2004; Cretu and Brodie, 2007; Gordon, Calantone, and Di Benedetto, 1993). A particular shortcoming of the limited existent research on brand management in business markets lies in the paucity of insights as to the effectiveness of various brand management instruments. Due to the different characteristics of consumer and business markets, business market managers can draw on a different set of instruments to build and leverage the strength of their brands. However, most existing studies have simply transferred well-known instruments from the consumer domain to a business market context (e.g. Richter, 2007; Shipley and Howard, 1993). A further weakness of the literature is that most empirical evidence is only based on single industries.

This study focuses on branding efforts by suppliers of industrial components. Customers for these products exist at various levels of the value chain. For example, the immediate buyer of GE branded automation components may be an original equipment manufacturer (OEM) of industrial machinery, such as Liebherr. The OEM's industrial machinery, which incorporates the GE automation components, will finally be purchased by the OEM's customer, an end-user of the machine such as a Toyota manufacturing plant. The research question investigated here concerns the optimal usage of brand management instruments to systematically build and leverage component supplier brands among OEMs' customers'. In other words, I aim to examine the impact and interplay of component suppliers' various brand management actions on the way their customers' customers' think about the component supplier brand and the way they behave.

Theory

In this section I develop a set of hypotheses to examine how component suppliers' brand management actions affect the way that OEM's customers' think about the component supplier brand and the way they act about the brand. In order to guide the following development of hypotheses, a conceptual model identifying the key constructs is provided in Figure 1. The model falls into three blocks. First, I introduce the dependent and mediating variables capturing how the OEM's customers behave (Block Three), and what the OEM's customers think (Block Two), respectively. Next I hypothesize about the effects of the brand management instruments, i.e., the variables related to what the component supplier does (Block One). Then I conclude with the hypotheses on the interactions among brand management instruments.

Figure 1
Conceptual Model



Dependent and Mediating Variables

The dependent variable, *incremental market performance of OEM product*, captures how an OEM's customers behave about OEM products depending on whether they incorporate the component supplier brand. Market performance reflects the consequences of customer behavior that are considered desirable by firms, such as repeat purchase, acquisition of new customers, market share, willingness to pay (Homburg and Pflesser, 2000; Srivastava, Shervani, and Fahey, 1998). I define incremental market performance as the effectiveness of the supplier brand in driving the market performance of the OEM product.

The model includes two mediators of the effect of brand management instruments on incremental market performance, capturing what an OEM's customers think about a component supplier brand. *Brand image* describes the perceptions about a brand as reflected by the brand associations held in customer memory (Aaker, 1991; Farquhar, 1990; Keller, 1993). In the present study, brand image is conceptualized by higher-level abstractions such as credibility, trustworthiness, skillfulness, and quality. Ingredient branding research shows that an ingredient or component supplier's positive brand image can add value to OEMs' products. *Component supplier brand strength* is thus defined, from the OEM's customers' perspective, as the value that the component supplier's brand adds to (or detracts from) the OEM's product. Note that brand image relates uniquely to the component supplier brand, while component supplier brand strength relates to the usage of a component supplier brand within OEM products.

Effects of Brand Management Instruments

As part of the theory development, I identify four major brand management instruments that are hypothesized to impact the dependent variables – direct communication, joint communication, visibility, and exclusivity. Due to the page constraints of this paper, I do not report the rationale put forward for each hypothesis here, but the conference presentation will focus on a detailed discussion of a subset of these hypotheses.

The first two hypotheses pertain to the effects of *direct communication*, which is defined as the marketing communication by the supplier targeted directly at the OEM's customers.

H₁: The use of direct communication by the supplier will lead to increases in brand image.

H₂: The use of direct communication by the supplier will lead to an increase in component supplier brand strength by the supplier brand.

Joint communication relates to marketing communication aimed at informing the OEM's customers about the cooperation between the supplier and the OEM.

H₃: Joint communication by the component supplier and the OEM will enhance the supplier's brand image.

H₄: Joint communication by the component supplier and the OEM will lead to an increase in component supplier brand strength by the supplier brand.

H₅: Joint communication by the component supplier and the OEM will enable higher incremental market performance of the OEM product.

Visibility is defined here as the ability of the OEM's customer to identify the supplier brand in the OEM's product.

H₆: The better the visibility the component brand in the OEM's product, the higher the component supplier brand strength.

Exclusivity (Kotler and Keller, 2005), is defined as the extent to which an OEM's customers have access to the branded component.

H₇: Exclusivity of the component brand leads to increases in component supplier brand image.

H₈: Exclusivity of the component brand will enable higher incremental market performance of the OEM product.

Interactions among Marketing Communications Instruments

The moderating hypotheses suggest that direct communication and joint communication will be mutually reinforcing.

H₉: The positive effect of direct communication on brand image will be stronger the higher the intensity of joint communication.

- H₁₀: The positive effect of direct communication on component supplier brand strength will be stronger the higher the intensity of joint communication.
- H₁₁: The positive effect of joint communication on incremental market performance of OEM product will be stronger for higher levels of direct communication.

Methodology

Sample and Data Collection

To test the hypotheses on a broad empirical basis, I conducted a large-scale cross-sectional survey among OEM companies in manufacturing industries. The cross-sectional sample – 241 responses overall - covers a diverse set of companies from different industry backgrounds such as machinery, electronics, metal products, and plastics. Firms ranged from small enterprises with only few employees to multibillion Dollar companies.

Measures

The quality of the measurement model is evaluated based on the well-established criteria from the SEM literature (Bagozzi and Yi, 1988; Churchill, 1979; Gerbing and Anderson, 1988) with consideration of the special requirements of the PLS approach. Overall, the results indicate good psychometric properties of the constructs. Factor analysis confirms the a priori factor pattern and unidimensionality of the constructs. The statistics are indicative of a high level of convergent validity. Fornell and Larcker's (1981) criterion shows good discriminant validity among the constructs. More detail on the measurement items will be given in the presentation but cannot be made available here due to the page limit.

Results

SmartPLS 2.0 (Ringle, Wende, and Will, 2005) is used to model the structural relationships posited in the theoretical framework. Estimates for the path coefficients and the R² values are reported in Table 2. The independent variables explain 46% and 54% of the variance in the variables component supplier brand strength and incremental market performance of OEM product, respectively.

The data show a considerable positive effect of direct communication on brand image ($\beta_1 = 0.46$, $p < 0.01$). H₁ is thus supported. Direct communication also positively affects component supplier brand strength ($\beta_2 = 0.18$, $p < 0.05$), confirming H₂.

Hypotheses H₃ through H₅ posit effects of joint communication by the component supplier and the OEM. H₃, expecting a positive effect of joint communication on brand image, is supported by the empirical data ($\beta_3 = 0.22$, $p < 0.01$). No evidence is, however, found supporting H₄ for an effect of joint communication on component supplier brand strength ($\beta_4 = 0.08$, $p > 0.1$). Joint communication considerably affects incremental market performance of OEM product ($\beta_5 = 0.31$, $p < 0.01$) (H₅). In line with H₆, evidence is found that brand visibility positively affects component supplier brand strength ($\beta_6 = 0.23$, $p < 0.01$). Exclusivity has no significant effect on brand image ($\beta_7 = 0.06$, $p > 0.1$), so H₇ is not supported. At the same time, H₈, which expected a positive effect of exclusivity on incremental market performance of OEM product, can be confirmed ($\beta_8 = 0.11$, $p < 0.1$).

Table 1
Results of Hypothesis Tests

Independent Variable	Dependent Variable			Hypotheses	
	Brand Image (R ² =0.31)	Component supplier brand strength (0.46)	Incremental Market Performance (0.54)	Supported	Not Supported
Direct Communication	0.46***	0.18**	-0.06	H ₁ , H ₂	
Joint Communication	0.22***	0.08	0.31***	H ₃ , H ₅	H ₄
Brand Visibility		0.23**		H ₆	
Exclusivity	0.06	0.05	0.11*	H ₈	H ₇
Brand Image		0.32***			
Direct Communication X Joint Communication	0.21***	0.12*	0.00	H ₉ , H ₁₀	H ₁₁

***: $p < 0.01$, **: $p < 0.05$, *: $p < 0.1$

H₉ expects that direct communication will more strongly affect brand image in the presence of joint communication. I find strong support for this hypothesis ($\beta_9 = 0.21$, $p < 0.01$).

Hypothesis H₁₀ is supported: joint communication positively moderates the effect of direct communication on component supplier brand strength ($\beta_{10} = 0.12$, $p < 0.1$). At the same time, the effect of joint communication on incremental market performance of OEM product is not enhanced by direct communication as stated in H₁₁.

Discussion

The motivation for this study arose from the considerable discrepancy between the observed relevance of systematic brand management in business markets and the state of theoretical development in this area. The findings of this study contribute to a better understanding of the way how specific brand management instruments can be used to build and leverage component suppliers' brands. Direct and joint communication as well as visibility are the most effective instruments. Exclusivity is less powerful than commonly expected. Differently from most of the few existing empirical studies on branding in business markets, which are industry-specific and therefore lack generalizability, this study uses cross-sectional data. In sum, the findings of this study can be very useful to marketers in component supplier industries because they provide a framework to analyze which combination of brand management instruments will best fit their strategic needs.

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