Measuring Brand Equity by the Contingent Valuation Method

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One of the methods used to assess the performance of a firm is estimating brand equity. Firms with a high level of brand equity obtain a competitive advantage in the marketplace. They enjoy stable revenues and sales based on repatronage by loyal customers, a willingness to pay a price premium, and being less vulnerable to both price fluctuation and alternative brands. A vast majority of research on brand equity has been conceptual (Aaker, 1991; Keller, 1993; 2001; Gladden, Milne, & Sutton, 1998; Ross, 2006), with only a few empirical studies (Feldwick, 1996; Vázquez et al., 2002; Yoo & Donthu, 2001). The latter studies – which use a single measure to assess brand equity – have methodological limitations, as there is no single measure for capturing the concept of brand equity. The primary purpose of this working paper is to propose the use of contingent valuation method (CVM) to assess brand equity.

Literature Review

Scholars define brand equity several ways (Aaker, 1991; Keller, 1993). One consistent idea across definitions is that brand equity provides a competitive advantage. In this working paper brand equity is operationalized using the ideas from Simon and Sullivan (1993), who referred to 'brand equity' as "the incremental cash flows which accrue to branded products over and above the cash flows which would result from the sale of unbranded products" (p. 29). That is, brand equity is the differential value of a branded product compared to a generic product. Work by Aaker and Keller has influenced the research of brand equity; neither, however, clearly conveys how to assess the concept. As a consequence, many researchers have attempted to measure brand equity by various means (de Chernatony et al., 2004; Gladden et al., 2001; Pappu et al., 2005). According to Keller and Lehmann (2006), existing brand equity measurements can be categorized by financial-market, customer mind-set, and product market outcome measures. Financial-market measures are based on current brand value, which account for discounted future cash flow and potential future growth (Boone et al., 1995; Dubin, 1998). That is, the notion that the incremental profits from brand recognition that would not accrue with a generic brand are the basis for assessing the concept. These measures are valid if there is sufficient financial data available; in the sports industry, accessibility of organizational data is relatively limited. As such, attempts to use this approach to measure sport team brand equity are limited. Customer mind-set measures are based on sources of brand equity. Various scholars have identified driving forces, including brand awareness, associations, and images, which are believed to influence brand equity (Biel, 1992; Yoo et al., 2000). Work based on customer-mind set measures essentially focuses on advancing our understanding of antecedents of brand equity. Such measures, however, in and of themselves are not measures of brand equity. Product market outcome measures are based on the assumption that the results acquired contain an accumulated total value. Investigating willingness to pay a price premium is the primary approach used in studies of product-market measures. Scholars ask whether an individual is willing to pay a price premium (Faircloth et al., 2001), or the extent of their willingness to pay premium prices (Park & Srinivasan, 1994). The weakness of this approach is that the value depends on individuals' subjective judgments, so the actual payment may differ from his/her hypothetical willingness to pay.

Another approach that should be considered to assess brand equity is the CVM. The CVM was originally utilized in the field of ecology to estimate the public goods that are not traded in the marketplace (e.g., benefits from the quality of hygiene) (Hanemann, 1994; Smith, 2003). The method is often applied to estimate the intangibility of non-pecuniary assets that are not determined by a law of supply and demand. The CVM measures customers' perceptions and evaluations of non-marketed intangible products by directly asking respondents' willingness to pay for the products based upon hypothetical market scenarios. CVM have been utilized to measure the economic impact that a sporting event, team, or stadium creates. According to Wicker et al. (2012), the CVM has been applied to five categories: (1) major league sports, (2) recreational nature sport areas, (3) amateur sports, (4) major mega events,

and (5) national sporting success. It is proposed here that the CVM can be utilized to measure brand equity. Both product market outcome research and the CVM estimate an individual's willingness to pay. However, studies on product market outcome measure a willingness to pay a price premium on a 5 to 7 point scale. Contrarily, the CVM allows researchers to obtain the actual dollar value that customers perceive regarding the brand. CVM can also aggregate an individual's valuation to the entire population, enabling the total brand value to be estimated (similar to financial-market measures). In addition, by asking determinants that most influence their willingness to pay top dollars will provide additional information that customer mind-set measures do not. There are several reasons why CVM should be considered as a tool for assessing brand equity. First, since brand equity is an intangible asset that creates value for customers/the organization, the notion of an 'intangible asset' of brand equity is aligned with the purpose of using the CVM. Second, in the real market, it is challenging to find unbranded or generic products to estimate the difference in brand equity between branded and unbranded products. Because CVM utilizes hypothetical scenarios, unbranded products can be compared. Third, CVM provides good insight for measuring brand equity that results from accumulating and estimating collective values (e.g., goodwill, reputation) that a consumer perceives when they think, feel, evaluate the brand, and demonstrate patronizing behaviors. Research applying CVM to assess brand equity will provide an empirical source for understanding the complete concept of brand equity. The purpose of the working paper is to evaluate brand equity from the customers' perspective through the use of the CVM. By combining the customer mind-set and product market measures, the researchers believe that CVM will allow for the measurement customer-based brand equity.

Conclusion

Despite of the popularity of the concept brand equity, the measurements in branding studies are only partially supportive of the complete concept. Brand equity is a total collection of all possible factors including brand associations, attitudes toward a brand, and loyalty. The CVM allows assessing non-pecuniary benefits that the research object brings. It also allows placing an economic value on non-pecuniary benefits/assets. Thus, the CVM can provide a new approach to measure and evaluate brand equity from the customers' perspective, and allow practitioners to establish effective marketing strategies. Additionally, the determinants from prior literature (e.g., perceived quality, price fairness) can be examined to compare whether they are similarly influential in the context of brand equity (Danes & Lindsey-Mullikin, 2012).