Managing consumer-brand relationships with brand portfolio strategy

- Jiyoon An, Texas Tech University

Abstract

A brand equity strategy is “to achieve competitive advantage, and thereby, superior financial performance, firms should acquire, develop, nurture, and leverage an effectiveness-enhancing portfolio of brands” (Hunt and Madhavaram 2006). Resource advantage theory provides a fundamental to understanding managing brand portfolios as a part of brand equity strategy in terms of theory of competition. Against this backdrop, this paper focuses on managing the role of brands in terms of “value exchange” and a relational and legal resource of organizations (Aaker 1991; Kapferer 2012; Keller 1993; Hunt 2010). Then, we examine how a firm enhances brand portfolios by managing brand extensions, brand deletions and brand dilution.

Keywords: Agency theory; brand deletion; brand dilution; brand equity strategy; brand extension; brand portfolio management; relational resource; resource-advantage(R-A) theory; service-dominant(S-D) logic; value exchange
INTRODUCTION

A brand serves a significant role as a quality control and quality-enhancing institution in competitive marketing systems (Hunt 2010) and is defined as both a relational and a legal resource (Aaker 1991; Kapferer 2012; Keller 1993; Hunt 2010). In marketing, the value exchange theory (Bagozzi 1974; Houston and Gassenheimer 1987) and the agency theory (Eisenhardt 1989; Singh and Sirdeshmukh 2000) view “a brand is a distinguishing name and/or symbol (such as a logo, trademark or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from competitors” (Aaker 1991). Therefore, organizations with brands are trying to signal and perform as “high-equity” brands that have highly favorable associations to the targeted market segment. Firms try to achieve competitive advantage in the marketplace and superior financial advantage through marketing strategies, including brand equity strategy. At the firm level, brands are managed in terms of not a single product or service brand but rather a brand portfolio. Thus, brand equity strategy means that “to achieve competitive advantage, and thereby, superior financial performance, firms should acquire, develop, nurture, and leverage an effectiveness-enhancing portfolio of brands” (Hunt and Madhavaram 2006). In doing so, a firm acquires, develops, leverages, and nurtures its “high-equity” brand portfolio by dealing with brand extensions, brand deletions, and brand dilution respectively. The remainder of this paper is organized as follows. First, it will review the role of brands in marketing systems in terms of the “value exchange” (Bagozzi 1974; Houston and Gassenheimer 1987) and the agency theory (Eisenhardt 1989; Singh and Sirdeshmukh 2000) views. Then, it will shed light on a definition of brand, one of the most controversial topics in marketing, with respect to brand as both a relational and a legal resource. Lastly, by examining brand equity strategy with respect to
resource-advantage (R-A) theory, service-dominant (S-D) logic, and brand portfolio management, this paper will enhance understanding of branding strategy to acquire, develop, leverage, and nurture brand portfolio with “high equity” brand.

**THEORETICAL BACKGROUND**

*Marketing as value exchange and agency theory*

The definition of marketing has been controversial for decades. One of the well-received definitions of marketing is “value exchange” (Bagozzi 1974; Houston and Gassenheimer 1987) between a principal and an agent with respect to agency theory (Eisenhardt 1989; Singh and Sirdeshmukh 2000). In this respect, marketing would be interpreted as an agent relationship because “a principal (a buyer in a business to business context or consumer in a business to consumer context; hereafter “buyer/consumer “ shortly) depends on an agent (a firm) to undertake some action on the principal’s behalf.” through a contract (Bergen et al. 1992).

Since a buyer/consumer encounters a contract with another party to delegate work on its behalf, it is not surprising that this situation involves two issues. One is a precontractual problem that is related to a hidden information issue known as “adverse selection,” and another is a postcontractual problem that is related to hidden action issue known as “moral hazard.” To deal with an adverse selection, a firm invests resources in promotion (e.g., advertisement and servicescape) for signaling to show its superiority in its market offering. In addition, to cope with a moral hazard, a buyer/consumer uses efficient and effective evaluation and reward systems such as monitoring systems as well as behavior/outcome-based contracts.
In this process, a brand serves a significant role as a quality control and quality-enhancing institution. Hunt (2010) suggests that marketing systems are collections of interacting marketing institutions. In this phrase, he points out that the use of “institutions” can be interpreted in two ways. First, “institutions” refers to “types of organizations that engage in marketing, for example, manufacturers, wholesalers, retailers, advertising agencies, distributors, and marketing research firms.” Since “a brand is a distinguishing name and/or symbol (such as a logo, trademark or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from competitors,” (Aaker 1991) organizations with brands are trying to signal and perform as “high-equity” brands that have highly favorable associations to the targeted market segment. Second, “institutions” refers to “the formal and informal norms that guide, inform, and regulate ethical, responsible, and legal marketing.” To achieve “high-equity” brand, institutions with brands should be guided by the second meaning of institutions. Thus, the roles of brand in marketing systems have been significant as quality control and quality-enhancing institutions for efficient, effective marketing practice, understanding, analyzing, and maintaining marketing systems (Hunt 2006, 2010).

**Brand as both a relational and a legal resource**

One of the major research areas as well as the most controversial disagreements in marketing is how brand equity and “high-equity” brand are conceptualized, measured, and managed. A concept of brand equity has been evolving, and this evolution has been shaping the way that brand equity strategy is viewed. It is essential that firms acquire, develop, nurture, and
leverage brand equity to achieve competitive advantage leading to superior financial performance.

Aaker (1991) defines brand as “a brand is a distinguishing name and/or symbol (such as a logo, trademark or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from competitors.” He proposes that “brand equity is a set of brand assets and liabilities linked to a brand, its name or symbol, and that add to or subtract from the value” of market offerings, and that it has five components: brand awareness, brand association, brand loyalty, perceived quality, and other brand proprietary assets.

Keller (1993) defines brand equity as “the differential effect of brand knowledge on consumer response to the marketing of the brand” based on his customer perspective. He argues that a brand is “a set of mental associations” held by a consumer to add value to a product or service. In line with his argument, we can evaluate brand as a set of mental associations in terms of uniqueness (exclusivity), favorability (desirability), and strength (salience). His concept of brand is a cognition-based approach from a consumer perspective. Later, he suggests six elements of brand equity: memorability; meaningfulness; aesthetic appeal; transferability (both within and across product categories and across geographical and cultural boundaries and market segments); adaptability and flexibility over time; and legal and competitive protectability and defensibility (Keller 2003).

Kapferer (2012) points out that brands are not only intangible assets but also conditional assets. A brand as an intangible asset delivers a brand’s associations through a brand product or service, which is consistent with definitions of brand from Aaker (1991) and Keller (1993). As a conditional asset, a brand is defended against infringements and counterfeiting from its
registration day. Kapferer states that even though a trademark (brand) can be created on the spot, it takes time to be recognized by consumers to add perceived value of a product or service. He points out that a trademark (brand) evolves and changes its meaning, which explains how a brand is historically constructed through interactions with consumers. If a company lets its distinctive brand name become a generic term to describe a certain generic category rather than a specific product, its brand equity would increase or decrease. For instance, 3M’s Scotch tape is a specific product brand with a Scotch check pattern package, but it came to be used to describe a generic category of pressure-sensitive tapes.

Those brand equity concepts are in line with Hunt and Madhavaram’s (2006) argument that “a brand may be considered both a relational and a legal resource” (see table 1). In resource-advantage(R-A) theory (Hunt and Morgan 1996, 1997; Hunt 2010), a firm is trying to achieve competitive advantage in the marketplace and superior financial advantage through marketing strategies including brand equity strategy. Aaker(1991)’s brand concept as a distinguishing name and/or symbol fits with brand as a legal resource, and his five brand equity components (brand awareness, brand association, perceived quality and other brand proprietary assets) are cocreated with consumers with respect to brand as a relational resource. Keller(1993, 2003)’s customer-based brand equity criteria (uniqueness (exclusivity), strength (salience) and favorability (desirability) )are cocreated with consumers in terms of a brand as a relational resource. In addition, legal and competitive protectability as well as defensibility which comes from his six elements of brand equity are directly linked with a brand as an intellectual property including patents, copyright, industrial design rights, trademarks, trade dress, and trade secrets. Lastly, Kapferer (2012)’s definition of brand in terms of intangible asset and conditional asset is relevant to Hunt’s brand equity definition of brand in terms of relational asset and legal asset, respectively.
**Brand equity strategy and resource-advantage (R-A) theory**

A brand equity strategy means that “to achieve competitive advantage, and thereby, superior financial performance, firms should acquire, develop, nurture, and leverage an effectiveness-enhancing portfolio of brands” (Hunt and Madhavaram 2006). In R-A theory (Hunt 2010), a firm tries to achieve competitive advantage through marketing strategies including brand equity strategy. Since brand is a relational resource as well as a legal resource, a firm builds, communicates, and manage brand portfolio to gain a “high-equity” brands that have highly favorable associations to the targeted market segment. As a result, a firm, relative to its competitors, can move to competitive advantage position by serving market offerings to targeted market segment either with superior value or at lower costs, leading to superior financial performance. Table 2 shows propositions of brand equity strategy.
“artificial things that (a) require engineering knowledge for their design and production, and (b) perform large amounts of operations by themselves” (Joerges 1988). Thus, these market offerings with technology are perceived by a buyer or consumer in paradoxes such as control/chaos, freedom/enslavement, new/obsolete, competence/incompetence, efficiency/inefficiency, fulfills/creates needs, assimilation/isolation and engaging/disengaging (Mick and Fournier 1998). These tensions lead a buyer or consumer to feel anxious and stressed and “high-equity” brand can positively moderate these tensions because of its highly favorable associations to bring trust to a buyer or consumer. According to Singh and Sirdeshmukh (2000) based on agency theory, trust involves two dimensions: “(1) credibility, or the focal partner (brand)’s intention and ability to keep promises; and (2) benevolence, or evidence of the focal partner’s genuine concern for the partner through sacrifices that exceed a purely egocentric profit motive.” In addition, trust helps reduce performance ambiguity relating to technology of market offering and maintain price premium because a buyer or customer think in higher costs for providing high quality. Thus, we purpose the following:

**P1: As brand equity increases, there will be a reduction in perceived tensions from technology within market offerings.**

Madhavaram and Hunt (2008) suggest that “R-A theory’s hierarchy of basic resources and higher-order resources” and this hierarchy can illustrate how firms can fall into pitfall of losing their competitive resource advantage via “(1) a firm’s failure to reinvest, (2) the presence of causal ambiguity, and (3) a firm’s failure to adapt.” R-A theory’s hierarchy of basic resources and higher-order resources are classified in the following hierarchy: (1) basic, operant resources
(BORs), (2) composite, operant resources (CORs), and (3) interconnected, operant resources (IORs). First, BORs are skills and knowledge, which can serve roles as “building blocks” of higher-order, operant resources including CORs and IORs. In R-A theory, typically, human, organizational, informational, and relational resources can be classified in this category. Second, CORs are defined as combined (in)tangible resources which are interactive at low levels. Third, IORs refer to intricately interwined (in)tangible resources with more interactivity and reinforcement one another for a desired outcome. Higher hierarchy resources allow firms to achieve sustainability of competitive advantage because their high acquisition and development cost in terms of time, money, and efforts. Specifically, the reason why higher hierarchy resources become a source of competitive advantage would be that they hold more causal ambiguity.

According to Hunt (2000), it was challenging for American automobile firms to try to catch up with Japanese counterparts’ superior efficiency and effectiveness through organizational learning since Japanese firms’ competitive advantage originates from IORs: corporate cultures promoting teamwork, just-in-time inventory systems, the treatment of suppliers as partners, and total quality management procedures. These IORs are intricately interwined (in)tangible resources with more interactivity and reinforcement one another for a desired outcome. These IORs are main sources of “high-equity” brand to the targeted market segment, which allows a firm to add value on their market offerings and serve the roles of brand as quality control and quality-enhancing institutions in marketing systems.

Therefore, a brand is considered as not only a relational and legal resource but also as a human, organizational, and informational resource as a building block of IORs. If a firm’s brand portfolio management is related to IORs, since it is difficult to be imitated by competitors and
adds more value on its market offerings, it leads to competitive advantage in the marketplace and superior financial advantage through marketing strategies including brand equity strategy. On the basis of proceeding, we propose the following:

**P2: As brand equity increases, there will be a positive relationship between brand and interconnected, operant resources.**

**Brand equity strategy and Service-dominant(S-D) logic**

Merz et al.(2009) argue that brand have been evolving from output orientation eras, such as brands as identifiers(1990s-1930s), and brands as functional or symbolic images(1930s-1990s) to process orientation eras, such as brands as knowledge, relationship, or promise(1990s-2000), and brands as dynamic and social processes(2000 and forward). They argue that, based on service-dominant logic, current brands in process orientation eras have to deal with operant resources rather than operand resources and focus on value-in-use and co-creation rather than value-in-exchange and embedded value concepts in Goods-dominant logic. This argument needs to build a fresh and dynamic perspective on brand equity and brand equity strategy beyond a traditional and static perspective. This view allows us to view brand as a dynamic process rather than a static state and leads us to service-dominant logic to implement brand equity strategy successfully. We propose the following:

**P3: As brand equity increases, there will be a positive relationship between brand and value-in-use as well as co-creation.**
Brand equity strategy and brand portfolio management

Brand portfolio management refers to “a firm addresses the interrelated questions of what brands to add, retain, or delete,” (Varadarajan et al. 2006) which is highly related to brand equity strategy is “to achieve competitive advantage, and thereby, superior financial performance, firms should acquire, develop, nurture, and leverage an effectiveness-enhancing portfolio of brands” (Hunt and Madhavaram 2006). In doing so, a firm acquires, develops, leverages, and nurtures its “high-equity” brand portfolio by dealing with brand extension, brand deletion, and brand dilution respectively, which helps a firm not to fall into pitfall of losing their competitive resource advantage via “(1) a firm’s failure to reinvest, (2) the presence of causal ambiguity, and (3) a firm’s failure to adapt.” (Madhavaram and Hunt 2008) (Figure 1)

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Figure 1

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When it comes to brand extension, a firm’s brand equity serves two fundamental roles. One is a brand’s name alone as an extrinsic cue not to intervening brand extension evaluations directly. The other is a brand intervenes brand extension evaluations directly based on source credibility such as expertise and trustworthiness (Keller and Aaker 1992). When a brand affects brand extension evalutions as a name alone, three key dimensions, such as uniqueness (exclusivity), favorability (desirability) and strength (salience), play a significant role. Keller and Aaker(1992) state that “Extension evaluations will then depend primarily on (1) how salient or
accessible the core brand associations are in the extension context, (2) how relevant consumers perceive that information to be to their extension evaluations, and (3) how favorable inferred associations are in the extension context”. However, when a brand intervenes brand extension evaluations directly, source credibility such as expertise and trustworthiness matters. Therefore, a successful brand extension should have a similarity or fit to a parent brand. Clearly, “high-equity” brands add value firms’ market offerings among targeted customers with highly favorable associations through brand extension. In doing so, a firm can understand what key success factor for brand and brand extension is, clarifying causal ambiguity of success (Madhavaram and Hunt 2008) and leverage brand more strategically. In addition, they serve a role as a vehicle to achieve competitive advantage leading to superior financial performance. We propose the following:

**P4: As brand equity increases, there will be a positive relationship between brand and brand extension. Specifically, brand extension helps manage brand portfolios by leveraging brand equity not only as a source of credibility directly but also as a positive influencer of evaluation indirectly.**

Brand deletion strategy allows firms to free up and redeploy resources by deleting brands in their brand portfolio. In doing so, firms can avoid “a firm’s failure to adapt” (Madhavaram and Hunt 2008), and achieve competitive advantage by enhancing their image and reputation at the brand portfolio level, leading to superior financial performance. Since firms are pursuing superior financial performances by achieving competitive advantage in the marketplace, brand deletion is relevant to leveraging resources more effectively and efficiently and reducing harm from “counterresource” brands. Brand deletion can be described by brand, firm and market
factors and to what extent a brand can contribute to achieve competitive advantages such as firm growth, profitability, image and reputation is a criteria for deleting brand (Varadarajan et al. 2006). In the current competition, brand deletion strategy has been intensified by a shift from interbrand differentiation to intrabrand differentiation and a transition from a portfolio of a large number of local, national, and multicountry regional brands to a small number of global brands. “Only 200 of Nestlé’s 8,000 brands in 1996 were profitable, and only 400 of Unilever’s 1,600 brands in 1999 were profitable” (Kumar 2003). Varadarajan et al. (2006) also argue that “market-share leaders in their respective product categories and brands whose annual sales are in excess of $1 billion.” These facts provide evidence about why brand deletion strategy needs to maintain “high-equity” brand. We propose the following:

P5: As brand equity increases, there will be a positive relationship between brand and brand deletion. Specifically, brand deletion helps manage brand portfolios not only by leveraging brand equity more effectively and efficiently but also by reducing harm from “counterresource” brands.

Brand dilution is another important point to maintain brand equity and can be interpreted from “brand as legal resource” and “brand as relational resource”. Pullig (2006) classifies brand dilution in two types such as “infringement” and “blurring”. The presence of infringement and blurring indicates “counterresource” of brand equity and it needs to invest brand equity to fix the issues (Madhavaram and Hunt 2008). First, infringement occurs “when a competing party (i.e., a junior brand) uses an identical or substantially similar mark (e.g., brand name, slogan, symbol) that is already being used by an existing party (i.e., a senior brand) such that consumers are likely
to be confused, mistaken, or deceived about the source of the goods being sold.” It is critical in terms of not only protecting consumers from misleading or deception but also violating a firm’s property right to brand equity. Second, blurring refers to a senior brand’s lowered evaluation damaged by a junior brand’s negative associations (tarnishment) or a lessening of brand associations including a brand’s uniqueness (exclusivity), favorability (desirability) and strength (salience) in consumers’ mind. This dilution makes consumers have confused brand associations and consumers are less likely to identify and recognize a brand in question, involve it in evoked or consideration set, and choose it. This vicious consequence should be prevented and firms have to monitor unintended association from competing brands as routine and be careful of risk of future dilution. We propose the following:

**P6:** As brand equity increases, there will be a negative relationship between brand and brand dilution. Specifically, avoiding brand dilution helps manage brand portfolios by not only nurturing favorable associations by but also preventing from infringement and blurring protection.
CONCLUSION

This paper examines the roles of brand in the marketing systems in terms of the “value exchange” (Bagozzi 1974; Houston and Gassenheimer 1987) and the agency theory (Eisenhardt 1989; Singh and Sirdeshmukh 2000) views. Then, it sheds light on a definition of brand, one of the most controversial topics in marketing, with respect to brand as both a relational and a legal resource. Next, by examining brand equity strategy with respect to resource-advantage (R-A) theory, Service-dominant (S-D) logic and brand portfolio management, this paper aims at enhancing understanding of branding strategy to acquire, develop, leverage and nurture brand portfolio with “high equity” brand.

This theoretical understanding helps a better understanding of the role of brands and managing brand portfolios in terms of brand equity strategy as a relational resource management. Six propositions in this paper shed light on how a firm can build a high equity brand by managing brand portfolios as relational resouces. By implementing more effective and efficient brand equity, a firm can achieve competitive advantage in the marketplace and superior financial advantage for the greater well-being of citizentry in practice.
REFERENCES


Table 1 Definition of brand equity: A brand as a relational and legal resource

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<td>Legal resource</td>
<td>Distinguishing name and/or symbol fits with brand (e.g. trademark)</td>
<td>Legal and competitive protectability and defensibility</td>
<td>Conditional asset defended against infringements and counterfeiting from its registration day</td>
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<td>Relational resource</td>
<td>Brand awareness, brand association, perceived quality and other brand proprietary assets are cocreated with consumers with respect to brand</td>
<td>Uniqueness (exclusivity), strength (salience) and favourability (desirability) are cocreated with consumers</td>
<td>Intangible asset to deliver a brand’s associations through a brand product or service</td>
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Table 2 Propositions of brand equity strategy as a relational resource management

<table>
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<th>Proposition</th>
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Figure 1 Brand portfolio management for “high-equity” brand