



IMR-DCAL SPECIAL PAPER



# The impact of customer-based brand equity on the operational performance of FMCG companies in India

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## KEYWORDS

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Brand association;  
Perceived quality

**Abstract** Measurement of brand equity has posed a big challenge to the companies in the Indian fast moving consumer goods (FMCG) industry. This paper investigates the impact of brand equity on the operational performance of businesses in the Indian FMCG industry. The research study adopts descriptive and exploratory approaches. The results indicate that there is correlation between brand equity and operational performance of business. The practical implications of the findings are that brand equity has to be effectively managed for improved operational performance of business.

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## Introduction

One of the most popular and potentially important marketing concepts that has been extensively discussed by both academicians and practitioners over the past decade is brand equity. It has become essential for brand managers to understand and measure brand equity (Ambler, 2003). However, it is not sufficient just to develop and measure brand equity. Companies have to substantiate the amount spent in man-

aging their brands through their business performance. To the best of our knowledge, research studies in this area have been inadequate.

Despite considerable interest in the concept of customer-based brand equity, there have been few attempts at its measurement in the fast moving consumer goods (FMCG) industry. The FMCG industry is the fourth largest sector in the Indian economy. The findings of this study will not only enrich the field of research pertaining to the use of brand equity for leveraging business performance, but also help brand managers of FMCG companies to manage their brands effectively and efficiently. Multinational companies (MNCs) have a strong presence in the Indian FMCG sector. There is intense competition between and within the organised and unorganised segments of the FMCG sector, and the companies survive on low operational cost (IBEF, 2006).

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This gap, in our understanding, provides justification for a study to explore the relationship between brand equity and operational performance in the FMCG industry.

The main purpose of the study is to determine the possible association between brand equity (based on customers' assessments) and operational business performance. The practical implications of this research can be beneficial to managers in organisations to leverage brand equity to improve operational performance of their businesses.

## Literature review

### Customer-based brand equity

Some researchers with the consumer or marketing perspective refer to brand equity as customer-based brand equity. Subscribers to this approach tend to focus on the value created by marketing activities as perceived by customers (Mackay, Romaniuk, & Sharp, 1997). (In this paper, the term brand equity is used to denote customer-based brand equity.) Brand equity, when correctly and objectively measured, is the appropriate metric for evaluating the long run impact of marketing decisions (Simon & Sullivan, 1993). The power of the brand lies in what customers have learned, felt, seen, and heard about the brand as a result of their experiences over time (Keller, 2003).

The concept of brand equity can be operationalised from two angles: from the angle of consumer perceptions (cognitive approach) and that involving consumer behaviour (behavioural approach) (Silverman, Sprott, & Pascal, 1998). The consumer perceptions approach includes brand awareness, brand associations and perceived quality. The consumer behaviour approach includes brand loyalty and the focus on paying a price differential (Myers, 2003). Aaker (1991) considers brand equity as "a set of brand assets and liabilities linked to a brand, its name, and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers" (p. 15). The brand assets/liabilities are grouped into five categories: brand loyalty, brand name awareness, perceived brand quality, brand associations, and other proprietary brand assets. Other proprietary brand assets include patents, trademarks, and channel relationships. According to Yoo and Donthu (2001), the fifth category, other proprietary brand assets, is not relevant to consumer perception, and hence, only the first four dimen-

sions should be regarded as relevant to brand equity. Focusing on the various dimensions of brand equity, this study recognises brand loyalty, brand awareness, perceived quality, and brand associations as the common dimensions of brand equity. We consider behaviour to be a consequence of brand equity rather than brand equity itself.

The growing number of brands in international markets necessitates the development of valid and reliable brand equity measures that can be generalised across different countries (Buil, de Chernatony, & Martínez, 2008). Reliable assessment of cross-national measures is of fundamental interest to international companies since these measures influence the precision and quality of strategic decisions (Parameswaran & Yaprak, 1987).

### Operational business performance

According to Eccles (1991), there has been a revolution in performance measurement, urging organisations to place emphasis on non-financial performance measures. For many years, commentators have exhorted organisations to use more balanced measurement practices in an attempt to complement the traditional financial performance measurement. There are compelling reasons for viewing business performance in terms broader than business economic performance (Venkatraman & Ramanujam, 1987). The present study is based on the conceptualisation of operational performance by Venkatraman and Ramanujam (1986), where, the operational performance of the FMCG companies is measured by the market share. However, financial measures of performance alone cannot guide an organisation to market dominance. Non-financial performance indicators also have to be measured and improved (Kaplan & Norton, 1996).

### Indian FMCG industry

Fast moving consumer goods are also known as consumer packaged goods (CPG). The range of FMCG products is classified into three broad categories: household care, food and beverages, and personal care products. The products under each of these categories are provided in Table 1.

Fast moving consumer goods are products that have a quick turnover and a relatively low cost; FMCG products usually get replaced within a year, and they constitute a major part of

**Table 1** FMCG category and products.

| Category           | Products   |
|--------------------|--|
| Household care     | Fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish and furniture polish)                                 |
| Food and beverages | Health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; processed fruits, vegetables; dairy products; bottled water; branded flour; branded rice; branded sugar; juices. |
| Personal care      | Oral care, hair care, skin care, personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; feminine hygiene; paper products.  |

Source: IBEF 2006.

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