The Information-Economics Perspective on Brand Equity

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Abstract

The focus of this monograph is the information-economics theoretic framework of brand equity. Adopting this view, Erdem and Swait [1998] argue that consumer-based brand equity is the value of a brand as a credible signal of a product’s positioning. In their framework, the content, clarity, and credibility of the brand signal creates intangible benefits, enhances perceived quality, and decreases consumer-perceived risk and information costs, and hence increases consumer utility, which underlies the added value associated with a brand. The central (and motivating) construct in this view is the “credibility” of brands as signals.

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Brands have a very long history. Proto-brands date back to the early Bronze Age (2250–2000 BCE) in the form of trade seals used in the Indus Valley (where Harappan civilization flourished) and Mesopotamia (which at that time hosted several civilizations such as Sumeria and Akkadia) [Moore and Susan, 2008]. “Modern” brands, on the other hand, first appeared in the early 16th century on whiskey distillers’ barrels.

Brands serve two main functions. They are conveyors of information (e.g., origin, quality), are image builders, and serve as symbols of identity. As conveyors of information, brands reduce risk and information costs, and enhance consumer quality perceptions [Erdem and Swait, 1998], and as conveyors of identity and meaning, brands embody emotional/experiential and symbolic/self-expressive associations and benefits [Aaker, 1991, 1996, Keller, 1993].

In its broadest sense, brand equity is the added value with which a brand endows a product [Farquhar, 1989]. Cognitive psychological views of brand equity have emphasized constructs such as brand awareness, brand associations (and uniqueness, favorableness, and strength of these brand associations, Keller, 1993), perceived quality, and brand
loyalty as the main building blocks of brand equity [Aaker, 1991]. Although these frameworks have also emphasized the importance of emotional/experiential and symbolic/self-expressive associations in creating brand equity (and multiple dimensions of brand identity, such as anthropomorphic perceptions of brands, brand as symbols, and so on; see Aaker [1996]), the information-economics view of brand equity emphasizes the informational role brands play in the marketplace and the contribution of this role to overall brand equity [Erdem and Swait, 1998].

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In Section 2, we discuss the underpinnings of this framework of brand equity, and hence outline the analytical models of signaling under quality uncertainty, brand premia, and reputation. In Section 3, we outline this information-economics theoretic framework of brand equity in greater detail and discuss the empirical validation of the framework. In Section 4, we discuss the theoretical and empirical implications of the information-economic theoretic framework for various aspects of consumer decision-making, such as choice, consideration-set formation, choice dynamics, customer relationship management (CRM), formation of brand loyalty, and consumer price sensitivities and willingness to pay. Finally, in this section, we also discuss the implications for brand management, such as managing brand extensions, alliances, co-branding, and brand crisis. In Section 5, we discuss the validation of the basic framework across product categories and countries and over time. In Section 6, we conclude with avenues for future research.
References


References


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