

Chapter 2

Theoretical Foundation

2.1 Introduction

This chapter will provide theoretical foundation that serves relevant theories similar with problem identification within this research. In this chapter, author also provides theoretical frameworks to describe the relationship between each variable that obtained by previous researchers. The variables that will be explained include branding, customer's willingness, price premium, awareness, quality, uniqueness, product value, social image and country origin. This chapter also explains analysis of the hypothesis.

2.2 Theoretical Foundation

2.2.1 Brand Image

Branding has been created for around centuries as a means to distinguish goods of a single producer from another producer. The word brand itself came from the old Norwegian word brandr which means "to burn" (Keller, 2003). According to American Marketing Association (AMA), a brand is "a name, term, sign or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those competition". Basically, if a marketer creates a new name, logo, or symbol for a new product, we can call the marketers create a new brand. According to Kotler (2005), a brand is "a name, sign, symbol, or a design, or a combination of them, intended to identify the goods or service of one seller or group of sellers in order to differentiate them from the competitors". The other theory also said that "a positive brand image is created by marketing

programs that link strong, favorable and unique associations to the brand in memory” (Keller, 2003).

On the other hand, brand image is a different thing from the brand itself. Brand image is “a set of perceptions about a brand as reflected by brand associations in consumer’s memory” (Keller, 1993). Brand image, also can be define as “a cluster of attributes and associations that consumers connect to the brand name” (Biel, 1992). In addition, Severi and Ling (2013) also said that brand image also shapes consumer’s perception and attitude about the brand as it gives subjective information in consumers’ mind. According to Riezboos (2003), brand image formed through three processes in Figure 2.1 below.

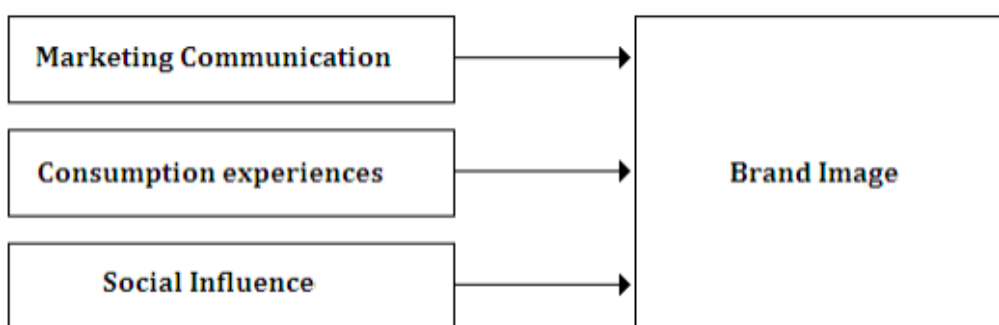


Figure 2.1: The process of inductive inference on brand image (Riezboos, 2003, p. 66)

Figure 2.1 showed that brand image is formed through three different inductive processes: marketing consumption, consumption experience, and social influence. Furthermore, by knowing this model, marketers can understand how a good brand image can be created. Marketing communication is important because it delivers the message from the company to the consumers and the company wants that the message understood by the consumers which it will affect the image (Baker & Hart,

2008). Even if the marketing communication has a strong and positive effect on creating brand image, the consumption experience also plays a vital role in the brand image forming of the consumers. These two factors should not contradict each other in order to help consumers have a clear image about the brands since the message which corresponds to the consumption experience would give the greatest effect on the consumers (Riezebos, 2003). Social influence is also an important thing to create a good brand image, for example word of mouth. It has a powerful influence due the fact it's a discussion between two people, where opinions of 2 or more persons are combining and it reflected as having more credibility than any other type of communication methods (Blythe, 2006).

2.2.2 Customer-based Brand Equity

Keller (1993) defined customer-based equity as the different impact of brand knowledge on customers' perception to the marketing of the brand. Customer-based brand equity (CBBE) also helps to answer two questions that most people ask such as: What makes a brand strong? and How do you build a strong brand? In order to answer these two questions, Keller created CBBE model to help most marketers to build a strong brand. (Look Figure 2.2)

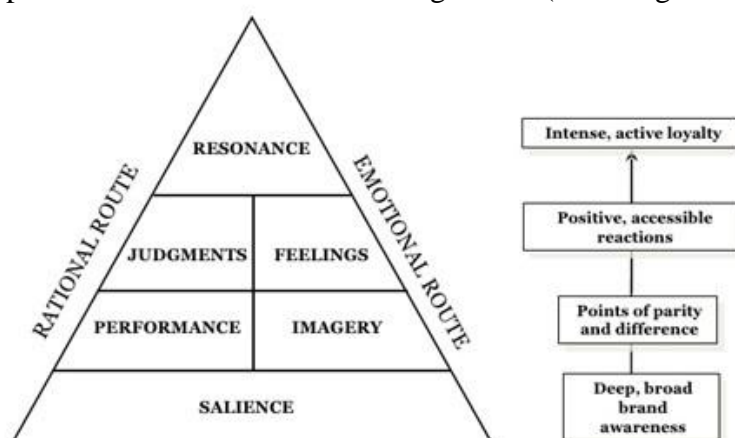


Figure 2.2 CBBE pyramid model, Kevin Lane Keller (1993)

Based on this model, a brand can be said to have a positive customer-based brand equity if customers giving more positive reactions to the product and the way that brand marketed when it is identified than when it is not. Customer-based brand equity created if customers have high awareness and familiar with a brand and also have strong, positive and unique associations in their memory. Keller (1993) also created four steps of building a strong brand. The first step is to arrange appropriate brand identification in customers mind with a specific product class and product that costumers need. The second step is by creating brand meaning that can describe the brand perfectly and easy to stick in customers' mind. The third step is gaining the proper customers responses for the brand identification and brand meaning. The last step is creating a bridge with the customers to maintain the relationship between customers and the brand.

In the other words, these four steps of building a strong brand can be represent a set of fundamental questions that customers always ask, such as *Who are you?* (Brand Identity), *What are you?* (Brand Meaning), *What about you? What do I think or feel about you?* (Brand Responses), and *What about you and me? What kind of relation and how much of a connection would I like to have with you?* (Brand Relationship).

Furthermore, the implementation of these four steps needed six primary brand building blocks which are brand salience, brand performance, brand imagery, brand judgments, brand feelings and brand resonance (Figure 2.2)

1. **Brand Salience** relates to many aspects of the awareness of a brand, for example how a product can easily recognized and remembered in various

situations. These factors concern how good are the brand element as product identification. In addition, brand awareness in not only concern about how consumers recognize or remember a brand, but it also involves linking the brand (brand name, logo, symbol, and so forth) with certain associations in memory. Specifically, building brand awareness involves helping customers to get more information or understand about the product of service category in which the brand competes, so customers will understand clearly what kind of products or services are sold under the brand name (Keller, 1993).

2. ***Brand Performance*** is one of the important elements of brand equity because it is the primary influence of what consumers experience with the brand, what they hear about the brand (word of mouth) and what kind of information that the firm tell customers about the brand. Based on Consumer Reports review (1994), there are 5 attributes and benefits that underlie the brand performance, which are: (1) Primary supplementary and ingredients features, (2) Reliability, durability, and serviceability of a product, (3) Service efficiency, empathy, and effectiveness, (4) Design and style, and (5) Price (Keller, 1993).
3. ***Brand Imagery*** relates with the brand or service extrinsic properties, which is the ability of a brand or service to fulfill customers' psychological or social needs. Brand imagery can be formed directly and directly. There are four categories can be created brand imagery, which are: (1) User profiles, consists of descriptive demographic factors (age, gender, race, income) and abstract psychographic factors (attitudes toward life, possessions, social issues, careers, or political institutions),

(2) Purchase situation, (3) Values and personality, and (4) Experiences, history, and heritage (Keller, 1993).

4. **Brand Judgments** focus on customers' opinions and personal evaluation to the brand. Brand judgments also involving how customers put together all the brand performance and brand imagery associations to form different kinds of opinions. There are four aspects that important to determine brand judgments (Keller, 1993). The first aspect is *Brand quality*, customers' overall evaluations of the brand they used (Wilkie, 1990). The second aspect is *Brand credibility*, an extent to which the brand as a whole is seen as credible in terms of three dimensions (brand expertise, brand trustworthiness, and brand likability). The third aspect is *Brand consideration*, how customers consider to buy or to use a product. The last aspect is Brand superiority, customers' perception to a product, whether the product is more unique or better than the other similar product (Keller, 1993).

5. **Brand Feelings** are customers' emotional feelings and responds toward brands. Brand feelings can also relate to the social currency evoked by the brand (Keller, 1993). These kinds of reactions can be express by *warmth, fun, excitement, security, social approval, and self-respect* (Kahle, Paulos & Sukhdial, 1988).

6. **Brand Resonance** is the final step of the model which describe the ultimate relationship of identification that customer has with a brand. In this resonance level, customers have their own bonds toward the brand and they feel that they are "in sync" with the brand. In particular, brand resonance

subdivided into four types; (1) Behavioral loyalty, (2) Attitudinal attachment, (3) Sense of the community, and (4) Active engagement (Keller, 1993).

2.2.3 Willingness to pay Price Premium

In general, customer's willingness to pay can be defined by the maximum price that the customers are willing to spend for a product. Customer's willingness to pay a product is based on the customer price and the other variables that affecting customer's decision-making (for example; culture, satisfaction level, and brand loyalty) (Gal and Ely, 2009). Customer's willingness to pay price premium can be affected by many factors. For example, customer's willingness can be determined by two factors, which are personal income and gender (Govindasamy & Italy, 1999). Personal income can be a statement that represents how much customers' spend their money to a product and by gender, most of the people can see what kind of product that they want to purchase.

Price Premium is one of the measurements of brand equity, which has become one of the motivations in customers' willingness to pay for the product (Anselmsson, Johansson, and Persson, 2007). A brand can be categorized as price premium when customers are willing to pay the products from a particular brand is higher than the sum they are willing to pay for other similar products from another brands (Aaker , 1996). Most of the customers think that price premium is an excess price paid comparable with the "true value" of some product, and they're expecting when sellers set the product category as premium product, they should earn more benefits than the other regular products (Rao & Bergen, 1992). Doyle (2001), argued that

price premium is one of the most important element in brands that can create shareholder value, because it does not required any direct investment to charge high price. Moreover, it should be noted that the price premium in the present study, same as in Sethuarman (2000), deals with a willingness to pay, which means it does not reflect the real price. In addition, price premium is a relative measure, which means that price premium is relevant to all brands (even for low cost brands, depends on how consumers see the brands).

2.2.4 Brand Awareness

Brand awareness is the first step for building brand equity. Brand awareness can be reflected by the customer's ability to identify the brand under different circumstances (Keller, 1993), including brand opinion and brand recognition (Aaker, 1996). Aaker (1996) considers that brand awareness is one of the most important pillars in building brand equity. It also considered being one of particular importance in low-involvement product categories (Keller, 1993; Ritson, 2003), such as groceries in general, even if that could not be associated to all consumer goods. In many studies, brand awareness founded to influence customers' response to brands positively (Anselmsson et al., 2007; Cobb-Wahlgren et al., 1995; Yoo and Donthu, 2001; Washburn and Plank, 2002). Therefore, brand awareness can be assumed as one of the importance of customer's willingness to pay price premium products:

H1. Perceived awareness will give a positive impact on customers' willingness to pay a price premium

2.2.5 Perceived Quality

Perceived Quality is one of a core element in the most brand equity models (Lassar et al., 1995; Aaker, 1996). There are many researchers defined perceived quality into many meanings. According to Keller (2003) Perceived Quality can be identified as customers' perception towards products quality or uniqueness, compared with the other products. In addition, Zeithaml (1998) said that perceived quality is not the real quality of the product, but it based on the customer's perception about the overall quality of the product itself. In the other hand, Kotler (1991) noted that there's a connection between product and service quality, customer satisfaction, and the success and company profitability. In order to build consumers perceived quality, one of the best way is through customer's direct experience with the brand and information gained in the environmental factors (Gronroos, 1984; Yoo et al., 2000). Furthermore, perceived quality can brings value to brand in many several ways: How a brand differentiate itself from the other competitors, high quality of a brand can drives customers to purchase it, having a strong foundation for the brand extension, and charge the customers premium price (Aaker,1991). Empirical studies have confirmed the positive relation between perceived quality and premium price (Netemeyer et al., 2004; Sethuarman, 2000).

Thus, the hypothesis will be:

H2. Perceived Quality will give a positive impact on customers' willingness to pay price premium.

2.2.6 Product Uniqueness

Uniqueness theory deals with people's emotional and behavioral reactions to the information they gain about their similarity with the other people (Synder and Fromkin, 1980). Uniqueness means that customers feel the brand differs from the other competing brands (Netemeyer et al., 2004, p. 211). This concept is one of the most central cornerstones in marketing literature and it is related to other concepts such as differentiation and unique selling propositions. In addition, in brand equity theory, uniqueness is the basic, as the degree of uniqueness in brand associations, together with the favorability and strength of those associations to determine the equity (Keller, 1993). According to Synder and Fromkin (1977), it is logical to speculate that different people show varying degrees of need for uniqueness and with this circumstance, there's a significant impact on their purchase decision. Individuals that with a high need for uniqueness tend to adopt with new products or brands quicker rather than individuals with low need for uniqueness (Bertrandias and Goldsmith, 2006). There are three types of need for uniqueness based on the consumer behavior theory; (1) *Creative choice counter-conformity*, the search for social difference through personal experience when consuming the products that are acceptable to others (Knight and Kim, 2007; Tian, Bearde, and Hunter, 2001). (2) *Unpopular choice counter-conformity*, when consumers are willing to risk their social disapproval to establish their uniqueness by consuming products that considered outside group norms (Knight and Kim, 2007). (3) *Avoidance of similarity*, which consumers' avoidance of having same products with the

others or purchasing mainstream products (Knight and Kim, 2007). In previous studies, the link between uniqueness, brand loyalty and price premium has been statistically confirmed (e.g. Jarka and Goodstein, 1998; Beteneyer et al, 2004).

Thus, the hypothesis will be:

H3. Perceived Uniqueness will give a positive impact on customers' willingness to pay price premium.

2.2.7 Product Value

Evaluation theory suggests that consumers have their own intrinsic and extrinsic judgements toward product cues (Darwar and Parker, 1994; Richardson, Dick and Jahn, 1994; Wall, Liefeld and Helsop, 1991). Intrinsic cues refer to a physical composition of product core, while extrinsic core refer to external aspects of the product or non-core (O'Cass and Lim, 2001). These attributes or cues provide a basis to make various evaluative judgments about the quality and value of products cues (Darwar and Parker, 1994; Richardson, Dick and Jahn, 1994; Wall, Liefeld and Helsop, 1991). Perceived product value can be defined as "consumer's appraisal of the utility of a product or service based on perceptions of what is received and what is given" (Zeithaml, 1988, p.14). It also can be included with hedonic, symbolic, esthetic, social and functional aspects from the consumption process (Holbrook and Hirschman, 1982). Previous research explained that when the product value is high, consumers are tend to pay price premium for a product (Hampton, 1977; Cordell, 1992; Bilkey and Nes, 1982).

H4. Product Value will give a positive impact on customers' willingness to pay a price premium.

2.2.8 Social Image

In the common branding literature, social image and symbolic meaning of brands are often emphasized (Martin and Brown, 1990; Biel, 1992). In the brand equity literature, the more specific user image develop (i.e. perceptions about typical buyers or users that using certain brands) relates to the same idea and it is seen as an important component when building customer loyalty and brand equity (Keller, 2001). The idea is that brands, as other properties, provide customers with means to express themselves, their ideal selves, and specific dimensions of themselves (Belk, 1988; Ball and Tasaki, 1992). This idea was supported by empirical work that suggesting social image is relevant and influences customers' response in a variety of many categories, not only capital and shopping goods (Lassar et al, 1995), but also chemical-technical grocery products (Martin and Brown, 1990). According to exploratory that conducted by Anselmsson et al. (2007) and Tikkanen and Vaariskoski (2010), social image has been shown to be a price premium driver. Therefore, the hypothesis will be:

H5. Perceived social image will give a positive impact on customers' willingness to pay a price premium.

2.2.9 Country of Origins

There are many researches on consumers' perception of the home country origin of products and brands. A product that comes from a specific country can be called "Country of Origin" or "COO" and it is regarded as a part of extrinsic product characteristic (Billkey & Nes, 1982). Generally, most of the

consumers will give positive responds to the products, if it has a favorable country-of-origin image (Maheswaran, 1994). Country of origin can influence consumers' perception towards products performance, quality, design, price, and purchase decision. According to Kotabe & Helsen (2009), the effect of country origin can be explained as a type of halo effect, where the consumers are relying on their general impressions of a country to form some beliefs about products attributes of performance. In Indonesia, there's an increased in imported products, so Country of Origin become more important than ever. Consumers often evaluated imported products differently rather than the domestic products (Billkey & Nes, 1982). Furthermore, in developing country, Country of Origin has bigger influence rather than in the develop country (Verlegh & Steenkamp, 1999). Therefore, the hypothesis would be:

H6. Perceived home country origin will give a positive impact on customers' willingness to pay a price premium.

2.3 Theoretical Framework

According to hypothesis development, the theoretical framework proposed in this study by Johan Anselmsson, Niklas Vestman and Ulf Johansson is presented below

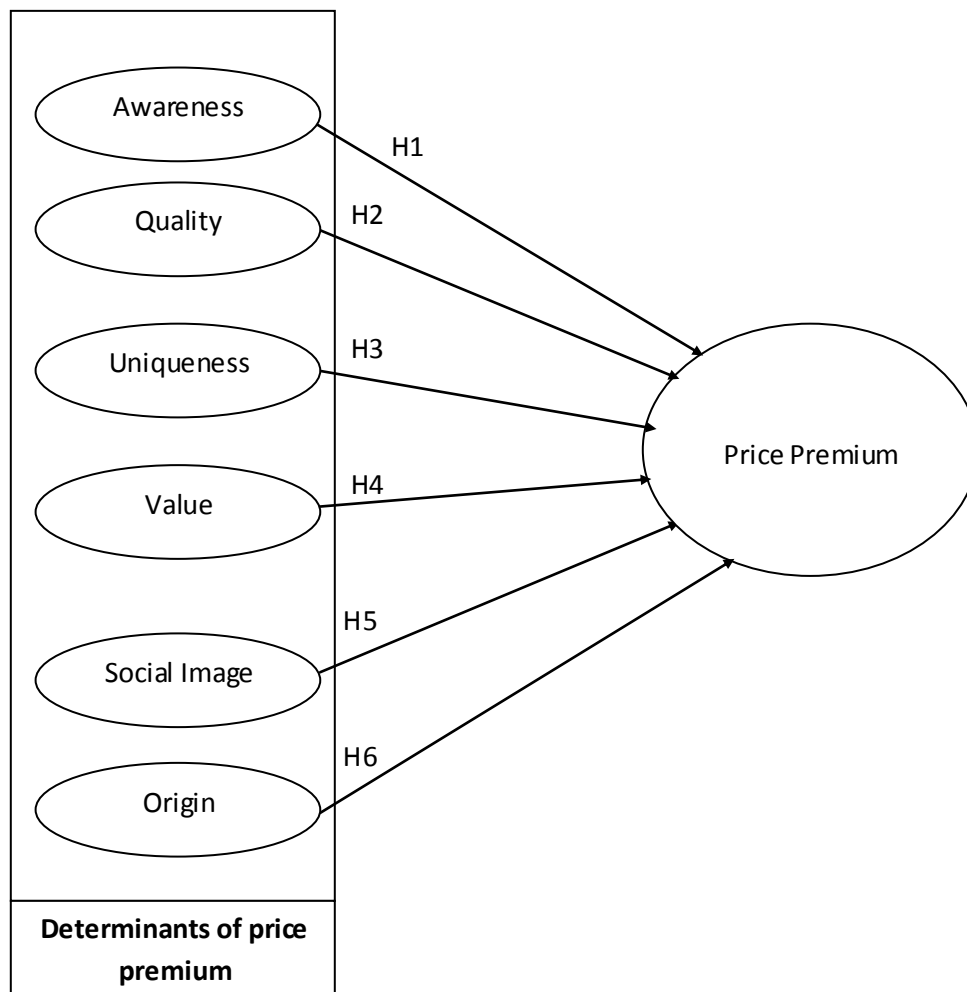


Figure 2.3 Theoretical framework (Adopted from Johan Anselmsson, Niklas Vestman and Ulf Johansson, 2014)

*The Product Value variable is adopted from Ahmet Bayraktar (2015) because the previous variable, CSR activity makes confusion for the respondents and may lead the research into invalid data. In order to avoid that risk, Author decided to change the variable into Product Value which also can be used to determine price premium for products.