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**Price and Store Image as Mitigating Factors in the Perception and Evaluation  
of Retailers' Customer-Based Brand Equity**

**Dissertation**

**Presented in Partial Fulfillment of the Requirements for the Degree of  
Doctor of Philosophy  
Lynn University**

**by**

**Hagai Gringarten**

**2013**

Order Number: \_\_\_\_\_

**Price and Store Image as Mitigating Factors in the Perception and Evaluation  
of Retailers' Customer-Based Brand Equity**

Gringarten Hagai, Ph.D.  
Lynn University, 2013

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## **Abstract**

Developing, improving, and achieving sustainable advantage is becoming more challenging than ever before. This is due in part to the complexity and the rapidly changing marketing environment. No matter how strong brands are, it is getting harder to achieve and sustain brand equity. Increasingly, firms realize that branding is one of the most valuable intangible assets that firms have. This study aims to provide a better understanding of customer-based brand equity (CBBE) in the era of super brands.

Consumers often base their buying decisions on impressions of price and store image. The objective of the study was to acquire an understanding of the effects of price and store image on customer-based brand equity, and the differences among perceptions of two major retailers, attributed to price and store image. In addition, this study explored differences in customer-based brand equity based on the characteristics of the retailer's customers. Retailers are an important link between manufacturers, marketers and consumers. The specialty coffee industry is a significant and growing part of retailing in the U.S.; therefore, the study concentrated on Starbucks and McDonalds' McCafe, the two leading coffee retailers in the U.S. In essence, the study aimed to provide a better understanding of how brand equity is affected.

This research was a quantitative, non-experimental, exploratory-comparative study using survey research of subjects. Data were collected from 539 students at a regional U.S. university. These students are consumers, and ardent customers of retail coffee shops. Descriptive and inferential statistics including t-tests and three-way ANOVA were used to analyze the data.

The results of this study imply that store image can add to brand equity, thus creating a sustainable competitive advantage for products and firms, while allowing them to charge premiums. Price usually is positively related to the perception of quality; the study found that price was not significantly related to customer-based-brand equity in every retail operation. Store image had the strongest association with brand equity followed by perception of price. This study showed that higher levels of education were associated with higher customer-based-brand equity, and gender had a weaker association to customer-based-brand equity.

Results indicate that both store image and price might positively influence specialty coffee consumers buying behavior. These results present definite value to retailers.

Overall, Starbucks displayed higher brand equity than McDonald's McCafe, somewhat contradicting Interbrand's ranking of global brands where McDonald's, the brand, is ranked 6 and Starbucks, the brand, is ranked 96 among the top global brands (2012). This might be due to the fact that McDonald's is an iconic American brand, occupying a central place in popular culture for over 70 years (Ritzer, 2008), while McDonald's McCafe is a fairly new concept. Starbucks higher brand equity might indicate great brand challenges ahead for McDonald's McCafe.

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# **CHAPTER 1**

## **INTRODUCTION**

### **Introduction to the Study**

Russell L. Hanlin, CEO of Sunkist Growers, summed it up perfectly when he stated that “An orange...is an orange...is an orange. Unless, of course, that orange happens to be a Sunkist, a name eighty percent of consumers know and trust” (as cited in Aaker, 1996, p. 1).

In a world that is evolving at lightning speed toward a greater interaction among consumers, industries, and business entities, technology and infrastructure enable them to be more efficient, productive, and effective than ever before (Friedman, 2005). As a result, marketers face tough challenges to better satisfy needs and wants of various entities and people than their competition. Consumers today are overloaded with information, and rely on brands to minimize the decision making process and to simplify their lives (Holt, 2003). In essence, the marketing discipline is evaluated, formed, and defined relentlessly, and branding is more important than ever (Leone, Rao, Keller, & Luo, 2006). Tom Peters said it succinctly, “be distinct, or be extinct” (1999, p. 13).

According to Interbrand, a leading brand consultancy, and authors of the annual ranking of “The 100 Top Global Brands,” 50 of the top 100 brands in the world are American (e.g., U.S.) (Interbrand, 2012). In fact, brands are so important that when British and American teens were asked for their preference for a T-shirt with or without a logo on it, 98% preferred a brand over plain style (Lindstrom & Seybold, 2003).

Success usually is achieved through differentiation, positioning, and successful branding strategies. *Positioning* is defined by Kotler and Armstrong (2001) as “arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers” (p. 65). Aaker and Shansby (1982) referred to positioning as “a frame of reference, the reference point usually being the competition” (p. 56). According to Ries and Trout (1986), it all started in 1972 with their series of articles published in *Advertising Age* titled “the positioning era,” asserting that positioning “is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect” (p. 2). According to the Kellogg School of Management (2010), a brand positioning statement is “a summary of the strategy that outlines the target, frame of reference, point of difference and reasons to believe the point of difference claim” (p. 1).

Avis is a classic example of successful positioning. Prior to launching its “We try harder” campaign in 1962, Avis had been a money-losing operation during the previous 13 years. By relating itself to industry leader Hertz while proclaiming it tries harder because it was “number two” in the car rental business, Avis was able to make a profit and triple its market share (Grabiner Hall, 2009; Ries & Trout, 1986). Another classic example is Ivory Soap, one of the most successful consumer products in recent history. At a time when all soaps were either yellow or brown in color and irritated the skin, Ivory Soap, introduced in 1879, was white and positioned as “99 and 44/100% pure,” mild, and “the soap that floats.” The fact that it floated, helped people find it in the bath water. The Ivory Soap positioning was reinforced by its name and wrapper that associated with

purity and mildness. Great positioning helped Ivory products generate estimated sales of more than 25 billion dollars in more than 110 years (Aaker, 1991; Graydon, 2008).

Positioning plays an important role in achieving sustainable competitive advantage. Today's highly competitive retail environment makes it very challenging to develop viable and successful brands. Master brands enjoy the combination of brand equity, retail muscle, financial strength, and a loyal customer base that makes it harder for brands to compete, survive, grow, and sustain their competitive advantage. It is also increasingly hard to create and maintain points of differentiation, which are among the main drivers of brand strength (Aaker, 2003). According to the Kellogg School of Management (2010), brands must "know their customers" and evolve their brand positioning over time in order to sustain competitive advantage. Keller (2000) asserted the most successful brands keep up with competing brands by creating points of parity with their strong areas, while trying to create points of difference to achieve sustainable competitive advantage.

In *No Logo*, Klein (2001) asserted that firms use branding to enrich themselves while ignoring social issues. Klein argued that "the astronomical growth in the wealth and cultural influence of multinational corporations over the last 15 years can arguably be traced back to a single, seemingly innocuous idea developed by management theorists in the mid-1980; that successful corporations must primarily produce brands, as opposed to products" (p. 3).

Most companies sell their products and services in *retail markets*, which are defined as "a group of consumers with similar needs and a group of retailers using similar retail format to satisfy those consumer needs" (Levy & Weitz, 2001, p. 173). *Retailers*

are the link between manufacturers, marketers, and consumers. A *retailer* is “a business that sells products and services to consumers for their personal or family use” (Levy & Weitz, 2001, p. 8). *Retailing*, which is defined very similarly to a *retailer*, “is the set of activities that adds value to the products and services sold to consumers for their personal or family use” (Levy & Weitz, 2001, p. 8).

With more than 1.6 million retail firms in the United States (U.S.) employing 24 million people who represent approximately 18% of the U.S. workforce, the retail industry is the second largest industry in the U.S. With annual sales of about \$4.6 trillion, retail is a significant component of the U.S. economy (Kotler & Armstrong, 2013, p. 374). Since retailers are the link between manufactures, marketers, and consumers, they are critical to consumer brands’ success (Kotler & Armstrong, 2012; Levy & Weitz, 2011; Wang, 2008). Research assessing the impact of elements such as price and store image on consumers and brand equity will benefit scholars and practitioners alike.

Price is considered one of the most powerful and effective tools in retail strategy (Gauri, Trivedi, & Grewal, 2008), while image is an important differentiation tool (Kotler & Armstrong, 2010). Since the 1990s, brand equity was researched extensively “primarily from a consumer perspective, but rarely from the point of view of a retailer” (Baldauf, Cravens, Diamantopoulos, & Zeugner-Roth, 2009, p. 347). Retailers have the ability to influence consumers’ evaluations and selection of brands significantly, and thus, play a vital role in the success or failures of brands in the market place (Baldauf et al., 2009; Levy & Weitz, 2001, 2009). According to Kotler and Armstrong (2012), about 40% of consumer decisions are made in the store.

Yoo, Donthu, and Lee (2000) studied the effects of elements of the marketing mix on brand equity. Their findings supported positive correlation between marketing mix elements and brand equity. They asserted that high advertising spending, high price, good store image, and high distribution intensity is positively correlated to brand equity; however, they cautioned that frequent use of price promotions will harm brand equity. Baldauf et al. (2009), in their empirical analysis, asserted that price level was correlated negatively to Retailer Perceived Brand Equity (RPBE) as they reduce the value proposition. This was in contrast to the Yoo, Donthu, and Lee (2000) study showing that high price is correlated positively to brand equity.

The literature does not provide adequate coverage of the effects of price and store image on retailer's brand equity. An understanding of these aspects will result in more efficient and effective ways of creating, building, and sustaining brand equity, and marketers will be able to identify, better define, and influence target market for improved business competitive advantages. Since the specialty coffee industry is a significant and growing part of retailing in the U.S., this research will focus on Starbucks and McDonald's, which are the two leading coffee retailers in the U.S.

### **U.S. Specialty Coffee Retail Industry**

Since its discovery in ancient Ethiopia, as legend has it, by a goat-herder named Kaldi, coffee "has dominated and molded the economies, politics and social structure of entire countries" (Pendergrast, 1999, p. 1). Today, global consumers in the Western Hemisphere pay about half a day's Third World wages for a good cup of coffee, usually grown in developing countries.



The first American coffee house on record opened in Boston in 1689, offering coffee, ale, beer, and tea (Pendergrast, 1999). At the beginning, coffee was an elite and expensive beverage served mostly in coffee houses with an annual per capita consumption of about three pounds in 1830s. By 1930, coffee was distributed and consumed widely in the U.S. Due to wide distribution and lower prices, coffee consumption grew until the 1950s when it remained flat until the 1960s when it started a consistent decline. In 1962, 75% of the population was considered coffee drinkers, but the number of coffee drinkers declined to about 50% by 1988. Also, coffee consumption per capita declined to 1.67 cups in 1988 from 3.12 cups per day in 1962. To stop the decline, Ogilvie and Mather, an advertising agency, suggested to Maxwell House at the beginning of the 1980s to “stop selling the product on price. We must sell coffee on quality, value and image” (Roseberry, 1996, p. 765).

At that time, there were only about 200 roasters in the U.S. and a handful of “specialty coffee” shops opened in the 1970s. Alfred Peet, a Dutch immigrant, considered by the industry to be the “father of specialty coffee,” opened his first store in Berkeley, California, in 1966. Producing darker roasted coffee, the specialty coffee revolution was on its way to conquer the world. Erna Knutsen, a coffee buyer for B.C. Ireland in San Francisco, coined the term “specialty coffees” during an interview to refer to special coffee varieties she sold such as Celebes Kalossi, Ethupear Yrgacheffe, and Yemen Mocha, and the term would “come to define the gourmet coffee movement” (Pendergrast, 1999, p. 311).

The formation of the Specialty Coffee Association of America (SCAA) in 1982 signaled the beginning of the specialty coffee revolution in the U.S., which eventually

would spread throughout the Western world and help transform the world in the process. Started as coffee for Yuppies (Young Urban Professionals), specialty coffees are now more widely available and consumed in supermarkets, banks, airlines, and many other retail venues, in what Ritzer (2008) called “the Starbuckization of society.”

With roughly 21,000 stores around the world in 62 countries, and about 13,000 stores in the U.S., Starbucks is the largest coffee retailer in the world (Starbucks, 2013). Founded by Zev Siegl, Jerry Baldwin, and Gordon Bowker in Pike Place Market in Seattle, Washington, on March 30, 1971, Starbucks derived its name from the Captain’s first mate in the novel *Moby Dick* (Starbucks, 2013). Starbucks, which controls only four percent of the U.S. market and one percent of the world coffee market, is planning an aggressive growth strategy for its *Seattle’s Best* brand, making it available in chains such as Subway and Burger King (Helliker, & Ziobro, 2010). These strategies are in part a direct response for lower-priced fast food chains competitors such as McDonald’s McCafe, which has successfully introduced specialty coffees in its stores.

McDonald’s started as a small drive-through Bar-B-Que restaurant in 1937. In 1948, though, it closed its doors for three months for renovations and reopened in December of that same year with a condensed menu consisting of hamburgers, coffee, milkshakes, soft drinks, potato chips, and pies. On April 15, 1955, Ray Kroc opened the first official McDonald’s store in Des Plaines, Illinois, and today, McDonalds holds 19% market share operating more than 34,000 restaurants in 118 countries worldwide serving 47 million customers daily (McDonald’s, 2013). The golden arches of McDonald’s are one of the most globally recognized symbols of United States culture, efficiency, and fast food (Ritzer, 2008).

In terms of fast food, McDonald's is the largest fast food restaurant chain in the world with competitors such as Subway and Burger King (McDonald's 2013). Of its 34,000 stores, 13,900 have the McCafe concept (McDonalds, 2013). Since the inception in 1993 of the McCafe brand coffee, store revenues increased by five percent after it was added to the menu, and the coffee business has more than doubled (Martin, 2009). McCafe was launched in Melbourne, Australia, in 1993 as a store (Martin, 2009). It was not until May 2009 that the McCafe signature coffee line was added to McDonald's national menu. Although a late entrant to the specialty coffee business, McCafe enjoys the great infrastructure of the largest restaurant chain in the world and the ease of converting existing McDonald's stores into a McCafe location. While the concept was introduced to the European market many years after Starbucks opened its first location, McCafe has 1,300 locations throughout Europe, compared to 850 Starbucks European locations (McDonalds, 2013). McDonald's concept, strong brand name, and infrastructure make McCafe a serious competitor to coffee giants Dunkin' Donuts and Starbucks.

### **Retail Industry and the Marketing Mix**

With more than \$4.6 trillion in annual sales, the 1.6 million U.S. retailers range from mom-and-pop retailers to giants such as Amazon and Walmart (Kotler & Armstrong, 2013). Although retailing is about 18% of U.S. businesses, it accounts for 40% of U.S. Gross Domestic Product (Kotler & Armstrong, 2013). The retail industry is a significant component of the U.S. economy, and because retailers are the link between manufacturers, marketers, and consumers, they have the ability to influence brands' success in the market place significantly (Baldauf, Cravens, Diamantopoulos, & Zeugner-

Roth, 2009; Levy & Weitz, 2001, 2009, 2011). One of the determining factors of consumers' perception of retail brands and brand equity is the *marketing mix*, also known as *the 4P's* of marketing: product, price, place, and promotion. In retail, it is known as the *retailing mix*, which consists of the four P's of the marketing mix plus *presentation* and *personnel*. The "combination of the six P's projects a store image, which influences consumers' perceptions" (Levy & Weitz, 2011, p. 502). *Presentation* refers to the layout and atmosphere of the store, which helps determine the retailer's position and image. Part of the *presentation* can include employee type and density, sounds, odors, fixture type, merchandise, and visual factors. *Personnel* can be a great competitive advantage for any retailer. They provide customer service and help determine consumers' image of the retailer.

### **Overview of Marketing**

To realize how important marketing is, one may view how Coca Cola helped shaped Christmas celebrations around the world. Before the early 1930s, there was no popular vision of Santa Claus, until Coca Cola recreated it in a series of Christmas print ads in December of 1931 (Allen, 1994). To target schoolchildren, Coca Cola created Santa Claus, depicting him as a round glowing fellow, dressed in red and white, enjoying Coca Cola while delivering gifts from the North Pole (Allen, 1994). The ads shaped the way people around the world imagined Santa Claus, and his image dressed in "Coca Cola colors" are depicted forever in the media, in movies, and on the Internet around the world.

According to the American Marketing Association (AMA), marketing is "the activity, set of institutions, and processes for creating, communicating, delivering, and

exchanging offerings that have value for customers, clients, partners, and society at large” (American Marketing Association, 2009b, n.p.). This new definition of marketing was officially unveiled at the AMA Summer Educators’ Conference in Boston in August of 2004, and approved in October of 2007. Fifty years after its first marketing definition, the American Marketing Association changed that definition to reflect its new thinking and views of marketing. This definition is probably the most quoted and used definition of marketing by marketers, professionals, and practitioners around the world. Based in Chicago, Illinois, with 38,000 members worldwide, the American Marketing Association is the leading association of marketers, academics, and practitioners in the world.

Prominent marketing professors, such as Kotler and Deshpande, created shorter versions of a marketing definition that help define and better understand “the gist of marketing.” According to Kotler, recognized by many as the world’s leading marketing expert, marketing is “satisfying consumer wants and needs, at a profit” (Kotler & Armstrong, 2001, p. 5). Deshpandé defined marketing as: “creating value, delivering value, managing value and sustaining value” (Harvard Seminar, 2008, n.p.). These two short versions are the gist of marketing theory. They can and should be the starting point for every marketer.

Marketing is based on “a set of processes for creating, communicating and delivering value to customers” (American Marketing Association, 2009b, n.p.); thus, it can be assumed safely that marketing practices existed in some form or another since the beginning of commerce. Academic studies of marketing can be found from 1910 in U.S. universities and mainly involved agriculture and farming. Webster (1992) noted the study of marketing at the time lacked a managerial approach and was seen as “a set of social

and economic processes rather than as a set of managerial activities” (p. 2). Marketing emphasis towards managerial orientation began to evolve with the introduction of a marketing definition in 1948 by the American Marketing Association as “the performance of business activities directed toward and incident to, the flow of goods and services from producer to consumer or user” (Alexander, 1948, pp. 209-210).

Marketing concepts evolved earlier than 1948 (Peter & Donnelly, 2006). Just prior to the 1930s, marketers pursued the production concept, which holds that “consumers will prefer products that are widely available and inexpensive,” so managers “should concentrate on achieving high production efficiency, low costs, and mass distribution” (Kotler & Keller, 2009, p. 10). Managers with a production orientation usually ask “what do we do best” and pursue to offer the most quality, performance, or innovation. The production marketing concept became popular because consumers at the time lacked product choices and availability, and demand was greater than the supply in many areas.

When product availability increased between the 1930s and 1960s, marketers adopted the sales concept, which holds that “aggressive selling and promotion effort” will produce more sales and profits. The sales era evolved due to increased competition and product availability in the market place.

As early as the 1950s, management expert Peter Drucker advocated that companies should create value for consumers and produce what the market needs. Drucker defined marketing as “the whole business seen from the point of view of its final result, that is, from the customer’s point of view” (Drucker, 1968, p. 54). According to Drucker, the economic revolution of the U.S. economy since the 1900s was due to the marketing revolution pioneered by industry leaders (Drucker, 1968). While during those

years as mass-marketing strategy prevailed, Wendell Smith proposed market segmentation to improve marketing efficiency and effectiveness (Quelch & Jocz, 2008).

In 1960, Jerome McCarty defined marketing as “the performance of business activities that direct the flow of goods and services from producer to consumer or user in order to best satisfy consumers and accomplish the firm’s objectives” (as cited in Quelch & Jocz, 2008, p. 827). In the 1960s, marketers shifted toward the marketing concept where “the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your target markets” (Kotler & Keller, 2009, p. 11). In 1969, the same year as Woodstock “the festival of love,” Kotler helped broaden the concept of marketing by arguing that marketing principles can also apply to non-business entities. After the 1990s, the relationship marketing concept evolved, aimed “to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business” (Kotler & Keller, 2009, p. 12). At the same time, the societal marketing concept grew in popularity by the success of companies such as Ben and Jerry’s and the Body Shop with strong associations to environmental concern, nature, and their aim to take care of their community together with consumers’ desires for sustainable practices.

In terms of marketing theories, Sheth, Gardner, and Garrett (1988) argued that “obviously, we do not currently have a well defined and universally accepted general theory of marketing” (p. 17). Earlier in the 20th century, Alderson and Cox (1948) asserted that the study of marketing was mostly “superficial and inaccurate in the absence of valid and profound theoretical formulations” (p. 142). The authors did not believe that a definitive theory of marketing could be substantiated at the time, but in their article,

they presented four possible sources for developing a theory of marketing. These four sources were (1) contributions from general economic theory; (2) contributions from systematic studies of group behavior in fields other than economics, such as Anthropology, sociology, and psychology; (3) contributions from ecological studies such as human geography, population traffic, and city planning; and (4) contributions in marketing literature itself (Alderson & Cox, 1948).

To simplify the marketing concept, Vargo and Lusch (2004) argued that marketing is “principally concerned with the co-creation of value and relationships” (p. 1). Today, due to increased globalization, the marketing discipline will continue to evolve and be redefined, especially with the growing importance of emerging economies, the BRIC’s (Brazil, Russia, India, and China), and countries with different political and economic structures.

### **Overview of Branding**

Brands serve many valuable functions for firms and consumers alike. Brands serve firms as markers for the offerings, and increase marketing efficiencies and competitive advantage. For consumers, this helps simplify the decision-making process, reduce risk, and serve as a promise for certain quality and delivery (Keller & Lehmann, 2006). According to Keller (2003), the word brand is derived from the Old Norse word *brandr* which means to burn, “ as brands were, and still are, the means by which owners of livestock mark their animals to identify them” (p. 3).

Branding came a long way since the infamous “Marlboro Friday,” when on April 2, 1993, Philip Morris announced a 20% price reduction with its leading brand of cigarettes to compete more effectively with generic cigarette makers that were gaining



market share (Aaker, 1997; Parry & Sato, 2008). The announcement was followed by a drastic fall in their share price of more than 22%, and frenzy among the business media announcing the death of branding (Quelch & Harding, 1996).. In the process, Philip Morris stock lost \$14 billion of its value (Quelch & Harding, 1996). According to the media, if Marlboro, a master brand, had to compete on price, the concept of branding did not matter anymore (Bedbury & Fenichell, 2002; Parry & Sato, 2008). In the bargain-conscious market of the 1990s, price seemed much more important than branding.

Some use of trademarks appeared around the 1870s with brands such as Pear's Soap in 1860, Prudential Insurance's "rock" in 1890, and Sapolio Cleanser in 1896, while trademark use increased at the turn of the century (Fullerton, 1988). Successful branding strategies started to appear in the second half of the 19<sup>th</sup> century when goods began to be mass produced, and it became necessary to differentiate between new goods and services that flooded the market. New packaging technology enabled generic goods such as sugar, coffee, and soap previously sold out of barrels at local shops to be packaged, branded, and mass-produced. The development of transportation technology and the infrastructure, combined with packaging technology, enabled manufacturers to reach consumers not only across town but also across the nation. Brands such as Coca Cola (1886), Lipton (1893) and Levi Strauss (1853) sustained their competitive advantage for a hundred years or more (Kellogg School of Management, 2010).

By the end of the 1940s, branding evolved as an essential part of the company. It helped propel companies such as General Electric and General Motors into household names in the United States. The defining moment for branding arrived in 1988 when "Philip Morris purchased Kraft for 12.6 billion dollars; six times what the company was

worth on paper. The price difference, apparently was the cost of the word -Kraft” (Klein, 2001, pp. 7-8). This sparked an increase in ad spending and created awareness of the importance of brand equity to success in business.

### **Definition of Terms**

Below is a list of terms used in this study.

*Specialty store:* Known also as a specialty retailer, it is a store with a clearly defined market segment, carrying a concentrated and limited number of complementary merchandise, and providing a high level of service. (Levy & Weitz, 2009; Ostrow, 2009). This study will concentrate on Starbucks and McDonald’s, which are the two leading coffee retailers in the U.S. The data for this study will come from a survey of customers of retail coffee shops.

*Customer:* a customer is defined as any person who buys merchandise from a retailer, wholesaler, or directly from a manufacturer, and has an ongoing business relationship with the retailer (Brennan & Schafer, 2012; Ostrow, 2009).

*Consumer:* one who purchases goods and services, but does not yet have an ongoing business relationship with a specific retailer (Brennan & Schafer, 2012; Ostrow, 2009).

*Brand:* According to the American Marketing Association, a brand is “A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name” (American Marketing Association, 2009a, n.p.).

Although many consumers use the words product and brand interchangeably, not every product is a brand. A product can be an idea, service or an offering, tangible or

intangible, both favorable and unfavorable, that a person receives in an exchange (Kotler, 2000; Lamb, Hair, & McDaniel, 2008). A brand, according to Keller, is “more than a product, because it can have dimensions that differentiate it in some way from other products designed to satisfy the same need” (2013, p. 3). The chairman of WPP Group, Stephen King, described it eloquently when he said that “a product is something that is made in a factory: a brand is something that is bought by a customer. A product can be copied by a competitor: a brand is unique” (as cited in Aaker, 1991, p. 1).

Peter and Donnelly (2006) define a brand as “A name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers” (p. 6). The difference between a product and brand is that a “brand is therefore a product, but one that adds other dimensions that differentiate it in some way from other products designed to satisfy the same needs” (Keller, 2003, p. 4). Companies do not compete between the products they produce, but between what they add to the products such as packaging, advertising, services, and other value added functions, hence branding.

*Brand Equity:* Many academics and practitioners equate *brand equity* with brand value and it is reflected in how consumers think, feel and act in regard to a brand and in added sales it brings (Chu & Keh, 2006; Kotler & Keller, 2009; Yoo, Donthu, & Lee, 2000). Raggio and Leone (2007) reject this notion and argue that “brand equity and brand value are not different dimensions of the same construct—they are different constructs” (p. 384). Keller (2008) defined *brand equity* as “the marketing effects uniquely attributable to a brand. That is, brand equity explains why different outcomes result from the marketing of a branded product or service than if it were not branded” (p. 37). Other

researchers define it as “value added to a product by its brand name” (Yoo, Donthu, & Lee, 2000). For the purpose of this study, I will define brand equity as “the tangible and intangible added value of a branded product, directly correlated to sales.”

*Brand Knowledge:* Brand knowledge is all the information consumers have about the brand. It consists of “how familiar and intimate consumers are with (the) brand” (Keller, 1993, p. 509). Leone, Rao, Keller, & Luo. (2006) asserted that brand knowledge is not only what facts consumers know about the brand but also what they feel, experience, think, and perceive of a particular brand. Keller (2003) asserted that high brand knowledge usually is correlated to the brand’s potential because it influences what consumers think about the brand.

*Brand Image:* Keller (1993) defined brand image as “perceptions about a brand as reflected by the brand associations held in consumer memory. Brand associations are the other informational nodes linked to the brand node in memory and contain the meaning of the brand for consumers” (p. 5).

*Brand Identity:* Brand identity helps establish direction, purpose and meaning to the brand, same as a person’s identity. Components can include any differentiating aspects of the brand such as the logo, design, colors, and other aspects that make up the brand (Aaker, 1996). Nike’s Swoosh, BMW’s slogan “ultimate driving machine,” and Coke’s contoured bottle are an important part of their brand identity (Keller & Lehmann, 2006).

*Brand Associations:* Brand associations are an essential part of brand equity and can be important sources of competitive advantage. Consumers’ association with a brand, greatly influences what they think, feel, and desire with regard to the brand, and

eventually might affect their buying decisions. Product related or non-product related benefits or attributes might create associations with a brand. Positive, strong and unique associations might lead to sustainable competitive advantage and the brand's success (Keller, 1998). Brand associations are anything that consumers connect to the brand and help position the brand in the mind of the consumer.

*Brand Awareness:* refers to the customers' ability to recall and recognize the brand. It also involves linking the brand to certain associations in memory (Hoeffler & Keller, 2002) Coca Cola, possibly the most recognized logo in the world, is also the most valued brand in the world (Interbrand, 2012). It is recognized by many as the "real thing," which helped it win the cola wars. Creating awareness for their brands helped companies grow their brand. Until the early 1970's, shirt logos were hidden from view and placed discreetly on the inside of the collar. By putting their logos on the front of the shirt, companies such as Ralph Lauren and Lacoste changed the branding landscape, and in the process, became global brands (Klein, 2001).

*Brand meaning:* According to Berry (2000), part of being a successful brand is brand meaning, and it usually is derived from external brand communications and customer experience with the company. He identified it as "the customer's dominant perceptions of the brand," or the "snapshot impression of the brand and its association" (Berry, 2000, p. 129). Davis (2007) viewed it as the "core attributes of what the brand means to consumers" (p. 255). Keller (2000) had a similar assertion with regard to brand meaning, "all the different perceptions, beliefs, attitudes, and behaviors customers associate with their brand" (p. 8). Keller (2001) asserted that strong brands have

established brand associations and meaning, such as Coke (Americana, refreshing), Volvo (safety), and BMW (ultimate driving machine).

Brands can be well known, but customers might have different images of them. Apple suggests hip, cool, young, user friendly, and fun by consumers, while Dell is perceived as an inexpensive alternative (Keller, 2003). Walmart and Target are well known, and both are general-discount retailers, but most consumers have different perceptions of them. The Walmart brand means price leadership, while Target means “chic discount” (Berry, 2000).

Due to its success and popularity, Abercrombie & Fitch became synonymous with casual luxury and wholesome U.S. youth. Another U.S. brand icon, Polaroid, a strong, well-differentiated brand at its peak, was known as the “instant photography” (Goodrum & Dalrymple, 1990). As Al Ries, a marketing expert once said: “What’s your brand? If you can’t answer that question about your own brand in two or three words, your brand’s in trouble” (Schipul Web Marketing Company, 2009, n.p.).

*Customer-based brand equity model:* Keller (2001) developed the brand building model (CBBE) to map how brand equity can be best built, measured, and managed. According to Keller (2008), the basic premise of his CBBE model is that “the power of a brand lies in what customers have learned, felt, seen, and heard about the brand as a result of their experiences over time. In other words, the power of a brand lies in what resides in the minds of customers” (p. 48).

Built as a series of sequential steps of brand building, the CBBE model set out to establish deep, broad brand awareness, create points of parity and difference, elicit positive brand responses, and forge loyal and active brand relationships. These four steps

consist of six brand building blocks: salience (brand awareness), performance (usage performance), imagery (brand image), judgment (customer's evaluation), feelings (emotional response), and resonance (psychological bond) (Keller, 2001, 2008; Kuhn, Alpert, & Pope, 2008).

### **Brand Equity**

In 2005, Procter & Gamble, the largest consumer products company in the U.S., acquired Gillette, a leading consumer product company known for its signature razors, Duracell batteries, and Braun and Oral-B dental care products (Marketwatch.com, 2009). Gillette was sold for 57 billion dollars—about 20 times its annual sales. At the time, it was the largest acquisition in the history of Procter & Gamble. Many believe the high purchase price was due to the value of the word 'Gillette.' Hence, the price differential represented the equity of the Gillette brand. This is the gist of brand equity.

Brand equity represent what brands mean to consumers and is created in part based on consumers' perception and expectations of the brand. It is also the added sales and market share a particular brand will bring due to its equity. Hence, Procter & Gamble agreed to pay that much more for Gillette because of the future value of the brand's added sales. As Ries and Trout (1986) wrote, "Shakespeare was wrong. A rose by any other name would not smell as sweet...which is why the single most important decision in the marketing of perfume is the name you decide to put on the brand" (p. 71). Horsky and Swyngedouw (1987) conducted a study of 58 corporations that changed their names in the 1980s, "because a company name is usually considered to be an integral part of its image" (p. 320). They found that for most of the firms, for various reasons, name changes were associated with improved performance.

Much has been written on brand equity, but it is “still defined a number of different ways for a number of different purposes” (Keller, 2008, p. 36). Most experts agree that there is still no common viewpoint about how to conceptualize and measure brand equity, since the term emerged in the 1980s. (Aaker, 1991, 1996; Keller, 2008, 2003; Myers, 2003; Raggio 2005; Wood, 2000). In part, it is probably because brand equity is an intangible asset (Kotler, 2000). The most important company assets such as brand equity or people are intangibles. They do not depreciate, or appear on balance sheets, but they can provide value or lose their value to the company or consumers.

To realize how intangible and important brand equity is to corporations, Interbrand calculated that 96% of the market capitalization value of Coca Cola is intangible as well as 97% for Kellogg and 84% for American Express (Grayson & Hodges, 2004, p. 114). Jones (2005) pointed out that in a survey of top 3,500 companies in the U.S.A, “intangible assets accounted for 72 per cent of market value compared with only 5 per cent in 1978” (p. 13).

Aaker (1996) defined brand equity as a set of five categories of brand assets and liabilities linked to a brand’s name and symbol that adds or subtracts from the value provided by the product or service to a firm, that firm’s customers, or both. He asserted that brand equity generates value through those five major categories of brand loyalty, brand awareness, perceived quality, brand associations, and other proprietary assets such as trademarks and patents. Aaker’s (1991) concept of brand equity illustrated how brand equity provides value to both consumers and companies.

According to Aaker (1991), brand equity provides value to consumers by enhancing the decision making process speed and evaluation, increasing product



satisfaction, and minimizing cognitive dissonance. Clark, McCann, Rowe, and Lazenbatt (2004) defined cognitive dissonance as “an emotional state established when two concurrently held beliefs are inconsistent with each other” (p. 588). Lamb, Hair, and McDaniel (2009); Boone and Kurtz (2004); and Armstrong and Kotler (2003) defined it as an inner tension consumers experience (e.g., after making a purchase) because they are unsure if they made the right decision.

Most experts agree that brand equity also provides value to the firm by enhancing efficiency and effectiveness of marketing programs; brand loyalty, which will increase price and profit margins; provide trade leverage. This also presents a platform for brand extensions and increased competitive advantage (Aaker, 1996; Keller, 1998, 2008; Leone et al., 2006).

Raggio and Leone (2007) defined *brand equity* “as the perception or desire that a brand will meet a promise of benefits” (p. 385). They argued it is necessary to distinguish between *brand equity* and *brand value*. They discuss the distribution agreement of Lee Jeans with Walmart to validate their point. By increasing distribution via the giant retailer, Lee Jeans should be able to generate more revenues and increase their *brand value*, but “Lee’s image of selling its jeans at a store like Walmart may result in decreased brand equity within one or more segments of Lee’s consumers” (p. 385).

While Raggio and Leone (2007) might have a valid argument, most experts agree the essence of brand equity is the value added to the brand and the firm (Aaker, 1991, 1996; Keller, 2008; Kotler & Keller, 2009). Kotler and Armstrong (2001) viewed brand equity as “the value of a brand, based on the extent to which it has high brand loyalty,

name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships” (p. 302).

Keller (2008) defined it as “The marketing effects uniquely attributable to a brand. That is, brand equity explains why different outcomes result from the marketing of a branded product or service than if it were not branded” (p. 37). Ultimately, the power of the brand lies in the minds of consumers and in what they experienced and learned about the brand (Keller, 2000; Lury, 2006).

### **Purpose of the Study**

Raggio (2005) asserted that “definitions of brand equity (e.g., Keller 1993) allude to conditions (associations) within individuals that lead to (1) biased processing of information, (2) persistent attitudes or beliefs that are (3) resistant to change, and (4) behaviors that are influenced by those beliefs” (p. 6). When Aaker (1996) proposed his “Brand Equity Ten,” 10 sets of measures were grouped into 5 categories to measure brand equity. He asserted that 4 of those categories were customer perceptions of the brand along with brand equity-loyalty, perceived quality, associations, and awareness. Since brand equity depends on how consumers perceive, associate, and evaluate a brand, it was important to study factors that influence those criteria. According to Aaker (1991), brand equity was the most important subject in need of research among top marketing companies.

Research assessing the impact of price and store image on U.S. retail brand equity has been minimal. The purpose of this study was to examine the impact price and store image might have had on perceptions and evaluation of brands. These factors may have a critical effect on brands and contribution to customer-based brand equity and could lead

to sustainable advantage in the market place. Since perception is an integral part of consumers' evaluation of brands, it might play a significant role in creating building and sustaining brand equity. A selected group of U.S. students and ardent coffee drinkers were surveyed to explore whether price and store image affected consumers' perception of brands; how people viewed characteristics of successful consumer brands and evaluate brands; and if there was any difference attributed to elements such as price and image. A better understanding will enable marketers to identify smaller, better-defined target markets for improved business competitive advantages.

### **Justification**

No single study has examined the effects of price and store image on retailers' customer-based-brand-equity; specifically the specialty coffee retailers, which is a fast growing segment of the U.S. retail industry. Since the retail industry is a significant component of the U.S. economy, and specialty coffee retailers are a growing segment of this important link between manufactures, retailers, and consumers, research assessing the impact on retailers' brand equity will develop knowledge and benefit scholars and practitioners alike.

### **Delimitations and Scope**

Every study has limitations due to time, financial, human, and other constraints. This study focused on coffee retailers and used a group of students from one university. Another concern is that the group also might be small and possibly more diversified and not representative of the general U.S. population. Another concern is the study focused on the effects of price and store image on brand equity. Other marketing elements were not accounted for in this study. This study might carry an "inherent Western or U.S. bias"

of how Western or U.S. cultures examine, interpret, and evaluate brands. Additional studies should examine countries others than the U.S. In addition, the study focused on two retailers, and other specialty retailers were not accounted for in this study.

## **CHAPTER 2**

# **LITERATURE REVIEW, THEORETICAL FRAMEWORK, RESEARCH QUESTIONS, AND RESEARCH HYPOTHESES**

### **Literature Review**

Keller and Lehmann (2006) noted that branding is one of the most valuable intangible assets that firms have. Hoeffler and Keller (2003) asserted that strong brands should be a priority for most organizations. Berry (2000) asserted that strong brands play a special role in service companies because “they increase customers’ trust of the invisible purchase” (p. 128). Successful brand performance is critical to the overall success of the business (Aaker, 1991, 1996; Hoeffler & Keller, 2003; Keller, 2000, 2008; Pappu, Quester, & Cooksey, 2005). Understanding the characteristics of successful brands can help achieve those goals.

In “today’s complex environment, organizations have to understand and respond to our rapidly shifting values, rising expectations, and demands” (Regester & Larkin, 2005, p. 16). Today’s highly competitive environment makes it very challenging to develop viable and successful brands. Master brands enjoy the combination of brand equity, retail muscle, financial strength, and loyal customer base that makes it harder for niche brands to survive, compete, and grow.

This research contributes to the advancement of knowledge, and the understanding of branding challenges and opportunities for consumer products in the retail environment. It also increases understanding of the effect of price and store image on consumers, and their perception and evaluation of brands in the era of super brands. A

detailed review and interpretation of the literature on brand evaluations, perceptions, and brand equity were presented together with a conclusion and recommendations for future academic research.

## **Branding**

Due to rapid advancements in communications, the infrastructure, transportation, medicine, and the Internet, our world is becoming increasingly intertwined (Friedman, 2005). While national borders and geographical boundaries are becoming less relevant, marketing challenges are increasing. Many experts try to find a consensus on defining branding, and agree on its importance to marketing and the business world. In his forward to *Kellogg on Branding* (Tybout & Calkins, 2005), Kotler argued that in this day and age of the quiet revolution of the digital age, change accelerated to levels never before experienced. There are only two answers to the marketing challenges of today; one is to know the customer, and the other is to differentiate through branding. He considered branding a critical aspect of marketing and asserted that “the art of marketing is largely the art of brand building. When something is not a brand, it will probably be viewed as a commodity” (Kotler, 1999, p. 63). Weilbacher (1993) simply stated that “the cornerstone of marketing is now and always been, the brand” (p. 4).

Kotler and Keller (2009) defined branding as “endowing products and services with the power of a brand” (p. 142). They noted that branding is the act of creating differences between products. While many researchers try to reach a consensus on defining the term brand, branding is being redefined continually.

The American Marketing Association defines brand as “A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from

those of other sellers” (American Marketing Association, 2009a, n.p.). Peter and Donnelly (2006), Keller (2003, 2008), Armstrong and Kotler (2003), and Koehn (2001) provided a similar definition. Buell (1986) added that brand is “A word or combination of words use to identify a product and differentiate it from other products. All brand names are trademarks, but not all trademarks are brand names” (p. 85-2). Some even view it as “virtual tattoos on products and services” (Bao, Shao & Rivers, 2008). Products are the primary brand in the packaged goods industry, while the company is the primary brand in the service industry (Berry, 2000).

While most definitions have more tangible descriptions such as products, places, people, and trademarks, marketing practitioner Bedbury (2002) defined branding with less tangible descriptions such as “a psychological concepts held in the minds of the public, where they may stay forever. As such you can’t entirely control a brand. At best you only guide and influence it” (p. 15). According to the latest research out of the Kellogg School of Management, “a brand is the psycho-cultural associations linked to a name, mark or symbol associated with a product or service” (Kellogg School of Management, 2010, n.p.).

### **Brand Equity**

There is no common viewpoint to conceptualize brand equity (Hoeffler & Keller, 2003; Keller, 1993; Pappu, Quester, & Cooksey, 2005). Keller (2008) defined it as “the brand equity explains why different outcomes result from the marketing of a branded product or service than if it were not branded” (p. 37). According to Dr. Schultz of the Kellogg School of Management (2010), brand equity is viewed differently from marketing, finance, or accounting perspectives. He stated that to marketing, brand equity

is usually about “creating, communicating and delivering added customer value beyond the generic product” (Kellogg School of Management, 2010, n.p.), whereas to finance it means cash flow, while to accounting it is intangible assets such as trademarks. Schultz asserted that all brand equity points of view are valid, but they do measure different things.

Hoeffler and Keller (2002) also defined it as “the differential effect that brand knowledge has on customer response to marketing activity” (p. 78). This is a much more simplified definition than Aaker’s (1996), which defined brand equity as “a set of assets (and liabilities) linked to a brand’s name and symbol that adds to (or subtract from) the value provided by a product or service” (pp. 7-8). Aaker (1991, 1996) introduced a theoretical model (see Appendix A) to illustrate how brand equity generates value. The five major asset categories according to Aaker (1991) are brand loyalty, brand name awareness, perceived quality, brand associations, and other proprietary brand assets such as trademarks, patents, and distribution channel relations. Although Aaker (1996) and Keller (2008) conceptualized it differently, they both defined brand equity from a consumer prospective (Pappu, Quester, & Cooksey, 2005).

Kotler (2000) followed Aaker’s definition, but added that it must be related strongly to how valuable the brand is to the consumers and their emotional attachment to the brand. He asserted that because brand equity represents loyal customers, “therefore, the fundamental asset underlying brand equity is customer equity” (p. 406).

In their book *Kellogg on Branding*, Tybout and Calkins (2005) describe brand equity as the economic worth of a brand as a separate organizational asset that is calculated based on “hard financial data, market research, industry benchmarks, and



generally accepted accounting principles” (p. 261). According to the Kellogg School of Management (2010), brands are associations and brand building is really the process of creating these associations. They maintain that brand equity exists when “customers value the benefit you provide, are willing to pay for it and see you as best at providing it.” Keller (2008) also took a consumer-based approach to brand equity. With his introduction of the Customer-Based Brand Equity (CBBE) conceptual model (see Appendix B), he argued the power of the brand lies in the mind of the consumer and what they learned, heard, saw, and felt about the brand. He defined customer-based brand equity as “the differential effect that brand knowledge has on consumer response to the marketing of that brand” (p.48). Hence, the different response consumers will have to marketing of a brand, compared to the same marketing of an unknown or fictitious brand in the same category (Keller, 1993). The CBBE model suggests that brand knowledge is the key to creating brand equity and that it is strongly related to *brand awareness* and *brand image* (p.51). Keller (2001) asserted the CBBE can help companies achieve *brand resonance*; hence, the intense and deep psychological bond consumers have with their brand (Keller, 2008). High brand resonance can increase price premiums, provide distribution channel leverage, increase marketing programs effectiveness, and help sustain competitive advantage.

Aaker (1991) asserted brand equity provides value to consumers and companies alike. To consumers, brand equity helps them shorten the decision-making process, enhances their experience through brand associations and perceived value, and makes them feel more assured about their purchase. Brand equity provides even more value to companies because it can increase brand loyalty, usually will enable better price margins,

provides distribution channel leverage, presents a platform for growth, and enables a sustainable competitive advantage.

There are also industry models that determine value and strength of brand equity. *Young and Rubicam's Brand Asset Valuator (BAV)* is an empirically derived model of brand strength. Created in 1993, *Young and Rubicam's BAV* annual study evaluates consumer perceptions of more than 20,000 brands in 44 countries around the world. The *BAV* model profiles brands according to five key dimensions: differentiation, momentum, relevance, esteem, and knowledge (Kellogg, 2010). It places a value on abstract thoughts by measuring brands on brand differentiation, how adoptive a brand is, relevance of a brand to consumers, esteem, on how consumers respond to brand building activity, and knowledge, which measures consumers' brand awareness levels (Kellogg School of Management, 2010; Leone et al., 2006).

The *Millward Bown's Brand Dynamics* is a five level model that determines the strength of relationship a customer has with a brand according to "presence, relevance, performance, advantage, and bonding" (Leone, Rao, Keller, & Luo, 2006, p. 32)

*Interbrand* estimates the dollar value of a brand by discounting the cash flow from future earnings streams for the brand and other values.

### **Measuring Brand Equity**

One of the most popular issues of *Bloomberg BusinessWeek* is the annual ranking of The 100 Top Global Brands, ranked by Interbrand, a leading brand consultancy based in New York. It has received much attention in recent years because of the growing importance firms and consumers place on brands. Interbrand's methodology was chosen by *Bloomberg BusinessWeek* because it is similar to how other corporate assets are

valued. To qualify for the ranking, brands must have brand value in excess of \$1 billion, have one third of their sales outside the home base, and publish their financial and marketing data (Chu & Keh, 2006). These constraints eliminate from possible ranking some famous brands such as BBC, Visa, and even Walmart, the largest retailer in the world with a brand value of over 41 billion dollars (Chu & Keh, 2006; *Financial Times*, 2009). According to Interbrand, their criteria exclude brands such as Mars, which is privately held, or Walmart, which is not sufficiently global, because they operate in some international markets but not under the Walmart brand. Ranking is calculated according to the present value of projected profits specifically attributed to branded products, brand strength, and brand value ([www.interbrand.com](http://www.interbrand.com)). Although Interbrand and *Bloomberg BusinessWeek* are giants in their respective industry, the ranking often has been criticized due to the subjectivity of methods (Chu & Keh, 2006).

Brand equity, one of the most popular marketing concepts in the past 20 years (Keller, 2008), traditionally is measured for accounting or strategic reasons, hence, financial or consumer related (Na, Marshall, & Keller, 1999; Myers, 2003). Keller and Lehmann (2006) asserted that academics study brand equity from the customer point of view, company point of view, and the financial perspective. Despite the growing interest in brand equity, researchers still have not reached a consensus on how to measure brand equity or how equity changes over time (Aaker, 1991; Ailawadi, Lehmann & Neslin, 2002; Grannell, 2009; Keller, 1993, 2008; Lassar, Mittal, & Sharma, 1995; Myers, 2003; Raggio, & Leone, 2007). There are several different methods of brand evaluations (Keller, 1993), but the lack of consistent and generally accepted standards of brand equity measurements hinders research and progress in the field of brand equity.

According to Aaker (1991), there are five general approaches to measuring brand equity. One approach measures price premium of a brand. Aaker (1996) suggested that “price premium may be the best single measure of brand equity available” (p. 107). With respect to set of competing brands, consumers will be willing to pay a price premium for certain brands or withhold a negative price premium for lesser perceived quality brands. The PC (personal computer) market can be a good example of how consumers buy lower brand equity personal computers such as Dell at a discount, compared to similar but much higher priced Apple (Kotler & Keller, 2009).

Another approach would be to relate brand name impact to customer preferences, in which consumers place more trust in one brand over another, and this translates into added sales. As noted earlier, Philip Morris International paid 600% more for Kraft than Kraft’s book value at the time because of the added sales the word ‘Kraft’ would be expected to bring.

The third approach looks at the replacement value of the brand. With the growing importance of brands, launching a new product could be very costly (Aaker, 1997). This explains the high multiples brands receive when acquired by firms.

The fourth approach is based on stock price movements, assuming stocks are priced according to the market expectations of the firm’s performance. The replacement costs of tangible assets of the firm are subtracted, and brand value is determined as a function of stock price, number of shares, industry factors, non-brand factors, and other brand factors such as industry status, advertising, and age of the brand.

The fifth general approach is what Aaker (1991) called “the best measure of brand equity” (p. 26), and it focuses on the earning power of the brand. Basically, it is the

discounted present value of future earnings of the brand; however, as experts noted, there are many ways of defining and estimating it (Aaker, 1991; Ailawadi, Lehmann, & Neslin, 2002; Keller, 2008; Lassar, Mittal, & Sharma, 1995).

To create generally accepted standards of brand equity measurements, Aaker (1996) proposed “the brand equity ten, ten sets of measures grouped into five categories” (p. 105) that measure loyalty, perceived quality, brand associations, awareness, and market behavior. The first four categories represent customer perceptions and the four dimensions of brand equity, while the fifth category measures market share, price, and distribution indices. Aaker (1996) cautioned that using his model will require “dozens of measurements” (p.101), and survey instruments should be identical over products, markets, and countries.

In 1999, leading researchers and practitioners participating in a brand workshop at a Marketing Science Institute (MSI) conference developed criteria for an ideal measure of brand equity (Raggio, 2006). They concluded the measure should be (1) grounded in theory; (2) encompassing all the facets of brand equity, yet distinct from other concepts; (3) able to flag downturns or improvements in the brand’s value and provide insights into the reasons for the change; (4) able to capture future potential in terms of future revenue stream and brand extendibility; (5) objective, so different people computing the measure would obtain the same value; (6) based on readily available data, so it can be monitored on regular basis for multiple brands in multiple product categories; (7) a single number to enable easy tracking and communication; (8) intuitive and credible to senior management (9) robust, reliable, and stable over time, yet able to reflect real changes in brand; and

(10) validated against other equity measures and constructs that are theoretically associated with brand equity (Raggio, 2006, p. 5).

According to Dr. Schultz (Kellogg, 2010), measuring brands and marketing communications value will always carry an “inherent western bias” of how Western cultures examines, interpret, and evaluate brands. He asserted the two biggest problems of brand measurement are what metrics to use and getting the right terminology because “everyone uses the same terms, but often with different meanings” (Kellogg, 2010, n.p.). Until academics, practitioners, and business agree on a common viewpoint, measuring brand equity will be “defined a number of different ways for a number of different purposes” (Keller, 2008, p. 37).

### **Brand Associations**

When Research in Motion (RIM) was developing a portable communication device for sending and receiving e-mails, the device was named PocketLink. The name implied connectivity, but RIM wanted people to associate the name of the device with more than just connectivity. The naming firm Lexicon finally named it BlackBerry and consumers’ associations of the BlackBerry with “connectivity, friendly, fun, approachable, vital and fast,” contributed to one of the most successful Smartphone introductions in recent years (Tybout & Calkins, 2005, p. 210).

Brand association, a key element of competitive advantage is “anything linked in memory to the brand” (Aaker, 1991, p. 109), and based on consumers’ prior knowledge and experience with existing brand knowledge (Aaker, 1991; Keller 1993, 2003, 2008). Brand associations are critical to brands’ successes, and help create brand image and reputation, which play a vital role in building (or eroding) brand equity. Brand

associations become an integral part of consumers' decision-making process and can influence greatly purchasing decisions. According to Kellogg (2010), brands are much like reputations. They are not created by advertising campaigns alone, but rather through dozens of different touch-points such as slogans, logos, newspaper articles, word of mouth, experience, advertising, and so forth. Regester and Larkin (2005) asserted reputation is a "vital commercial asset" that can help "influence who we buy from, work for, supply to and invest in" (p. 76).

Brand associations are measured by their level of strength, experience, and exposure to communications and their connections to other links. Aaker (1991) asserted that a link to a brand "will be stronger when it is based on many experiences or exposures to communications" (p. 109). Brand value usually is derived by a set of associations and what they mean to consumers. Starbucks Coffee Company, a chain of more than 21,000 stores worldwide, was built more on perception and brand association, and less on reality.

The rapid growth of Starbucks was supported initially by word-of-mouth strategies, and the buzz was created around the coffee experience mystic and not by conventional advertising (Thompson, Strickland, & Gamble, 2005). People associated Starbucks with a high quality coffee "experience." Yuppies (young urban professionals) and other aspirational groups were the initial core customers of Starbucks. The Starbucks "brand community" drove the extraordinary growth of the coffee giant, and this was accomplished without mass advertising, promotions, or penetration pricing strategies.

Brand communities are defined as a specialized, non-geographically bound community, based on a structured set of social relations, and marked by shared conscious, rituals, and traditions (Keller, 2002; Muniz & O'Guinn, 2001). Brand communities can

be a powerful aspect of branding. As Kraft CEO Robert Eckert once said, “Consumers are yearning to connect to people and things that will give meaning to their lives” (Stark, 1999, p. 21).

Strong and positive brand associations will help the brand achieve sustainable competitive advantage that will be difficult for competitors to duplicate. Make-up Art Cosmetics, Inc. (MAC), founded in Canada in 1985, has experienced remarkable growth through word-of-mouth endorsement from models and make-up artists. Today, MAC is the leading brand of professional cosmetics and is sold in more than 30 countries around the world (Haig, 2004). The major reason for the significant growth of MAC is consumers’ associations of MAC with quality products and social responsibility (Haig, 2004).

Strong brand associations enhance customers’ satisfaction and experience. People do not just drink Coca Cola; they actually drink “the real thing” since the tagline was introduced in 1942 (Goodrum & Dalrymple, 1990). When they drink coffee at Starbucks, they do not drink just one of the most popular generic drinks in the world, they drink Starbucks, which is “what coffee tastes like when you pour your heart into it” (Helm, 2009, p. 5).

According to Keller (1993), “Brand associations can be classified into three major categories of increasing scope: attributes, benefits, and attitudes” (p. 4). These categories can be subcategorized according to the qualitative nature of the association. He suggested brand associations can be affected by other brand associations in memory.

Keller (2008) asserted that personal relevance and consistency of brand communications are the two factors influencing the strength of brand associations. Direct



experience creates personal brand attributes and benefits to satisfy their wants and needs. Non-marketing controlled communications help consumers recall cues according to their perceptions. The set of associations linked to the brand in the mind of the consumer creates the brand image.

Aaker (1997) and Pappu, Quester, and Cooksey (2005) viewed brand personality as a key component of brand association, and as such, an important differentiation driver for consumer brands. According to Aaker (1997), brand personalities fall into five main clusters: (1) sincerity, (2) excitement, (3) competence, (4) sophistication, and (5) ruggedness. She defined brand personality as “the set of human characteristics associated with a brand” (p. 347), and Keller (2008) suggested brands may take on personality traits like a person. Coca Cola is considered authentic and real, while Pepsi is considered young and exciting. Marlboro is considered rugged and masculine, while Virginia Slims might be considered feminine (Aaker, 1996). According to Kellogg (2010), strong brands have clear associations, and as such, they create sustainable advantage in the marketplace.

### **Perceived Quality**

Due to the nature of personal perceptions and consumers differences in preferences, needs, and personalities, perceived quality is subjective (Pappu, Quester, & Cooksey, 2005). It is defined as the customer’s perception of overall quality with respect to performance expectations and the availability of substitutes (Aaker, 1991). Perceived quality can provide intangible value to brands. It could influence consumers’ decision-making process and add credence to marketing-controlled messages. Aaker (1996) asserted it is “one of the key dimensions of brand equity” (p. 109).

Perceived quality also helps differentiate brands. In 1960, the National Federation of Coffee Growers of Colombia implemented a new strategic initiative, inventing Juan Valdéz, a fictitious, friendly coffee grower, who peddled his hand-picked coffee beans to North American consumers. The ad campaign emphasized the quality and uniqueness of Colombian coffee, and within five years, more than 40 U.S. brands featured *all-Colombian brands in "Maxwell House country."* After 50 years and more than 100 million dollars, the Juan Valdéz campaign imprinted the Colombian origin coffee brand in the mind of consumers around the world who "identify Colombian coffee as the world's finest" (Pendergrast, 1999, p. 286).

Perception also provides value when dealing with channel members, brand extensions, and premium pricing. Cuban cigars still command significantly higher prices over equal value cigars from Central America due to consumer's perception of their value. In a *Cigar Aficionado* magazine's rating of cigars, Cuban-made cigars scored equally to Central American-made cigars but were priced much higher than other cigars (October, 2009). When it comes to channel members, they also are motivated to carry brands of perceived value; in essence, they want to carry what people want, need, or value. Chi, Yeh, and Chiou (2009) defined perceived value as the "consumer's overall perceptions on benefits and costs from...purchase and use" (p. 231).

When it comes to brand extensions, "the use of a brand name established in one class to enter another product class," Aaker (1991) asserted that perceived quality can be a strong predictor of success (p. 208). It might, but he also noted that only 6% of product introductions were brand extensions, and 89% were line extensions (Aaker, 1991). According to Aaker and Keller (1990), the strategy of brand extensions has become

widespread because firms leverage strong brand name to reduce substantially risk of new product failure. Ries and Trout (1986) cautioned that line extensions usually fail because they do not have an independent position in the mind of consumers, and they are merely satellites of the original brand. Although perceived quality is subjective, consumers usually view a “brand name as key indicator of quality” (Brucks, Zeithaml & Naylor, 2000, p. 362).

### **Brand Loyalty**

Light (1994) noted that it costs four to six times as much to get a new customer as it does to retain an existing customer; therefore, it is important to focus on creating and building brand loyalty. Brand loyalty is a “measure of the attachment that a customer has to a brand” (Aaker, 1991, p. 39). Brand-loyal customers have consistent preferences for one brand over another, and repeatedly buy the same brand and more of it than other customers. As such, brand loyalty is not constant and must be reinforced (DuWors & Haines, 1990; Light, 1994).

Brand loyalty is considered the core of brand equity (Aaker, 1991; Keller, 2003, 2008). Aaker (1996) suggested several levels of brand loyalty that ranged from brand indifference to committed customers who view the brand as very important to them. Brand loyalty also can influence product perception as loyal customers more likely will view their brands as offering superior value (Pappu, Quester, & Cooksey, 2005).

One way of measuring brand loyalty is by looking at purchase patterns. Other ways are to analyze switching costs, measure satisfaction, and consumers’ general liking of a brand. Datta (2003) asserted that major factors that influence brand loyalty are product performance, user satisfaction, price, habit, brand names, and level of

involvement. He also cautioned that many brand loyalty studies were found inconclusive because of the many variables involved.

Brand loyalty provides value and is a valuable strategic asset because the potential for reduced marketing costs, trade leverage, and ability to attract new customers. It also can represent a barrier to entry (Aaker, 1996; Kim, Morris, & Swait, 2008). The remarkable growth of Starbucks occurred not because of vast marketing spending on mass media and promotion, but because brand loyalty helped it create a buzz that reduced costs and made Starbucks customers “brand ambassadors.” Howard Schultz, the CEO of Starbucks, believed that its loyal brand community was due solely to its customer experience at the retail level. It also helped attract new customers and placed Starbucks’ coffee on premium retail shelf space at more than 70,000 supermarkets in the U.S. (Koehn, 2001).

It is important to note that repeat purchases might evolve from a favorable price, habit, or lack of adequate substitutions and not because of brand loyalty. Nevertheless, small changes in loyalty can result in a five to ten times change in profitability (Light, 1994).

### **Brand Knowledge**

A common finding among branding experts (Aaker, 1996; Hoeffler & Keller, 2003; Keller, 2002, 2003, 2008; Kotler, 2000) was that brand knowledge is key and a vital part of brand equity. Keller (2008) suggested brand knowledge creates the desired differential effect that drives brand equity. It consists of “a brand node in memory with a variety of associations linked to it” (Keller, 2003, p. 64). It is the set of personal ideas, feelings, and attitudes consumers have about a brand and not necessarily relevant to what

the product is “really” like (Keller, 2008). It is influenced by its context, past experiences, and other marketing controlled measures. Most people will not be able to tell the difference between Evian water and tap water, but many chose to pay 25 cents an ounce for bottled Evian and 15 dollars for small Evian moisturizer spray (Kotler, 1999). According to the CNBC documentary special *Swoosh: Inside Nike*, the Michael Jordan brand of Nike, with yearly sales of around 800 million dollars, almost outsells all other Nike products put together. Consumers pay \$120 for a pair of Michael Jordan sneakers that cost Nike \$20 because they “want to be like Mike” (p. 14). As Bedbury (2002) asserted, Nike “connected the aspirational and inspirational rewards of sports and fitness with world-class innovative product performance like that of the Nike Air shoe” (p. 14).

Keller (2003, 2008) asserted that brand knowledge lowers search costs for consumers because they have “storage advantage over unknown brands in building brand awareness and image” (Hoeffler & Keller, 2003, pp. 423-424). Kotler and Armstrong (2001), and Lamb et al. (2008) suggested that positive brand familiarity most likely will lead the consumer to include a specific brand in the evoked set during the decision making process, and probably will help reduce cognitive dissonance. *Evoked set* usually is defined as the set of brands of a product that the buyer actually considers before making a specific brand choice (Narayana, 1976; Lamb et al., 2008).

According to Keller (2003, 2008), the two components of brand knowledge are brand image and brand awareness. Brand awareness measures how well consumers remember brands, while brand image relates to how the brand is perceived by consumers.

## Brand Awareness

Brand awareness is one of the most important components in two of the leading brand equity models (Keller, 2008; Aaker, 1996). Brand awareness refers to the consumers' ability to recall and recognize a brand under different conditions (Hoeffler & Keller, 2002, 2003; Keller 2003, 2008).

Brand awareness is not only the consumer's ability to remember the brand name but also the consumer's previous experience with the brand or the way the consumer links certain associations to the brand. Brand awareness is the first step in building brand equity because these important associations are etched in people's memory. Keller (2008) asserted that "customer-based brand equity occurs when the consumer has a high level of awareness and familiarity with the brand and holds some strong, favorable, and unique brand associations in memory" (p. 53).

Brand awareness can translate into sales of low involvement products and put others in consumers' evoked sets. Keller (1993) asserted that brand awareness plays an important role in consumer decision-making process because it is important consumers think about the brand when they think of a product category. It also can affect their decisions about brands in the evoked set, and influence brand association and image. Levine (2003) asserted that name awareness is not enough. The brand has to be positively differentiated. Brand awareness consists of *brand recall* and *brand recognition* (Hoeffler & Keller, 2002). Brand recognition is the ability to remember prior experience with the brand. Brand recall is the ability to recall the brand when given a product category. Consumer recognition or recall of brands can have a major role in the decision-making process. It can register the brand in the mind of the consumer; place it in the consumer's

evoked set, and affect choices consumers make, especially when product decisions are made in the store (Keller, 1993).

Aaker (1996) asserted that brand awareness can affect consumers' perceptions and attitudes, and "can make peanut butter taste better" (p. 110). Aaker (1991) suggested brand awareness creates value in at least four ways: a sense of familiarity; a signal of presence, substance, and commitment; a brand to be considered in the evoked set; and an anchor to which other associations can be attached. First, brand awareness can simplify product extensions and introductions, and enhance other brand's associations. Second, when people recognize a brand, familiarity will put the brand in a favorable position. Third, brand awareness also signals presence, commitment, and continuation by the brand. Fourth, recalling a brand most probably will place it in the evoked set and will give it a "first-mover" advantage in the decision making process. High brand awareness probably will have positive effect on brand choice, increase brand loyalty, and strengthen competitive advantage (Keller, 1993).

### **Brand Image**

In today's challenging economic times (Hartley, 2009; Porter, 2008; Villamil, 2009), many brands are under pressure to reduce prices to combat low-priced rivals (Ritson, 2009). Brand managers are under extreme pressure to assess their shrinking market share, knowing that reducing prices will destroy profit margins in the short run and brand image in the long run. Even top brands are under pressure in this current economic climate (Ritson, 2009). Starbucks, one of the top 100 leading brands in the world, recently introduced VIA instant coffee, which is viewed as a fighter brand to combat McDonald's McCafe and Starbucks' own "\$4 cup" image.

In the early 1990s, Canon invested millions in an ad campaign featuring Andre Agassi delivering the now famous line, "Image is everything!" The slogan was memorable and proved successful for the Canon brand. In his book *All Marketers Are Liars*, Godin (2005) asserted that marketers tell stories consumers like to believe, hence, image is everything. He also argued that marketers should support their story with substance to support and substantiate their image in the long run. Kotler and Gertner (2002) asserted that for brand image to be effective, it should be believable and close to reality.

Keller (2008) defined brand image as "Consumers' perceptions about a brand as reflected by the brand associations held in consumer memory" (p. 51). In other words, the information and associations linked to the brand in the consumer's memory form what the brand means to consumers, and the position it occupies in the mind of the consumer (Hoeffler & Keller, 2002; Keller 2008, 2003, 1993; Aaker 1996). Positive brand image will enable better price premiums and increased consumer search for the product. Launched in 1983, and originally intended to re-capture entry-level market share lost by Swiss manufacturers, Swatch translated its image as a low-cost watch of Swiss quality to become the largest watch company in the world (Joachimsthaler & Aaker, 1997).

Brand image has a significant part in building (or eroding) brand equity, but it cannot be accomplished without some favorable and unique brand associations (Hoeffler & Keller, 2002; Keller 1993, 2003, 2008). Sometimes, even strong brands such as the iconic golfer Tiger Woods, who has earned more than \$100 million annually in endorsements, can suffer a rapid decline in brand equity due to negative image. Woods' recent sex scandal diluted his image of "performance, integrity, focus, and commitment,"



and in the process, he lost important sponsors such as the consulting firm Accenture, Gatorade, and Gillette (Blackshaw, 2009; Gregory, 2009). Companies associated with his brand lost a combined share price value of over \$12 billion since the scandal first was publicized (Chung, Derdenger, & Srinivasan, 2013).

In today's digital age, negative brand image might have a lasting impact on brand equity. The *Advertising Age* tagline about the Woods scandal says it all: "Bad news for brand equity – the web never forgets" (Blackshaw, 2009, para. 5).

### **The Marketing Mix**

It is important to differentiate brands from products. According to Kotler and Armstrong (2001), a *product* is "anything that can be offered to a market to satisfy a need or a want" (p. 7). In addition to tangible goods, *products* also can be intangible such as activities or benefits that "do not result in the ownership of anything" (p. 7). It also represents solution to consumers. When people buy aspirin, they do not buy a pill, they buy relief. Consumers usually choose products or services based on perceived *customer value*, which is "the difference between the values the customer gains from owning and using a product and the costs of obtaining the product" (Kotler & Armstrong, 2001, p. 9).

The consumer's perception of brands and brand equity derives from many factors. One of the determining factors is the *marketing mix*, also known as and used in conjunction with *the 4P's* of marketing: product, price, place, and promotion. The concept reportedly was introduced in 1953 as a checklist approach by Neil Borden, the president of the AMA. In 1964, then a professor of advertising at Harvard, Borden proposed a basic framework of key components of marketing management encompassing (1) product, (2) price, (3) branding, (4) distribution, (5) personal selling, (6) advertising,

(7) promotions, (8) packaging, (9) display, (10) servicing, (11) physical handling, and (12) analysis (Quelch & Jocz, 2008).

Researchers and practitioners followed and introduced various classifications of marketing activities, but McCarthy's 4P's proposed in 1960 became the dominant design and has become the most cited and used in literature and practice (Quelch & Jocz, 2008; Watreschoot & Bulte, 1992). Marketers usually use these four variables to try to influence consumers' purchasing and attitudes towards their brands. Considered to be one of the core concepts of marketing theory (Mohammed & Pervaiz, 1995), the *Marketing Mix* or *the 4P's*, is "a unique blend of product, distribution, promotion, and pricing strategies designed to produce mutually satisfying exchanges with a target market" (Lamb, Hair, & McDaniel, 2002, p. 46). As stated by Culliton in the *Handbook of Modern Marketing*, "All four basic elements are related to and focus on the 'free consumer'" (Buell, 1986, p. 63). He continued by asserting that "the key to successful marketing lies in having the right product at the right price at the right place (and time) with the right promotion" (pp. 63-64), and this ultimately will be determined by the consumer. Kotler and Armstrong (2001) defined it as "the set of controllable marketing variables that the firm blends to produce the response it wants in the target market" (p. 49). Lauterborn suggested we view the four P's from the consumer's point of view. He recommended the four P's correspond to what he called the customers' four C's. Product is customer solution, price is customer cost, place is customer convenience, and promotion is communications (Kotler, 2000).

*Place* (distribution) strategies "are concerned with making products available when and where customers want them" (Lamb, Hair & McDaniel, 2002, p. 47). *Price* is

“what a buyer must give up to obtain a product” (Lamb, Hair & McDaniel, 2002, p. 48). Perceived by consumers as an indicator of product quality (Yoo, Donthu, & Lee, 2000), and possibly a powerful branding and competitive tool (Kotler, 2000; Holt, 2003), price is also the easiest for competitors to change or match. Poundstone (2010) suggested that “depending on the context, the same price may be perceived as a bargain or a rip-off; or it may not matter at all” (p. 7). Warren Buffett (*Bloomberg BusinessWeek*, February 28, 2011) suggested that one measure of a very good business model is when a company is able to raise prices without losing business to competitors. According to Hakansson and Waluszewski (2005), Kotler suggested price is the only element in the marketing mix to produce revenues, compared to others that produce costs, but Hakansson and Waluszewski (2005) argued other elements of the marketing mix also contribute to revenues by reducing costs and creating benefits.

*Promotion* strategies include advertising, personal selling, public relations, and sales promotions. Their role in the marketing mix is “to bring about mutually satisfying exchanges with target markets by informing, educating, persuading, and reminding them of the benefits” of a product or a service (Lamb, Hair, & McDaniel, 2002, p. 47). It also is considered a value creation process for both company and consumers alike (Hakansson & Waluszewski, 2005).

Weilbacher (1993) asserted that “marketing creates and manages brands. Successful brands create satisfied customers. Marketing stands or falls on its ability to create satisfied customers” (p. 4).

## **Price and Brand Equity**

Dodds, Monroe, and Grewal (1991) and Lamb, Hair, and McDaniel (2011) define price as what is given up in exchange for a good or service. They suggested price serves as a measure of sacrifice as well as an information cue for consumers for the level of quality of the product and the brand.

Lu (2005) suggested a consumer's response to a brand is not only a function of its current price but also a function of how that price compares to a reference price. Similar to Lu (2005), Poundstone (2010), and Ariely (2009) argued that humans rarely know the true value of an item, and they usually rely on their own perception of value and product advantage over another, and usually estimate the value according to what Poundstone (2010) called "anchor pricing." He suggested that consumers "anchor" or "mental benchmark" their desired item to other substitutions in order to get a sense of value and price. Poundstone (2010) and Ariely (2009) also suggested people are unable to estimate the correct price due to various influences and consumers' irrational behavior.

According to Aaker (1996), price may be the "best single measure of brand equity" (p. 321) because it denotes the level of consumers' satisfaction and loyalty to a brand. He suggested loyal consumers will be willing to pay a price premium for certain brands, and if they are not, their loyalty level is superficial. Companies such as Apple and Starbucks enjoy loyal and dedicated customers who formed "brand communities" that enable them to charge premium prices, compared to similar competing products. Starbucks was born out of an idea to charge three dollars for a cup of coffee at the time when free refills were the norm in restaurants.

Aaker (1996) and Keller (2008) suggested consumers may infer quality of a product according to the price. Grewal, Monroe, and Krishnan (1998) suggested retail buyers are influenced by the advertised price as well as the perception of the quality. In studies on the effects of marketing mix, price, brand, and store information on consumers' perceptions of product quality and value, and their willingness to buy, Dodds, Monroe, and Grewal (1991) and Yoo, Donthu, and Lee (2000) concluded price had a positive effect on perceived quality but a negative effect on consumers' perceived value and their willingness to buy.

Godin (2005) asserted that in order to create the right image, marketers tell stories consumers like to believe. Products that deliver value to consumers become successful due to their "story" and substance, and part of the story is the price. As the old adage goes, consumers' perception is their reality.

### **Store Image and Brand Equity**

Determined by location, merchandise, advertising, store personnel, prices, and other variables, store image is how the store is perceived by customers (Ostrow, 2009). Positive store image is vital for marketers. Good-image stores attract more potential customers, as well as provide greater customer satisfaction and stimulate positive word-of-mouth communications (Yoo, Donthu, & Lee, 2000). Store image also has positive effects on perceived quality, and the store name although positive, has minor influence on perceived quality (Dodds, Monroe, & Grewal, 1991).

A positive store image enables better price premiums and has a significant part in building brand equity (Hoeffler & Keller, 2002). It also has a positive effect on store loyalty (Koo, 2003). Dunkin' Donuts paid a group of Starbucks' devotees to drink

Dunkin' Donuts coffee for one week, while another group of Dunkin' Donuts loyal customers were paid to drink Starbucks coffee for a week. The surprising results made the researchers dub the groups as "tribes." Both groups "loathed" one another other, and while the Dunkin' Donuts customers viewed Starbucks as "pretentious and trendy," Starbucks customers viewed them as "plain and unoriginal" (Kotler & Armstrong, p.313). Considering the fact that Dunkin' Donuts customers consist of middle-income blue-collar people, they are a perfect fit to Dunkin' Donuts image of "America runs on Dunkin" and the coffee retailer for the average Joe. Starbucks customers, who are usually upper-income professionals, serve as a perfect fit to Starbucks image as the "third place" for Yuppies. Although Dunkin' Donuts is ranked number one in customer loyalty in the coffee category, it is revising its strategy in order to refresh its positioning, and get a bigger share of the growing coffee market, by becoming the "Starbucks" of the average Joe (Kotler & Armstrong, 2010).

### **Discussion of the Literature**

The objective of this critical analysis of theoretical and empirical literature was to analyze price and store image as mitigating factors in the perception and valuation of retailers' customer-based brand equity, and to enhance understanding of retail brand equity from the point of view of retailers.

#### **Theoretical Literature**

Since emerging in the 1980s, the term brand equity still does not have a common viewpoint on how to conceptualize and measure it (Aaker, 2003; Keller, 2003; Porter, 2008; Ritson, 2009; Vrontis & Pappasolomou, 2007). Most experts agree that due to instantaneous communications, increased competition, democratization of the world, and

better infrastructure, it is getting more difficult to build brand equity, maintain points of differentiation, and achieve sustainable competitive advantage (Aaker, 1991, 1996; Keller, 2008, 2003; Raggio 2005; Myers, 2003; Wood, 2000). Kotler (2000) attributed it, in part, to brand equity's intangibility.

Aaker (1991) defined brand equity as a set of five categories of brand assets and liabilities linked to a brand's name and symbol that generates value to both consumers and firms through those five major categories of brand loyalty, brand awareness, perceived quality, brand associations, and other proprietary assets such as trademarks and patents. According to Aaker, brand equity provides value to consumers by enhancing the decision making process speed and evaluation, by increasing product satisfaction, and by minimizing cognitive dissonance.

Raggio and Leone (2007) defined *brand equity* as "the perception or desire that a brand will meet a promise of benefits" (p. 385). Keller (2001) developed the brand building model (CBBE), based on Aaker's brand equity concept, to map how brand equity can be best built, measured, and managed from the point of view of customers. He asserted the power of the brand lies in what resides in the minds of customers.

Most experts agree there is still no common viewpoint about how to conceptualize and measure brand equity. The following table presents major theoretical literature.

Table 2-1

*Theoretical Literature*

Author (s) and year	Title	Major Findings
Aaker (1991)	Managing Brand Equity	Brand is a strategic asset. Explain what brand equity is and how it generates value. Brand equity provides value to consumers by

Aaker (1996)	Building Strong Brands	<p>enhancing the decision making process speed and evaluation; by increasing product satisfaction; and by minimizing cognitive dissonance.</p> <p>Brand equity generates value through five major categories/components of brand loyalty, brand awareness, perceived quality, brand associations, and other proprietary assets such as trademarks and patents.</p> <p>Five major themes to building strong brands: brand identity, managing the brand identity, brand system, brand equity measurement and brand building imperatives.</p> <p>The essence of brand equity is the value added to the brand and the firm</p> <p>Aaker proposed his “<i>Brand Equity Ten.</i>” 10 sets of measures were grouped into five categories to measure brand equity. He asserted that four of those categories were customer perceptions of the brand along with brand equity-loyalty, perceived quality, associations, and awareness.</p>
Keller (2001)	Building Customer-Based Brand Equity	<p>Based on Aaker’s brand equity concept, Keller developed the brand building model (CBBE) to map how brand equity can be best built, measured and managed from the point of view of customers.</p> <p>The power of a brand lies in what resides in the minds of customers.”</p>
Keller (1993; 2008)	Strategic Brand Management	<p>Based on brand knowledge</p> <p>Brand equity explains why different outcomes result from the marketing of a branded product or service than if it were not branded” (p. 37).</p> <p>The power of the brand lies in the minds of consumers and in what they experienced and learned about the brand.</p> <p>The essence of brand equity is the value added to the brand and the firm.</p>
Raggio & Leone (2007)	The Theoretical Separation of Brand Equity and Brand Value:	<p>Brand equity is the perception or desire that a brand will meet a promise of benefits.</p> <p>“Brand equity and brand value are not</p>



	Managerial Implications for Strategic Planning.	different dimensions of the same construct—they are different constructs” (p. 384).
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## Empirical Literature

Baldauf, Cravens, Diamantopoulos, and Zeugner-Roth’s (2009) empirical analysis researched the impact of product-country image and marketing efforts on retailer-perceived brand equity (RPBE). They investigated brand equity from the retailer’s perspective, marketing mix antecedents of RPBE, country-of-origin effects on RPBE and RPBE link to brand performance. They surveyed 794 managers of tile retailers in Austria, with a final sample of 142, which represented a response rate of 18.6%. The study results indicate that marketing activities and image of country-of-origin were correlated to RPBE. The study also indicated strong brands create higher perceptions of quality, loyalty, and awareness, and promotional activities create value and are an important element of brand building activities. Baldauf et al. (2009) asserted that price level was negatively correlated to RPBE as they reduce the value proposition. This was in contrast to Yoo, Donthu, and Lee’s (2000) study showing that high price is positively correlated to brand equity.

Pappu, Quester, and Cooksey (2005) studied improvements to measurement of consumer-based- brand equity and their concept of “consumer-based retailer equity.” In their study, they used “actual consumers from an Australian state capital city” (p. 143), rather than just student samples used in previous studies by Yoo and Donthu (2001) and others. They investigated the relationships between country of origin effect and consumer-based brand equity. The study results supported the four-dimension model of consumer-based brand equity examined in the study of brand awareness, brand

associations, perceived quality, and brand loyalty. It provided empirical evidence of the multidimensional aspects of brand equity, supporting Aaker's (1991) and Keller's (1993) conceptualization of brand equity (p. 151). The authors recognized that their mall-intercept sample might limit their ability to generalize the findings. They also cautioned that the use of a single measure for brand awareness might have an effect on the results.

In a later study, Pappu and Quester (2008) examined whether retailer brand equity varies between a department store and a specialty clothing store. A mall-intercept sample of 422 useable responses resulted in findings that suggested retailer brand equity varies significantly between department stores and specialty clothing store categories. Their findings also indicated advertising and marketing budgets had great influence on brand equity. Pappu and Quester (2008) acknowledged the limitation of examining two different store categories instead of including more types of retail categories and stores. To borrow from their previous paper, Pappu, Quester, and Cooksey (2005) stated mall-intercept sample might limit the ability to generalize these findings.

Yoo, Donthu, and Lee (2000) studied the effects of elements of the marketing mix on brand equity. They used data obtained from 569 students enrolled at a major state university. Their findings supported positive correlation between marketing mix elements and brand equity. They asserted that brand equity is developed through perceived quality, brand loyalty, brand awareness, and associations, which takes time to build or destroy. They also asserted that high advertising spending, high price, good store image, and high distribution intensity is positively correlated to brand equity. However, they cautioned that frequent use of price promotions will harm brand equity. Yoo, Donthu, and Lee

(2000) recognized the challenge of using students only in the study, but argued students also were primary consumers (p. 202).

Grewal, Krishnan, Baker, and Borin (1998) studied the effect of store name, brands, and price discounts on consumers' evaluations and purchase intentions. A total of 309 undergraduate students at a major state university were surveyed on price and store image using the bicycle category. The study concluded that store image had a direct and positive correlation with purchase intention. While the store image is influenced by the store's brand name and quality of merchandise it carries, price discounts, internal reference price, and brand's perceptions of quality had significant influence on perceived value. They also concluded that carefully managed price discounts will positively influence perceptions of value, without any adverse effects on brand's perceived quality (p. 349). Grewal, Krishnan, Baker, and Borin (1998) suggested future studies should use a non-student population and diverse product categories.

Kim and Kim (2004) investigated the relationship between customer-based restaurant brand equity and firms performance. They tested four elements of brand equity: brand awareness, brand image, brand loyalty, and perceived quality. Their mall-intercept convenience sample of 950 young adults produced 394 usable surveys with a response rate of 41.5%. They targeted young adults in their 20s because they represent the core customer base of fast food chains (p.118). Their study concluded strong brand equity is significantly correlated with revenues. While brand awareness had the strongest effect on revenues, it had the smallest effect on brand equity. They also concluded brand loyalty had the least effect on firms' performance. The authors asserted the store's image is much more important than its characteristics.

Following is a list of empirical studies.

Table 2-2

*Empirical Studies*

Author (s) and year	Title	Major Findings
Baldauf, Cravens, Diamantopoulos, & Zeugner-Roth (2009).	The Impact of Product-Country Image and Marketing Efforts on Retailer-Perceived Brand Equity	<p>Price level was negatively correlated to RPBE as it reduces the value proposition.</p> <p>Strong brands create higher perceptions of quality, loyalty and awareness.</p> <p>Promotional activities create value and are an important element of brand building activities.</p> <p>Marketing activities and country-of-origin image of merchandise were correlated to RPBE.</p> <p>Contradicted Yoo, Donthu, and Lee (2000) study showing that high price is positively correlated to brand equity.</p>
Grewal, Krishnan, Baker, & Borin (1998)	The Effect of Store Name, Brand Name and Price Discounts on Consumers' Evaluations and Purchase Intentions	<p>Store image had a direct and positive correlation with purchase intention.</p> <p>Store image is influenced by the store's brand name and quality of merchandise it carries.</p> <p>Price discounts, internal reference price and brand's perceptions of quality had significant influence on perceived value.</p> <p>Carefully managed price discounts will positively influence perceptions of value, without any adverse effects on a brand's perceived quality.</p>
Kim & Kim (2004)	Measuring Customer-Based Restaurant Brand Equity	<p>Strong brand equity is significantly correlated with revenues.</p> <p>While brand awareness had the strongest effect on revenues, it had the smallest effect on brand equity.</p>

<p>Pappu, &amp; Quester (2008)</p>	<p>Does Customer Satisfaction Lead to Improved Brand Equity? An Empirical Examination of Two Categories of Retail Brands</p>	<p>Brand loyalty had the least effect on firms' performance. Store image is much more important than its characteristics.</p> <p>Retailer brand equity varies significantly between department stores and specialty clothing store categories. Advertising and marketing budgets had great influence on brand equity.</p>
<p>Pappu, Quester, &amp; Cooksey (2005)</p>	<p>Consumer-Based Brand Equity: Improving the Measurement-Empirical Evidence</p>	<p>Store image is influenced by the store's brand name and quality of merchandise it carries. Price discounts, internal reference price and brand's perceptions of quality had significant influence on perceived value. Carefully managed price discounts will positively influence perceptions of value, without any adverse effects on brand's perceived quality They suggested usage of non-student population and diverse product categories in future studies.</p>
<p>Yoo, Donthu, &amp; Lee (2000)</p>	<p>An Examination of Selected Marketing Mix Elements and Brand Equity</p>	<p>Examining the relationships between marketing mix elements and brand equity. Brand equity provides sustainable competitive advantage. Brand equity is developed through perceived quality, brand loyalty, brand awareness and associations, which takes time to build or destroy. Frequent use of price promotions will harm brand equity High advertising spending, high price, good store image and high distribution intensity are positively correlated to brand equity.</p>

### **Research Questions**

1. Do store image and perception of price predict customer-based-brand equity?
2. Do store image and perception of price predict customer-based-brand equity equally well for both Starbucks and McDonalds' McCafe?
3. Do consumer demographic characteristics predict customer-based-brand equity?
4. Do customer demographic characteristics predict customer-based-brand equity equally well for both Starbucks and McDonalds' McCafe?

### **Research Hypotheses**

H1: The store image and perception of price significantly predict the customer-based-brand equity.

H2: The store image and perception of price predict the customer-based-brand equity equally well for Starbucks and McDonalds' McCafe.

H3: Consumer demographic characteristics predict the customer-based-brand equity.

H4: Customer demographics predict the customer-based-brand equity equally well for Starbucks and McDonalds' McCafe.

### **Conclusion**

Developing, competing, and achieving sustainable advantage in the 21<sup>st</sup> century is becoming more challenging than ever before. The world is evolving at lightning speed toward a greater interaction among consumers, industries, and business entities. Hence, there is growing importance that firms and consumers place on brands. No matter how strong brands are, it is getting more difficult to sustain brand equity, maintain points of differentiation, and sustain competitive advantage.

The retail industry is a significant component of the U.S. economy, and retailers serve as critical differentiators for brands in the marketplace. Since retailers have the ability to significantly influence consumers' evaluations of brands and affect a firm's competitiveness, they are critical to the success of brands in the market place. Enhancing our understanding of retail brand equity, and the impact of price and store image on consumers will be an important contribution to the study of branding in general and retail industry in particular.

This dissertation presented documented research from major academics and practitioners of consumer-based brand equity, branding, and brand management. A detailed review and interpretation of the literature on branding, consumer-based brand equity, brand analysis, and brand equity evaluations models were presented.

Review of the literature suggested price and store image affects consumers' perception of brands and retailers. It is also evident that branding and consumer-based brand equity is critical to success of retailers and marketers and will continue to be a very important area for research in the future. These factors may have critical effects on brands and contributions to customer-based brand equity and lead to sustainable advantages in the market place. An understanding of these aspects will result in a better understanding of creating, building, and sustaining brand equity.

## CHAPTER 3

### METHODOLOGY

Consumers' brand beliefs usually are based on memory and association with the brand. Variables such as word of mouth, personal experience, employee attitude, and product packaging can generate different brand image and perception. For example, due to McDonald's image as "fast and cheap," consumers may believe coffee served at McDonald's is not premium coffee, even if they never have had a cup of coffee at McDonald's. Due to the recent introduction of McDonald's McCafe in the U.S. and its positioning as a premium coffee, a considerable amount of money has been committed to McDonald's careful market positioning of its new premium coffee in the highly lucrative and competitive retail coffee segment. Historically, McDonald's restaurant interiors were "bright red and yellow color palette.....served to stimulate the 'fast' portion of the fast-food equation" because research has shown these colors encourage movement and action (Rath, Bay, Petrizzi, & Gill, 2008, p. 334). Adapting to consumers changing eating habits, McDonald's began redecorating its restaurants with more earth-tone shades to encourage customers to spend more time and money at their restaurants. According to the *Wall Street Journal*, Starbucks is less sensitive to prices because of its high-end consumer base (Gasparro, 2012).

The present study investigated the effects of price and store image on customer-based-brand-equity, and the differences between perceptions of two major retailers that may be attributed to price and store image. The independent variables were price, store image, and respondent demographic characteristics. The dependent variable was the



customer-based brand equity. The study was designed to provide a better understanding of how brand equity is affected. This chapter describes the methodology employed in this study.

### **Research Design**

This research was a quantitative, non-experimental, exploratory study using survey research of subjects to examine the effects of price and store image on customer-based-brand-equity for retail customers in South Florida. Data for this study came from a survey conducted at a U.S. university among students who were consumers and ardent customers of retail coffee shops. This design called for subjects to be surveyed in classrooms on a university campus.

Subjects were requested to respond to three survey instruments. The first part measured consumer demographic characteristics such as coffee drinking habits, age, race, gender, income, education, and academic GPA using the researcher's own *Consumer Characteristics Questionnaire*. Part two, using the *brand equity measurement approach* adopted from measures developed by Yoo, Donthu, and Lee (2000), examined the effect of price on customer-based brand equity. Part three, the *Brand Image Scale* developed by Kim and Kim (2004), examined brand image, and consisted of three constructs: brand loyalty, perceived quality, and brand association and awareness. The questionnaire was pretested using customers of Starbucks and McDonald's McCafe, and was revised and improved accordingly.

The study explored four research questions. The first research question explored the differences if any, in customer-based-brand-equity, based on customer perceptions of price and store image. Research question two explored the differences if any, in

customer-based brand equity for McDonald's McCafe and Starbucks, based on customer perceptions of price and store image. Research question three explored differences in CBBE based on the characteristics of the retailer's customers. Research question four examined the characteristics of consumers of the leading coffee retailers in the U.S. (Starbucks and McDonalds' McCafe) and differences if any in CBBE.

The study also tested four research hypotheses. The first hypothesis examined potential differences among store image, price, and retailer's customer-based-brand equity (brand loyalty, brand awareness, perceived quality, and brand association); hence, the researcher assumed the CBBE was correlated positively to store image and price. The second hypothesis examined differences among leading coffee retailers McDonalds' McCafe and Starbucks based on customer's perception of price, store image, and customer-based-brand-equity (brand loyalty, brand awareness, perceived quality, and brand association); hence, the two major retailers' customer perceptions of price and store image will have differential influence on customer-based-brand-equity. The third hypothesis explored differences among consumer characteristics, price, store image, and customer-based-brand-equity (brand loyalty, brand awareness, perceived quality, and brand association); hence, consumer characteristics can have an influence on CBBE. The fourth hypothesis explored differences among consumer characteristics, price, store image, and customer-based-brand-equity (brand loyalty, brand awareness, perceived quality, and brand association); hence, consumer characteristics of both retailers will have equal influence on CBBE.

Demographic and CBBE measurement instruments were used. The study had three parts. Part one, *Personal Characteristics Profile Questionnaire* developed by the

researcher, had 12 items that measured consumer characteristics of coffee drinking habits, brand preferences, money spent on coffee, and shopping frequency. Additional questions covered age, race, education, student status, academic GPA, gender, and employment status. Part two evaluated price and brand awareness according to the *Marketing Mix scale* developed by Yoo, Donthu, and Lee (2000) using 5-point Likert-type scales, with anchors of 1=*strongly disagree* and 5=*strongly agree*. The 9-item scale with two constructs: 4 each for price, and 5 for brand awareness-associations. Yoo, Donthu, and Lee (2000) studied the effects of elements of the marketing mix on brand equity. They used data obtained from 569 students enrolled at a major state university. Their findings indicated a positive correlation between marketing mix elements and brand equity. They asserted that brand equity is developed through perceived quality, brand loyalty, brand awareness, and associations, which takes time to build or to destroy. They also asserted that high advertising spending, high price, good store image, and high distribution intensity is positively correlated to brand equity. However, they cautioned that frequent use of price promotions will have a negative effect on brand equity. Yoo, Donthu, and Lee (2000) recognized the challenge of using students only in the study, but argued that students also were primary consumers (p. 202).

Part three evaluated customer-based-brand-equity evaluating brand loyalty, brand image, and perceived quality based on the *Brand Equity Scale* (Kim & Hong-Bumm, 2004), using 5-point Likert-type scales, with anchors of 1=*strongly disagree* and 5=*strongly agree*. The *Brand Equity Scale* is a 23-item scale with three constructs: 6 for brand loyalty, 9 for perceived quality, and 8 for brand image. Kim and Hong-Bumm (2004) investigated the relationship between customer-based restaurant brand equity and

firms' performance. They tested four elements of brand equity: brand awareness, brand image, brand loyalty, and perceived quality. Their study concluded that strong brand equity is significantly correlated with revenues. While brand awareness had the strongest effect on revenues, it had the smallest effect on brand equity.

To address potential sources of internal validity, the researcher looked at four possible threats to internal validity such as measurement, history, maturation, and statistical regression (Kerlinger & Lee, 2000). Internal validity of the study was insured by adopting existing measurements of brand equity in retail environment by Yoo, Donthu, and Lee (2000), and Kim and Kim (2004). All of the above instruments had reliability Cronbach's coefficients of .80 or higher.

Threats to instrumentation was minimized by ensuring the researcher was the sole observer and handler of surveys, done in a timely manner. Selection threat was minimized because surveys were conducted in classrooms with a group of undergraduate students that shared similar characteristics. Due to the short time period of the administration of the survey, the researcher did not expect a problem with maturation, attrition, or history. Also, instrumentation did not present a threat to internal validity because data were collected using the same instruments and by the same researcher.

With regard to external validity and as it related to the "representativeness or generalization" of the research (Kerlinger & Lee, 2000, p. 26), the researcher recognized that the student sample from a regional university might have limited the ability to generalize the findings. The subjects (coffee drinkers), and the fact that precautions were taken to ensure a large enough sample of participants, minimized effects on the external validity.

To minimize controls for extraneous variables, Kerlinger and Lee (2000) suggested one should use participants as homogenous as possible. The study sample was derived from students at a regional U.S. university, which represented a fairly homogenous group of young adults, students, who are consumers and coffee drinkers. The researcher understood that a cohort of students probably will share many similar demographic characteristics, such as age, income, marital status, student status, employment, and race. This group also represented coffee drinkers. Kerlinger and Lee (2000) also suggest we can control extraneous variables through randomization. To achieve it, the “accidental sample” of students was surveyed through in-classroom interceptions during the day, choosing classrooms at random.

Some perceived weaknesses were the use of the group of students from one university, and a certain and limited geographical location such as southeastern United States and Miami-Dade County, Florida. The group also might have been small and not representative of the general U.S. population. To minimize effects, the same procedures such as questionnaires, survey conditions, and time of surveys were used for all students and by same interviewer.

### **Sampling Method**

This study analyzed the individual retail coffee consumer in the U.S. The sampling frame for this study was college students who were customers of retail coffee shops. Subjects were selected from students on the campus of St. Thomas University in Miami Gardens, Florida, during weekdays between the hours of 9:00 a.m. and 5:00 p.m. The “accidental sample” was selected from coffee drinking students. Since surveyed subjects were not returned to the population, this was sampling without replacement.

Subjects were intercepted in classrooms throughout the university campus and were asked to participate as part of a university study. To ensure sampling without replacement, subjects were asked if they had completed this survey earlier. The sample was a convenience sample of students from St. Thomas University, located in southeastern United States. The study assumed most U.S. students were at least 18 years old. Since the students were not required to participate in the study, they were provided a written consent to sign before taking the survey and were informed after taking the survey regarding the purpose of the research. Data collection and processing of the survey took place during the day. The same procedures such as questionnaires, survey conditions, and times of surveys were used for all students and by the same interviewer.

Kerlinger and Lee (2000) argued that too large a sample will result in wasted resources and too small of a sample will not be large enough to detect any significance. They added that “the larger the sample the smaller the error” (p. 175). When determining sample size, as a rule, the larger the sample, the smaller the error of deviation from population values and vice versa. It is critical to have a sufficient sample size because larger samples are more accurate and “give the principle of randomization, or simply randomness, a chance to work” (Kerlinger & Lee, 2000, p. 177). It is critical to have sufficient sample size to have power in the test, which is the ability of a test of statistical significance to detect differences in means. Power is a fractional value between 0 and 1.00 that is defined as “ $1 - \beta$ , where  $\beta$  is the probability of committing Type II error. The Type II error is failing to reject a false null hypothesis” (Kerlinger & Lee, 2000, p. 453). In this study, the accessible population consisted of a student body of approximately 3,500 at St. Thomas University (St. Thomas University, 2012-2013). The sample size

was 539, constituted by 289 students who frequent Starbucks and 250 students who frequent McDonalds' McCafe. Since the researcher was well aware most coffee drinkers might frequent both retailers, respondents were asked to answer questionnaires regarding the retailer they frequent more. In essence, the study preferred to follow the money.

### **Data Collection Procedures**

After receiving permissions from the developers to use their instruments and after institutional review board (IRB) approval by both Lynn University and St. Thomas University, all data was collected personally via questionnaires given to students who frequented coffee retail shops, intercepted in classrooms on campus during weekdays between the hours of 9:00 a.m. and 5:00 p.m., using accidental sampling plan. Eligible criteria were any student who was 18 years or older who frequented Starbucks or McDonald's McCafe. Exclusion criteria were anyone who was under 18 years of age and did not drink Starbucks or McDonald's coffee. Every effort was made to protect the privacy of respondents.

### **Data Analysis Procedures**

Hypotheses tests were evaluated using multiple linear regression. Regression is the most appropriate technique because it examines the strength of the association between the criterion variable, customer-based-brand-equity, and a set of independent variables that are predictors of the criterion. Multiple linear regression is more appropriate than correlation because it allows the researcher to examine the collective association between the criterion variable and more than one independent variable. The significance of the regression is evaluated by an F-test. If this test is statistically significant, it means the set of predictors are significantly associated with the criterion

variable. The strength of the association between individual predictors and the criterion variable is evaluated by a t-test. A statistically significant t-test for a particular independent variable indicates there is a significant association between that variable and the criterion, after controlling for the influence of the other independent variables in the model. This reduces the risk of an erroneous correlation between a single independent variable and the criterion.



## **CHAPTER 4**

### **DATA ANALYSIS AND RESULTS**

#### **Overview**

The objective of the study described in this chapter is to understand the effects of price and store image on customer-based brand equity, and differences among customer perceptions of two major retailers, attributed to price and store image. Since the specialty coffee industry is a significant and growing part of retailing in the U.S., the study concentrated on Starbucks and McDonald's McCafe, the two leading coffee retailers in the U.S. In addition, this study explored differences in customer-based brand equity based on the characteristics of the retailer's customers—in essence, to provide a better understanding of how brand equity is affected. This research was a quantitative, non-experimental, exploratory-comparative study using survey research of subjects. Data was collected at a U.S. university from students who are customers of retail coffee shops, and then the data were analyzed using the IBM SPSS 19.0 statistical software. Descriptive and inferential statistics including t-tests and three-way ANOVA were used to analyze the data and answer the research questions and hypotheses.

#### **Sample and Data Analysis**

The convenience and accidental sample was selected from coffee drinking students on the campus of St. Thomas University, located in the southeastern United States. Subjects were contacted in classrooms throughout the university's campus during weekdays and were asked to participate voluntarily in a university study. To ensure sampling without replacement, subjects were asked if they had completed the survey earlier. A total of 621 students completed the survey, but 82 questionnaires were deemed

incomplete responses and were not used in the study. A total of 539 questionnaires were used for the data analysis, with 250 questionnaires containing McDonald's McCafe survey data, and 289 questionnaires containing Starbucks survey data. Since the researcher was aware most coffee drinkers might frequent both retailers, respondents were asked to answer questionnaires regarding the retailer they frequent most. In essence, the study preferred to follow the money.

In this study, the investigator concentrated on Starbucks and McDonald's McCafe, the two leading coffee retailers in the U.S. Three hundred twenty nine respondents answered the Starbucks survey, while 292 respondents answered the McDonald's McCafe survey. Forty Starbucks survey responses were deemed invalid, while McDonald's McCafe had 42 invalid responses. Some surveys were deemed invalid for various reasons, such as respondents who did not complete important questions like "Do you drink/purchase Coffee at Starbucks and/or McDonald's McCafe?" In addition, those respondents who had conflicting answers such as answering "yes" to question number two "Do you drink/purchase Coffee at Starbucks and/or McDonald's McCafe?" while answering "no" to question number nine: "I don't drink coffee at Starbucks (McDonald's McCafe)" were deemed invalid. This resulted in a total of 250 valid McDonald's McCafe questionnaires, and 289 valid Starbucks questionnaires. Table 4-1 presents the frequency of valid, invalid, and total responses.

Table 4-1

*Responses of Students, who drink/purchase Coffee at Starbucks and/or McDonald's  
McCafe*

	Starbucks	McDonald's McCafe	Total Surveys
Total surveys completed	329	292	621
Invalid surveys (Percentage)	40 (12%)	42 (14%)	82 (13%)
Valid surveys	289	250	539

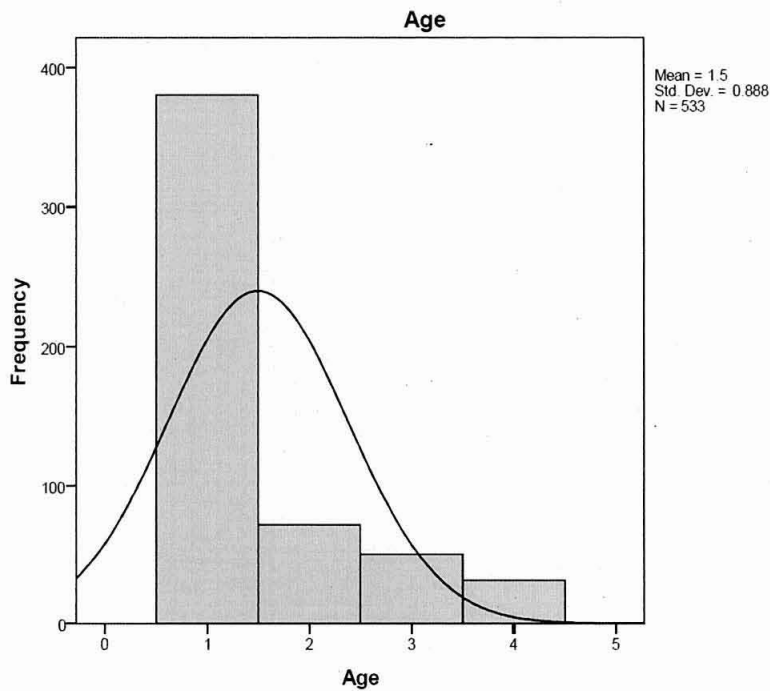
Table 4-1-1

*Skewness and Kurtosis Analysis*

Skewness	1.667
Kurtosis	1.572

Figure 4-1

*Skewness and Kurtosis Analysis*



The population results displayed some measure of asymmetry, due to the fact that respondents were young undergraduate students.

The survey instrument included three parts. The first part measured consumer demographic characteristics using the researcher's own Consumer Characteristics questionnaire. Part two, using the brand equity measurement approach adopted from Yoo, Donthu, and Lee (2000) examined the effect of price on customer-based brand equity. Part three, the Brand Image Scale developed by Kim and Kim (2004) examined brand equity, and consisted of three constructs: brand loyalty, perceived quality, and brand association and awareness. The survey questions, numerical values, and codes are shown in Appendices A-C.

## Reliability Analysis

The reliability of the scales was evaluated using Cronbach's alpha. The standard for reliability in peer-reviewed publications is a minimum of 0.80. All the scales were reliable.

Table 4-2

### *Reliability of Scales*

Scale	Cronbach's alpha
Customer-Based-Brand Equity	.928
Brand Loyalty	.797
Brand Association	.789
Brand Awareness	.868
Perceived Quality	.872
Perception of Price	.750
Store Image	.817

The first statistical test is a descriptive analysis of consumer characteristics of specialty coffee retailers.

## Descriptive Analysis

**Characteristics of consumers of specialty coffee retailers.** Consumer characteristics of Starbucks and McDonald's McCafe, two of the world's leading coffee retailers, were analyzed, and subjects answered questions regarding gender, employment status, age, race, education level, academic GPA, coffee drinking habits at Starbucks and McDonald's McCafe, and prices paid. Among this student population, males were the majority in the sample with 53.1%, and females were 46.9%. A total of 71.3% of respondents were between 18 and 24 years old while 13.5% were between the ages of 25 and 27 years old. Since this was a student sample, it was not surprising that most did not work or worked part time. A total of 42.3% were not working, while 32.2% worked part

time. Only 25.5% worked full time. The majority of student consumers in the sample describe themselves as “Hispanic/Latino” at 42.5%, followed by “White” at 19.4%, and “Black or African American” at 19.4%.

The educational level for student consumers in the sample of Starbucks and McDonald’s McCafe was distributed evenly with postgraduate at 18%, four year college at 17.8%, senior status at 12.4%, and the junior status at the largest percentage of 19.3%. The sophomore category was at 17.2%, and the first year category represented 15.4%. The majority of sample students self-reported an academic GPA between 3.3 and 3.79 (38%) followed by a GPA between 2.8 and 3.29 (30.1%).

The majority of consumers reported they visited their retail establishment two to three times a week (39.5%), while 32.2% visited less than once a week. On average, customers spent \$5.57 per visit. Starbucks customers spent on average \$6.57 per visit, which was more than McDonald’s McCafe customers who spent \$4.57 per visit.

Table 4-3

*Characteristics of Consumers of Specialty Coffee*

Characteristics Variable	Frequency	Percent
<b>Gender</b>		
Male	284	53.1
Female	251	46.9
<b>Employment Status</b>		
Working Full Time	132	25.5
Not Working	219	42.3
Working Part Time	167	32.2
<b>Age</b>		
18-24	380	71.3
25-27	72	13.5
28-35	50	9.4
Over 36	31	5.8
<b>Race</b>		
Asian	37	7.0
Black or African American	103	19.3
Hispanic/Latino	226	42.5
White	103	19.4
American Indian or Alaska Native	2	0.4
Native Hawaiian or Pacific Islander	4	0.7
International (not US citizen/resident)	57	10.7
<b>Educational Level</b>		
Postgraduate	96	18.0
4-year college graduate	95	17.8
Senior	66	12.3
Junior	103	19.3
Sophomore	92	17.2
Freshman	82	15.4
<b>Academic GPA</b>		
Less than 2.0	8	1.4
2.0-2.19	16	3.0
2.2-2.79	60	11.3

2.8-3.29	160	30.1
3.3-3.79	202	38.0
3.8-4.0	86	16.2

How often do you drink coffee at Starbucks/McCafe?

3 or more times per week	119	22.2
1-2 times per week	198	37.0
Less than once a week	179	33.45
Invalid response	39	7.35

On average how much do you spend per visit? \$5.57

On average how much do you spend per visit at McCafe? \$4.57

On average how much do you spend per visit at Starbucks? \$6.57

To create a numerical index for each of the constructs used in the analysis (customer-based-brand equity, brand loyalty, brand association, brand awareness, perceived quality, store image, and perception of price), the constructs were made operational as the principal component of the relevant items on the instrument. For the Perception of Price index, a high value indicates the perception of a high price. For the Store Image index, a high value indicates a positive image. Similar to the other indices, a high value indicates a high level of brand equity, brand loyalty, brand association, brand awareness, and perceived quality.



Table 4-4

## Principal Components of the Scales

Scale	Percent of Total Variance Accounted for by Principal Factor
Customer-Based-Brand Equity	48.7%
Brand Loyalty	61.1%
Brand Association	61.3%
Brand Awareness	79.1%
Perceived Quality	58.7%
Perception of Price	68.1%
Store Image	53.5%

**Customer perceptions of price and store image.** Consumers often base their buying decisions on impressions of price and store image. For this study, the researcher examined price and store image based on studies by Yoo, Donthu, and Lee (2000) and Kim and Kim (2004), using 5-point Likert-type scales, with anchors of 1=strongly disagree and 5=strongly agree. Descriptive analysis of the means and standard deviations of customer perceptions of price and store image is shown in Table 4-5. Price was perceived as significantly higher at Starbucks,  $t(516) = 17.138$ ,  $p < .001$ . Also, store image was significantly more positive at Starbucks,  $t(524) = 10.711$ ,  $p < .001$ .

Table 4-5

*Customer Perceptions of Price and Store Image*

Item	N	Mean	Std. Deviation
Price	518	0.000	1.000
Price for Starbucks	274	.56781	.80028
Price for McDonald's	244	-.63762	.79767
Store Image	526	0.000	1.000
Store Image for Starbucks	280	.39688	.82664
Store Image for McDonald's	246	-.45174	.98983

Note: means and standard deviations are expressed in units of standard deviations.

The response indicates that specialty coffee consumers usually view prices charged for their coffee indulgence as mid-range. However, Starbucks customers might view price as more accurately representing value for their coffee.

Customer perception of store image range indicates that specialty coffee consumers usually have a good image of their coffee purveyor, while Starbucks had a much higher quality and well-known image among its customers than McDonald's McCafe. This might be the reason Starbucks' customers pay higher prices than their competitor, but still view their prices more adequate than McDonald's McCafe prices. Results indicate that both store image and price might positively influence specialty coffee consumers buying behavior. These results present definite value to the retailer.

**Customer-based brand equity.** For the purpose of the study, customer-based brand equity was measured by four dimensions: brand loyalty, perceived quality, brand awareness, and brand association. In essence, strong brand equity means customers perceive the brand to be of high quality; and have strong, positive, and favorable brand associations and awareness. In addition, customers are loyal to the brand when there is strong brand equity (Yoo & Donthu, 2001; Aaker, 1996; Kim & Kim, 2004).

An analysis of customer perceptions of brand equity revealed that, in general, specialty coffee customers were loyal to their coffee retailer. The means for brand loyalty ranged from 3.58 to 4.24. Also, customers exhibited a high level of brand awareness and brand association that ranged from 3.91 to 4.53, and this was not surprising since Starbucks and McDonald's McCafe are leading global retailers. When it comes to perceived quality, results also were strong, ranging from 3.5 to 4.25. Overall, Starbucks displayed higher brand equity than McDonald's McCafe, somewhat contradicting Interbrand's ranking of global brands where McDonald's, the brand, is ranked 6 and Starbucks, the brand, is ranked 96 among the top global brands (2012). This might be due to the fact that McDonald's is an iconic U.S. brand, occupying a central place in popular culture for more than 70 years (Ritzer, 2008), while McDonald's McCafe is a fairly new concept. Starbucks higher brand equity might indicate great brand challenges ahead for McDonald's McCafe.

The descriptive analysis of means and standard deviations for customer perceptions are shown in Table 4-6. All the differences in means are highly statistically significant,  $p < .001$ , and all the differences favor Starbucks over McDonalds' McCafe.

In summary, all Customer-Based Brand Equity (CBBE) displayed strong and favorable constructs.

Table 4-6

*Customer Perceptions of Brand Equity*

Item	N	Mean	Std. Deviation
Brand Equity-Total	505	0.000	1.000
Brand Equity-Starbucks	271	.441	.800
Brand Equity-McDonald's	234	-.511	.966
Brand Loyalty-Total	531	0.000	1.000
Brand Loyalty-Starbucks	286	.3586	.7577
Brand Loyalty-McDonald's	245	-.4186	1.0839
Brand Awareness Total	530	0.000	1.000
Brand Awareness-Starbucks	282	.37376	.80591
Brand Awareness-McDonald's	248	-.42500	1.03051
Perceived Quality Total sample	524	0.000	1.000
Perceived Quality-Starbucks	282	.43652	.79254
Perceived Quality-McDonald's	242	-.51408	.97553
Brand Association Total sample	530	0.000	1.000
Brand Association-Starbucks	282	.39907	.81888
Brand Association-McDonald's	248	-.4537	.99512

**Research Questions and Hypotheses**

**Research Question 1**

Do store image and perception of price predict customer-based-brand equity?

Consumers' perceptions of the brand are the "snapshot impression of the brand and its association" (Berry, 2000, p. 129). The Yoo, Donthu, and Lee (2000) study showed that high price is positively correlated to brand equity, and research question number 1 looked

at the differences, if any, in customer-based brand equity for McDonald's McCafe and Starbucks, based on customer perceptions of price.

**Research Hypothesis 1**

The store image and perception of price significantly predict customer-based-brand equity. Hence, the researcher expects the store image and perception of price are positively correlated with customer-based-brand equity.

A multiple linear regression analysis was conducted to evaluate how well store image and perception of price predicted customer-based-brand equity. The predictors were store image and perception of price. The criterion variable was the customer-based-brand equity. The linear combination of predictors was significantly related to customer-based-brand equity,  $F(2,480) = 808.048, p < .001$ . The sample multiple correlation coefficient was .88, indicating that approximately 77% of the variance of customer-based-brand equity in the sample can be accounted for by the linear combination of predictors; see Table 4-7. The research hypothesis was accepted. As expected, store image and perception of price are positively correlated with customer-based-brand equity.

Table 4-7

*Regression Analysis Summary for Store Image and Perception of Price Predicting Customer-Based-Brand Equity*

Variable	Unstandardized Coefficient	Standard Error	Standardized Coefficient	t
(Constant)	-.025	.022		1.146
Perception of Price***	.106	.023	.105	4.553
Store Image***	.866	.024	.839	36.355

Note.  $R^2 = 0.77$  ( $N = 483, p < 0.001$ )

\*\*\* $p < .001$ . one-tail

## **Research Question 2**

Do store image and perception of price predict customer-based-brand equity equally well for both Starbucks and McDonalds' McCafe?

Pappu and Quester (2008) examined whether retailer brand equity varies between retail stores. They suggested that retailer brand equity varies significantly between department stores and specialty clothing store categories. Research question number 2 looked at store image and perception of price and how well they can equally predict customer-based-brand equity for both Starbucks and McDonalds' McCafe.

## **Research Hypothesis 2**

The store image and perception of price predict the customer-based-brand equity equally well for Starbucks and McDonalds' McCafe.

A multiple linear regression analysis was conducted to evaluate the extent to which store image and perception of price predicted customer-based-brand equity equally for Starbucks and McDonalds' McCafe. The predictors were store image, perception of price, a dummy variable indicating which store the respondent visits, and variables indicating the interaction of store with store image and perception of price. If the interaction variables are statistically significant, it indicates that there are significant differences between Starbucks and McDonalds' McCafe. The criterion variable was the customer-based-brand equity.

The linear combination of predictors was significantly related to customer-based-brand equity,  $F(5,477) = 338.676$ ,  $p < .001$ . The sample multiple correlation coefficient was .88, indicating that approximately 77% of the variance of customer-based-brand equity in the sample can be accounted for by the linear combination of predictors; see

Table 4-8. The research hypothesis was accepted because the interaction terms were not statistically significant. As expected, store image was positively correlated with customer-based-brand equity; however, the perception of price was not significantly related to customer-based-brand equity.

Table 4-8

*Regression Analysis Summary for Store Image, Perception of Price, Store, and Interactions Predicting Customer-Based-Brand Equity*

Variable	Unstandardized Coefficient	Standard Error	Standardized Coefficient	t
(Constant)	-.176	.042		4.241
Perception of Price	.014	.039	.014	.352
Store Image***	.826	.033	.800	24.669
Store***	.247	.057	.122	4.356
Store-Price interaction	.056	.054	.036	1.028
Store-Image interaction	.021	.049	.013	.426

Note.  $R^2 = 0.77$  (N = 483,  $p < 0.001$ )

\*\*\* $p < .001$ . one-tail

### Research Question 3

Do consumer demographic characteristics predict customer-based-brand equity?

Grewal et al. (1998), Kim and Kim (2004) and Yoo, Donthu, and Lee (2000)

acknowledged the impact consumer demographics had on their research. Research

question number 3 looked at the differences, if any, in customer-based brand equity for

McDonald's McCafe and Starbucks, based on consumer demographics.

### Research Hypothesis 3

Consumer demographic characteristics predict the customer-based-brand equity.

A multiple linear regression analysis was conducted to evaluate the extent to which

consumer demographic characteristics predicted customer-based-brand equity. The

predictors were gender, employment status, age, race, education, and academic GPA. The criterion variable was the customer-based-brand equity. The linear combination of predictors was significantly related to customer-based-brand equity,  $F(6,465) = 4.562$ ,  $p < .001$ . The sample multiple correlation coefficient was .24, indicating that approximately 6% of the variance of customer-based-brand equity in the sample can be accounted for by the linear combination of predictors; see Table 4-9. The research hypothesis was accepted. Higher levels of education are associated with higher customer-based-brand equity. Female gender also was associated with higher customer-based-brand equity.

Table 4-9

*Regression Analysis Summary for Customer Demographics Predicting Customer-Based-Brand Equity*

Variable	Unstandardized Coefficient	Standard Error	Standardized Coefficient	t
(Constant)	-1.130	.334		3.381
Gender***	.351	.090	.178	3.892
Employment status	-.075	.063	-.057	1.183
Age	.089	.063	.077	1.418
Race	.024	.030	.037	.810
Education**	.093	.030	.162	3.048
Academic GPA	.053	.043	.057	1.242

Note.  $R^2 = 0.06$  ( $N = 472$ ,  $p < 0.001$ )

\*\* $p < .01$  \*\*\* $p < .001$ . one-tail

**Research Question 4**

Do customer demographic characteristics predict customer-based-brand equity equally well for both Starbucks and McDonalds' McCafe? Do consumer demographic characteristics predict customer-based-brand equity?



Insofar as Starbucks and McDonalds' McCafe consumers might represent different demographics, research question number 4 looked at consumer demographic characteristics and if they can predict customer-based-brand equity equally well for both McDonald's McCafe and Starbucks.

#### **Research Hypothesis 4**

Customer demographics predict the customer-based-brand equity equally well for Starbucks and McDonalds' McCafe.

A multiple linear regression analysis was conducted to evaluate the extent to which consumer demographic characteristics predicted customer-based-brand equity equally well for Starbucks and McDonalds' McCafe. The predictors were gender, employment status, age, race, education, academic GPA, store, and variables indicating the interaction of store with customer demographics. If the interaction variables are statistically significant, it indicates there are significant differences between Starbucks and McDonalds' McCafe. The criterion variable was the customer-based-brand equity.

The linear combination of predictors was significantly related to customer-based-brand equity,  $F(13,458) = 13.571, p < .001$ . The sample multiple correlation coefficient was .53, indicating that approximately 28% of the variance of customer-based-brand equity in the sample can be accounted for by the linear combination of predictors; see Table 4-10. The research hypothesis was rejected because the interaction term for academic GPA was statistically significant. Higher academic GPA was associated with greater customer-based-brand equity for Starbucks, but not for McDonalds' McCafe.

Table 4-10

*Regression Analysis Summary for Customer Demographics Predicting Customer-Based-Brand Equity*

Variable	Unstandardized Coefficient	Standard Error	Standardized Coefficient	t
(Constant)	-.855	.435		1.964
Gender*	.237	.118	.120	2.009
Employment status	-.096	.080	-.073	1.197
Age	.114	.085	.099	1.348
Race	-.007	.039	-.010	.175
Education**	.117	.042	.205	2.783
Academic GPA	-.080	.052	-.086	1.535
Store	.208	.597	.105	.349
Store-gender interaction	.028	.161	.024	.172
Store-employment interaction	.055	.112	.067	.495
Store-age interaction	-.026	.113	-.025	.230
Store-race interaction	.036	.053	.072	.674
Store-education interaction	-.058	.055	-.127	1.053
Store-GPA interaction*	.152	.076	.374	1.991

Note.  $R^2 = 0.06$  ( $N = 472$ ,  $p < 0.001$ )

\* $p < .05$  \*\* $p < .01$ .

In summary, the customer-based brand equity (CBBE) constructs were favorable for both groups of respondents. However, Starbucks was rated consistently higher in all categories. Store image and perception of price were statistically significant predictors of customer-based-brand equity while gender and education were associated with customer-based-brand equity. Store image had the strongest association with brand equity followed by perception of price. Gender and education had a weaker association. Academic GPA was significantly associated with customer-based-brand equity only for Starbucks. The other demographic characteristics were not associated with customer-based-brand equity for either Starbucks or McDonalds' McCafe.

**CHAPTER 5**  
**SUMMARY, FINDINGS, DISCUSSION, CONCLUSIONS,**  
**LIMITATIONS, AND RECOMMENDATIONS**

**Summary**

This chapter provides a summary of findings, discusses contributions, implications of findings, and identifies limitations of the study, including providing recommendations for future study.

This study aimed to provide a better understanding of customer-based brand equity. The objective of the study was to acquire an understanding of the effects of price and store image on customer-based brand equity, and the differences among perceptions of two major retailers, attributed to price and store image. Since the specialty coffee industry is a significant and growing part of retailing in the U.S., the study concentrated on Starbucks and McDonalds' McCafe, the two leading coffee retailers in the U.S. In addition, this study explored differences in customer-based brand equity based on the characteristics of the retailer's customers. In essence, the study aimed to provide a better understanding of how brand equity is affected.

This research was a quantitative, non-experimental, exploratory-comparative study using a survey research. A survey was conducted at a regional Southeastern U.S. university with a student body of approximately 3,500. The target population was students who are ardent customers of retail coffee shops. A total of 621 students completed the survey, but only 539 questionnaires were used for data analysis, 250 questionnaires containing McDonald's McCafe survey data and 289 questionnaires containing Starbucks survey data. Descriptive and inferential statistics including t-tests

and three-way ANOVA were used to analyze the data and answer the research questions and hypotheses.

### **Findings and Discussion**

This study aimed to provide a better understanding of the effects of price and store image on customer-based brand equity and possible differences between perceptions of two major retailers that may be attributed to price and store image. The independent variables were price, store image, and respondent demographic characteristics such as coffee drinking habits, age, race, gender, income, education, and academic GPA. The dependent variable was the customer-based brand equity.

Research Question One established the relationship between store image, perception of price, and customer-based-brand equity. A multiple linear regression analysis was conducted to evaluate how well store image and perception of price predicted customer-based-brand equity. The combination of store image and perception of price was significantly related to customer-based-brand equity. The sample multiple correlation coefficient was .88, indicating that approximately 77% of the variance of customer-based-brand equity in the sample can be accounted for by the linear combination of predictors. This supported the research hypothesis that store image and perception of price are positively correlated with customer-based-brand equity. The results supported the Yoo, Donthu, and Lee (2000) assertion that high price is positively correlated to brand equity and the conclusion of the study by Grewal et al. (1998) that store image had a direct and positive correlation with purchase intention. Results contradicted the assertion by Baldauf et al. (2009) that price level was negatively correlated to brand equity as it reduces the value proposition.

Research Question Two established the relationship among store image, perception of price, Starbucks and McDonalds' McCafe, and customer-based-brand equity. A multiple linear regression analysis was conducted to evaluate the extent to which store image and perception of price predicted customer-based-brand equity equally for Starbucks and McDonalds' McCafe. The linear combination of store image, perception of price, and the interaction of store with store image and perception of price were significantly related to customer-based-brand equity. The research hypothesis was accepted, and store image was positively correlated with customer-based-brand equity; however, the perception of price was not significantly related to customer-based-brand equity. This did not align with the assertion of Pappu and Quester (2008) that retailer brand equity varies significantly between different categories of retailers (department store and specialty clothing store).

Research Question Three addressed the relationship between consumer demographic characteristics and customer-based-brand equity. A multiple linear regression analysis was conducted and resulted in acceptance of the research hypothesis. It indicated that higher levels of education are associated with higher customer-based-brand equity and that the female gender was associated with higher customer-based-brand equity.

Research Question Four dealt with customer demographic characteristics and how well they can predict customer-based-brand equity equally for both Starbucks and McDonalds' McCafe. A multiple linear regression analysis was conducted and indicated the interaction term for academic GPA was statistically significant. While higher academic GPA was associated with greater customer-based-brand equity for Starbucks, it

was not for McDonalds' McCafe, and the research hypothesis was partially supported and tended to accept.

Table 5-1

*Research Questions, Hypotheses, and Results*

Research Objectives	Hypotheses	Results
1. The relationship between store image, perception of price, and customer-based-brand equity	H1: Store image and perception of price significantly predict the customer-based-brand equity. Hence, the researcher expects the store image and perception of price are positively correlated with customer-based-brand equity	Results supported and accepted
2. The relationship among store image, perception of price, Starbucks and McDonalds' McCafe, and customer-based-brand equity equally	H2: Store image and perception of price predict the customer-based-brand equity equally well for Starbucks and McDonalds' McCafe	Results supported store image and partially supported price. Tended to accept
3. The relationship between consumer demographic characteristics and customer-based-brand equity	H3: Consumer demographic characteristics predict the customer-based-brand equity	Results partially supported and tended to accept
4. The relationship among customer demographic characteristics, Starbucks and McDonalds' McCafe and customer-based-brand equity	H4: Customer demographics predict the customer-based-brand equity equally well for Starbucks and McDonalds' McCafe	Results partially supported and tended to accept

## Conclusions

Achieving and managing sustainable advantage in the marketplace is becoming more challenging than ever before. Firms and consumers place growing importance on brands and a better understanding of brand equity critical to creating, delivering, managing, and sustaining successful brands in the marketplace.

This research explored the effects of price and store image on customer-based brand equity, and differences among customer perceptions of two major retailers, attributed to price and store image. Specific conclusions to the research questions and hypotheses follow:

1. Store image and perception of price positively correlate with customer-based-brand equity.
2. Store image positively correlates with customer-based-brand equity equally well for Starbucks and McDonalds' McCafe, but the perception of price was not significantly related to customer-based-brand equity. This supports the popular notion that Starbucks' customers are YUPPIEs (young urban professionals), while McDonalds' McCafe customers tend to be working class people.
3. Consumer demographic characteristics predict the customer-based-brand equity. This study showed that higher levels of education were associated with higher customer-based-brand equity. Higher customer-based-brand equity did vary based on gender.
4. The hypothesis that customer demographics predict the customer-based-brand equity equally well for Starbucks and McDonalds' McCafe was rejected.

Higher academic GPA was associated with greater customer-based-brand equity for Starbucks, but not for McDonalds' McCafe.

Grewal et al. (1998) asserted that consumers often based their buying decisions on impressions of price and store image. The results of this study imply that store image can add to brand equity, thus creating a sustainable competitive advantage for products and firms, while allowing them to charge premiums. Price usually is positively related to perception of quality; the study found that price was not significantly related to customer-based-brand equity in every retail operation. This was contradictory to Baldauf et al. (2009), but was supported by Yoo, Donthu, and Lee (2000).

This study showed the importance of store image and other marketing variables in building strong brands. Strong brand equity has many positive implications for organizations—from more favorable response from consumers to larger margins, greater trade support, distribution channel leverage, brand loyalty, and increased marketing communication effectiveness (Keller, 2001). As the old saying goes: “Things may come to those who wait, but only the things left by those who hustle.” Therefore, this study points to that the necessity of creating, building, managing, and sustaining great brands is a never-ending process, and very rewarding.

### **Limitations**

The present study provides a better understanding of how brand equity is affected. However, every study has limitations due to time, financial, human, and other constraints.

In this study, limitations were as follows:

1. The student sample audience might be considered atypical consumers because of their relatively young age and limited purchasing experience.



2. The data acquired was limited to students; they might not represent other potential sample groups of coffee drinkers.
3. This study focused on coffee retailers and used a group of students from one university.
4. The sample group might not be representative of the general U.S. population.
5. The study focused only on the effects of price and store image on brand equity.
6. Other marketing elements such as promotion and product were not accounted for in this study.
7. The study focused on two retailers. A survey of additional specialty retailers might produce different results.

### **Recommendations for Future Study**

This study enhances the understanding and knowledge of brand equity, and emphasizes that creating, building, managing, and sustaining brands is a never-ending process. This research provides us with opportunities for future research including the following.

1. This study might carry an “inherent U.S. bias” of how U.S. culture examines, interprets, and evaluates brands. Additional studies should examine countries others than the U.S.
2. Additional studies of other specialty coffee retailers might produce different results.
3. Additional retail categories should be included in a similar study.

4. Geographical comparison, such as cities, states, or even countries, may identify their inclusive and common influences on customer-based-brand-equity.
5. Further research of customer demographic characteristics and how well they can predict customer-based-brand-equity equally with different retailers should be addressed.
6. Different marketing variables such as product or promotion might lead to different results for customer-based-brand-equity.

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## **APPENDICES**

**Appendix A: Consumer Characteristics Questionnaire**

**Appendix B: McDonald's McCafe Survey**

**Appendix C: Starbucks Survey**

## APPENDIX A

### *Part 1: Consumer Characteristics*

*INSTRUCTION: Please check one response for each question that best describes you.*

1. **Do you drink Coffee on a regular basis? (twice a week or more)**  Yes  No

*\*If you answered "No," please discontinue the questionnaire and thank you for your time. If you answered "yes," please continue with the questionnaire.*

2. **Do you drink/purchase Coffee at Starbucks and/or McDonald's McCafe?**  Yes

No

*\* If you answered "No," please discontinue the questionnaire, and thank you for your time.*

3. **Gender**  Male  Female

4. **Employment status**

Working full time (greater than or equal to 20 hours /week)

Not working

Working part time (less than 20 hours /week)

5. **Age**  18-24  25-27  28-35  Over 36

6. **Race**

Asian

Black or African American

Hispanic/Latino

White

American Indian or Alaska Native

Native Hawaiian or Pacific Islander

International (not US citizen or permanent resident)

7. **Education/ Highest university level**

Postgraduate (MA, MS, ME, JD, MD, PhD)

Four-year college graduate (BA, BS, BM)

Senior (completed more than 90 credits)

Junior (completed 61-90 credits)

Sophomore (completed 30-60 credits)

Freshman (currently earned less than 30 credits)

**8. Academic GPA**

- Less than 2.0
- 2.0-2.19
- 2.2-2.79
- 2.8-3.29
- 3.3-3.79
- 3.8-4.0

**9. How often do you buy/drink coffee at Starbucks?**

- 3 or more times per week
- 1-2 times per week
- Less than once a week
- I don't drink coffee at Starbucks

**10. On average, how much money do you spend each visit at Starbucks?**

**11. How often do you buy/drink coffee at McDonald's McCafe?**

- 3 or more times per week
- 1-2 times per week
- Less than once a week
- I don't drink coffee at McDonald's McCafe

**12. On average, how much money do you spend each visit at McDonald's McCafe?**



**APPENDIX B**

***McDonald's McCafe Survey***

**INSTRUCTIONS:** *The following statements describe McDonald's McCafe: 1 represents "Strongly disagree" and 5 represents "Strongly agree." Using the following scale, please fill in your response to each question below.*

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
13. I regularly visit McDonald's McCafe.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
14. I intend to visit McDonald's McCafe again.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
15. I usually use McDonald's McCafe as my first choice compared to other coffee retailers.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
16. I am usually satisfied with my visit to McDonald's McCafe.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
17. I would recommend McDonald's McCafe to others.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
18. I would not switch to another coffee retailer the next time.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
19. The McDonald's McCafe staff serves coffee in promised time.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
20. The staff quickly corrects mistakes.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
21. Staff is well-dressed, clean, and neat.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
22. They have visually attractive menu reflecting the McDonald's McCafe image.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
23. McDonald's McCafe carries products of high quality.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
24. They have well-trained, experienced personnel.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
25. McDonald's McCafe provides clean dining areas and restrooms.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
26. McDonald's McCafe employees are knowledgeable about coffee.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
27. McDonald's McCafe coffee must be of very good quality.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
28. McDonald's McCafe Service is prompt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
29. McDonald's McCafe is conveniently located.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
30. McDonald's McCafe has a differentiated image from other coffee retailers' brands.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
31. McDonald's McCafe Coffee tastes good for the price.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
32. McDonald's McCafe employees are friendly.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
33. McDonald's McCafe has an image of cleanliness.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
34. McDonald's McCafe has the "right espresso bar" atmosphere.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
35. I feel comfortable to visit McDonald's McCafe alone.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
36. The price in McDonald's McCafe is high.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
37. The price of McDonald's McCafe is low.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
38. McDonald's McCafe is expensive.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
39. McDonald's McCafe is priced "just right."	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
40. McDonald's McCafe offers very convenient facilities.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
41. McDonald's McCafe offers very good customer service.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
42. I know what McDonald's McCafe looks like.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
43. I can recognize McDonald's McCafe from among other coffee retailers.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
44. I am aware of McDonald's McCafe.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
45. Some characteristics of McDonald's McCafe come to my mind quickly.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
46. I can quickly recall the symbol or logo of McDonald's McCafe	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

Adapted with permission from Kim, W. G., & Hong-Bumm, K. (2004). Measuring customer-based restaurant brand equity: Investigating the relationship between brand equity and firms performance. *Cornell Hospitality Quarterly*, 45(2), 115-131; and Yoo, B., Donthu, N., & Lee, S. (2000, Spring). An examination of selected marketing mix elements and brand equity. *Academy of Marketing Science Journal*, 28(2), 195-211.

**APPENDIX C**

***Part 2: Starbucks Survey***

**INSTRUCTIONS:** The following statements describe Starbucks coffee:

1 represents “Strongly disagree” and 5 represents “Strongly agree.” Using the following scale, please fill in your response to each question below.

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
13. I regularly visit Starbucks.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
14. I intend to visit Starbucks again.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
15. I usually use Starbucks as my first choice compared to other coffee retailers.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
16. I am usually satisfied with my visit to Starbucks.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
17. I would recommend Starbucks to others.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
18. I would not switch to another coffee retailer the next time.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
19. Staff serves coffee in promised time.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
20. The staff quickly corrects mistakes.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
21. Staff is well-dressed, clean, and neat.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
22. They have visually attractive menu reflecting Starbucks image.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
23. Starbucks carries products of high quality.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
24. They have well-trained, experienced personnel.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
25. Starbucks provides clean dining areas and restrooms.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
26. Starbucks employees are knowledgeable about coffee.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
27. Starbucks coffee must be of very good quality.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
28. Starbucks service is prompt.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
29. Starbucks is conveniently located.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
30. Starbucks has a differentiated image from other coffee retailers’ brands.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
31. Starbucks coffee taste good for the price.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
32. Starbucks employees are friendly.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
33. Starbucks has an image of cleanliness.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
34. Starbucks has the “right espresso bar” atmosphere.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

35. I feel comfortable to visit Starbucks alone.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
36. The price in Starbucks coffee is high.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
37. The price of Starbucks coffee is low.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
38. Starbucks coffee is expensive.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
39. The price for Starbucks coffee is priced "just right."	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
40. Stores offer very convenient facilities.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
41. Stores offer very good customer service.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
42. I know what Starbucks looks like.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
43. I can recognize Starbucks from among other coffee retailers.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
44. I am aware of Starbucks.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
45. Some characteristics of Starbucks come to my mind quickly.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
46. I can quickly recall the symbol or logo of Starbucks.	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5

Adapted with permission from Kim, W. G., & Hong-Bumm, K. (2004). Measuring customer-based restaurant brand equity: Investigating the relationship between brand equity and firms performance. *Cornell Hospitality Quarterly*, 45(2), 115-131; and Yoo, B., Donthu, N., & Lee, S. (2000, Spring). An examination of selected marketing mix elements and brand equity. *Academy of Marketing Science Journal*, 28(2), 195-211.

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