# 2010 AMA Winter Educators' Conference

# Marketing Theory and Applications

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# EXPLORING THE BRAND PRODUCTIVITY GAP

**Maik Hammerschmidt, University of Mannheim, Germany**
**Tomas Falk, University of Mannheim, Germany**
**Frank Germann, Pennsylvania State University, University Park**
**William T. Ross, Jr., Pennsylvania State University, University Park**
**Hans H. Bauer, University of Mannheim, Germany**

## SUMMARY

Brands are generally considered among the most valuable intangible assets that a firm can have which means that investment to manage those brands is a high priority for top management (Keller and Lehmann 2006). As a response to the worldwide economic crisis, many firms are cutting back on their brand building investments. The important question is whether or not this decision is best for the firm. Reducing brand investments will reduce costs, but it could reduce brand outcomes, too. Taken together, these two countervailing effects may result in either higher or lower returns on branding, and the questions of which will result and why are difficult to answer.

Drawing on the production economics literature (e.g., Seiford and Zhu 1999; Luo and Donthu 2006), in this paper, we introduce a two-step brand productivity model that measures and investigates how firms convert multiple brand inputs into multiple outputs during the brand management process. The first step incorporates conversion of brand investments into customer-related outcomes and thus captures *brand efficiency,* how well brand investments do what they are meant to do, influence customers. The second step addresses the translation of customer-level outcomes into financial outcomes and captures *brand effectiveness,* the degree to which customer outcomes result in better firm performance. Brand productivity combines both perspectives into an overall assessment of branding capabilities. This two-step approach fits with the recent notion that value creation at the customer-level alone is insufficient to ensure the ultimate success of the firm (Grewal et al. 2009). Firms must do two transformations well to obtain an appropriate level of financial returns from their brand investments. Distinguishing between the two steps opens the brand productivity "black box" so that where, in the brand productivity chain, a given firm is not as efficient and/or effective as its competitors can be determined.

We also expand on existing studies linking brand investments to financial outcomes by applying data envelopment analysis (DEA) instead of parametric (regression-based) methods. Using DEA is a response to recent calls for methods that identify above-average brands that outperform their industries (Muhanna et al. 2004) and allows benchmarking the actual investment (i.e., inputs) of each brand against the level invested by best-performing, frontier brands operating under the same conditions. We test our brand productivity model with comprehensive panel data for 244 brands in 12 product categories, allowing generalization beyond existing studies which have focused on a few top brands in a single category. Moreover, we expand the brand-specific inputs we investigate to include product quality and distribution as well as communication, i.e., advertising, the sole focus of previous work. This use of more of the important brand investments, combined with the DEA methodology, allows us to optimize resource allocation across the different branding instruments. In addition, we include multiple outcome measures from different sources. We use panel data from the large scale Young & Rubicam Brand Asset Valuator to capture customer-level brand outcomes (brand awareness and brand image), and we employ product-market metrics (brand revenue premium and EBITDA) and stock-market related information to capture financial brand outcomes.

Our results reveal several interesting patterns. There are considerable brand efficiency and effectiveness differences across brands and across product categories. Specifically, unproductive brands exhibit two typical input-output transformation patterns resulting in brand productivity gaps: inefficient-effective (e.g., financial service brands) and efficient-ineffective (e.g., desktop computer brands). Additionally, differentiating between the two steps provides insights into the specific sources of brand productivity gaps, and these insights enhance the firms' sense and ability to respond as it aims to improve its brand management process. By contrasting a brand's current productivity level with a best-performing benchmark brand in its respective industry we provide suggestions on how a brand can reduce its brand investments without threatening either its customer or financial outcomes. Finally, we find that our two-step model bears significant advantages over a less sophisticated one-step model.

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For further information contact:
Maik Hammerschmidt
University of Mannheim
L 5, 1
D-68131 Mannheim
Germany
Phone: +49.621.181.1569
Fax: +49.621.181.1571
E-Mail: maik.hammerschmidt@bwl.uni-mannheim.de