

## Effect of brand equity & country origin on Korean consumers' choice for beer brands

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### Keywords

Customer-Based-Brand equity, Country-of-Origin, Consumer Behavior

### Abstract

*Beer consumption in Korea continues to increase at a growth rate of 3.5 percent per year, and in particular demand for foreign brand beer is rapidly increasing at 19 percent growth rate. Competition among foreign brand beers is expected to intensify as demand for foreign brand beers continue to increase. This study attempts to assess two important relational structures; first, the relationship between COO image of brand beer and four main CBBE constructs; second the hierarchical relationship among CBBE constructs. Findings show that there are differential effects in the process of consumer's brand loyalty development. COO has significant effects on brand awareness, brand association and perceived quality, with the largest impact on brand awareness. This implies that COO may have important role in initial stage of developing consumer's brand equity. In terms of hierarchical relationship among CBBE constructs, the path coefficient of perceived quality and brand loyalty was the largest.*

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### Introduction

Korea's beer market is estimated to be approximately US\$3.3 trillion, which is almost half of Korea's alcoholic beverage market (i.e. US\$ 7.5 trillion). Beer consumption in Korea continues to increase at a growth rate of 3.5 percent per year, and in particular demand for foreign brand beer is rapidly increasing at 19 percent growth rate. Despite the impressive growth rate, foreign brand beer takes relatively small proportion of the beer market and domestic brands evidently dominate the market. OB and Hite are two main domestic brands which takes 95 percent of branded beer market in Korea. Given the rising popularity of foreign brand beer, there are rooms for growth in import beer consumption. In 2015 consumer insight report, respondents answered that the most recently tried beer was OB (36%), foreign brands (29%) and Hite (25%). Thus, Korean consumers increasingly choose foreign brand beer over domestic brand beer. There are a few major foreign brand beers which originate from different Country of Origin (COO). Asahi from Japan, Heineken from Netherland, L-Weizen from Germany and Budweiser from U.S. are most widely known foreign brand beers in Korea. For the past 15 years, German brand beers have the highest market share, followed by Japanese brand beers, and competition among foreign brand beers is expected to intensify as demand for foreign brand beers continue to increase. For marketers, it is imperative to understand how consumers' brand loyalty for beer brand is developed and to identify the major determinants of brand equity of brand beers in order to approach this promising market with high growth potentials.

Aaker (1991) conceptualized brand equity as "a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers", and is assessed through a set of dimensions including brand awareness, brand associations, perceived quality and brand loyalty. Thus, brand equity is influenced by many factors, and cannot be fully understood without carefully examining its sources, and contributing factors to the formation of brand equity in consumers' mind. Most of the brand equity research focuses on the marketing mix variables such as advertising, distribution, price and product quality as the contributing factors (Cobb-Walgren et al., 1995; Yoo et al., 2000). Brands from

countries that have a favorable image generally find that their brands are readily accepted than those from countries with less favorable image.

Kamakura and Russell (1991) defines Customer-Based Brand Equity (CBBE) as 'the differential effect of brand knowledge on consumer response to the marketing of the brand', while Aaker (1991) and Keller (1993) define CBBE as 'the value consumers associate with a brand, as reflected in the dimensions of: brand awareness, brand associations, perceived quality and brand loyalty' and proposed that these four dimensions are most important constructs from consumers' perspective.

When consumers consider foreign brand beer, they take information of brand name and Country of Origin (COO) together in their decision making process. Country-of-Origin (COO) is another important variable influencing consumer perceptions of brands (Hulland, 1999) and brand images (Ahmed et al., 2002). Many consumers use COO stereotypes to evaluate products. Brands from countries that have a favorable image generally find that their brands are readily accepted than those from countries with less favorable image. Thus, it is important to understand how consumers develop brand loyalty of beer, and whether Country of Origin (COO) plays a critical mediating role in the brand developing process.

This study attempts to assess two important relational structures; first, the relationship between COO image of brand beer and four main CBBE constructs; second the hierarchical relationship among CBBE constructs. Findings provide understanding of relative importance of five major constructs of CBBE and COO on consumers' brand beer choices, and shed insights to marketers in enhancing branding strategies in Korean brand beer market.

## **Hypotheses and Model Development**

### ***Hierarchical Relationship among Customer-Based Brand Equity (CBBE) Constructs***

Based on Aaker(1991)'s conceptualization, customer-based brand equity comprised of four dimensions: brand awareness, brand associations, perceived quality and brand loyalty. Gordon (1993) proposed the hierarchy of the effects between these different dimensions of brand equity, stating that brand equity evolves from brand awareness, brand association to brand loyalty. In other words, brand awareness has an effect on brand associations, and brand associations affect brand loyalty.

Keller (1998) states that brand awareness as being a necessary condition for establishing a brand node in memory has a positive effect on the formation of strong and unique brand associations in customers' memory. Consequently, the differential effects created by strong, favorable and unique brand associations have an effect on customer decision-making by positively influencing their perceptions of firm's performance including service quality (Aaker, 1991). Thus, high perceived quality occurs when consumers recognize the differentiation and superiority of the brand relative to competitors' brands, and consequently, influence their purchase decisions (Norjaya, 2007). Biedenbach(2010) argues that perceived quality is found to be the main antecedent of brand loyalty. Based on the assumed hierarchy of the effects among brand equity dimensions, this study proposes to test the following hypotheses:

Hypothesis 1: Brand awareness has a positive effect on brand associations.

Hypothesis 2: Brand associations have a positive effect on perceived quality.

Hypothesis 3: Perceived quality has a positive effect on brand loyalty.

### ***Relationship between COO image and CBBE Constructs***

Several studies identified Country of Origin as an important determinant for consumers' choice for brand (Khachaturian and Morganosky, 1990; Knight, 1999; Piron, 2000). It acts as a salient attribute in consumer product evaluation (Johansson, 1989), stimulates consumer's interest in the product (Hong and Wyer, 1989), affect behavioral intentions through social norms (Fishbein and Ajzen, 1975) and influences buyer behavior through affective processes as in the case of consumer's

patriotic feelings about their own country (Han and Terpstra, 1988). Consumers' perception of COO may also impact their evaluation of a brand, resulting in possible change of brand equity.

Aforementioned process of hierarchical relationship among the CBBE constructs may be differentially affected by perceived COO of consumers. Brand awareness is seen as the crucial initial step in a customers' readiness to develop a brand preference (Percy & Rossiter, 1992). If consumers have a familiar image of country-of-origin, customer experience may cause multiple traces in memory, which lead to higher levels of brand recall and recognition (Hoch, 2002).

Marketing literature suggests a significant relationship between COO image and brand image, in which consumer perception of brand images may change based on the COO image. Han and Terpstra (1988) found that brand image of Japanese cars suffered erosion when production was shifted to South Korea, as consumers have stereotype against country-specific brand images. Given that a brand image is a set of brand associations organized in a meaningful way, a relationship between COO image and consumers' brand associations may exist (Keller, 1993). Other researchers have also stated that COO generates secondary associations for a brand, and could thereby influence consumers' brand associations (e.g., Aaker, 1991; Keller, 1998).

Ha'ubl and Elrod (1999) found that consumers' quality perceptions of the Slovenian brand Elan were higher when the brand was made in Slovenia than when the brand was made in Germany, implying significant COO effect on perceived quality of a brand. Lee and Schaninger (1996) argued that, even in the case of prestigious global brands, consumers' perception of quality and purchase decisions are likely to be influenced not only by the brand name but also by where the products are manufactured or assembled. Paswan et al. (2003) showed that consumers tend to be loyal towards a country, just as they are loyal to brands. Based on these previous studies, the following hypotheses are proposed in this study:

Hypothesis 4: the image of country-of-origin has significant impacts on brand awareness.

Hypothesis 5: the image of country-of-origin has significant impacts on brand association.

Hypothesis 6: the image of country-of-origin has significant impacts on perceived quality.

Hypothesis 7: the image of country-of-origin has significant impacts on brand loyalty.

### **Research method**

The questionnaire was tested and modified after a pilot study performed on 30 university students. According to the theoretical framework, the research model has five determinants, which are listed in Table 1.

### **Measurement**

For five identified determinants, different sets of items are selected based on previous studies (Table 2). For the COO construct, 15 items are selected and included in the questionnaire for an empirical analysis. Country-of-Origin (COO) construct may consist of macro and micro attributes. The customer-based brand equity (CBBE) model is proposed to have four main construct according to Aaker and each construct may consist of various items as listed in Table 3.

### **Sample and Data collection**

Branded beer was selected as the product category in this study, and four most widely known branded beer products are chosen: Hite, Heineken, Budweiser and Asahi, and these beer represents four different country of origin : Korea, Netherlands, U.S. and Japan. Four different versions of questionnaire are prepared, in which one specific brand with a specific country of origin is identified for evaluation. Each respondent are asked to complete one version of the questionnaire on random basis. A convenient sample was used. Total 400 copies of questionnaires were distributed and 351 valid sample was collected in Seoul. The sample comprised of 159 male and 192 female participants. The sample represents a Y generation, aged between 20 to 29, and university students who are familiar with the beer brand products.

## Empirical Results

Both exploratory and confirmatory factor analysis were conducted for all scales, brands together. Structural equation modeling (SEM) by AMOS was chosen for final analysis because it allows all variables to be included and tested for model fit.

Reliability of the items was estimated using Cronbach's coefficient alpha ( $\alpha$ ), which is a measure of squared correlation between observed scores and true scores. Results show that the Cronbach's coefficient alpha ( $\alpha$ ) of the final constructs were above 0.70, suggesting that items closely relate to its construct (Table 4).

Initial estimation of the structural model provided the following Goodness of Fit statistics, which were not satisfactory (CMIN/DF= 4.319; GFI= 0.761; RMR= 0.86; CFI= 0.838; IFI= 0.839; TLI= 0.819; RMSEA= 0.097). The initial model was improved with the modification index (MI). The modified structural model had a reasonable fit to the proposed hypotheses. As shown in Figure 1. the modified structural model provide an acceptable fit to the data, (CMIN/DF= 1.560; GFI= 0.926; RMR= 0.57; CFI= 0.978; IFI= 0.978; TLI= 0.970; RMSEA= 0.040).

## Discussions and Marketing Implications

In this paper, the SEM model is to test the interaction between COO image and CBBE constructs. This approach was used to determine the relative contribution of five important constructs and twenty five observable variables to Korea consumer's evaluation of beer brand from four different country of origin. The proposed hypotheses were statistically tested by examining the significance of the standardized path coefficients (Table 6). Results show that the hierarchical paths among the brand equity constructs were statistically significant, supporting Hypotheses 1, 2 and 3. Regarding the relationship between COO image and CBBE constructs, three path coefficients were found to be statistically significant: the path between COO and brand awareness; the path between COO and brand association; and the path between COO and perceived quality, supporting hypotheses 4, 5 and 6. However, the path between COO and brand loyalty was found to be statistically insignificant, thus the hypothesis 7 was rejected (Table 6)

Country of Origin (COO) is an extrinsic cue, which is explicitly available to consumers for their choice making process. Huber and McCann (1982) states that extrinsic cue-based evaluation is likely to take place when intrinsic cues are not available. Brand loyalty, on the other hand, is defined as 'the tendency to be loyal to a focal brand, which is demonstrated by the intention to buy the brand as a primary choice' (Yoo et al. 2001). Thus, consumers may develop brand loyalty subject to intrinsic cues to a greater extent and an indirect extrinsic cue such as COO may not have considerable impact in forming consumers' brand loyalty.

However, COO has significant effects on brand awareness, brand association and perceived quality, with the largest impact on brand awareness. This implies that COO may have important role in initial stage of developing consumer's brand equity. In terms of hierarchical relationship among CBBE constructs, the path coefficient of perceived quality and brand loyalty was the largest, suggesting that perceived quality is a critical factor determining consumers' brand loyalty. Brand association's impact on perceived quality was also found to be highly influential.

Findings show that there are differential effects in the process of consumer's brand loyalty development, and this process may need to be divided into sub-segments and specific segments of the CBBE development process need to be strategically promoted. For example, marketers need to note the importance of perceived quality of beer brand in developing consumers' brand loyalty. Consumers may develop certain stereotype toward a specific COO, however this may not ultimately determine consumers' brand loyalty. Marketing and promotion of COO may be conducted at an initial stage in which marketer attempts to raise brand awareness. At final stage of CBBE process, however, emphasis on superior quality of the product may be relatively more influential in forming consumers' brand loyalty.

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