BRAND EQUITY AND FIRM PERFORMANCE: EVIDENCE FROM TRADING AND SERVICE SECTOR IN MALAYSIA

LIM CHIN CHIEN

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ABSTRACT

BRAND EQUITY AND FIRM PERFORMANCE: EVIDENCE FROM TRADING AND SERVICE SECTOR IN MALAYSIA

By

Lim Chin Chien

The purpose of this study is to investigate interrelationships between brand equity and firm performance in Malaysia. The study used a sample of 100 firms in trading and service sector listed on the Bursa Malaysia in 2008. The methodology applied in this study is Multiple Ordinary Least Squares (OLS) regression. The result indicated that brand equity could affect the firm performance and thus, influence the stock price of the firm. The brand equity of the firm could further enhance firm performance. Therefore, this result confirms that there is a positive relationship between brand equity and firm performance.

ABSTRAK

EKUITI JENAMA DAN PRESTASI FIRMA:

SEKTOR PERDAGANGAN DAN PERKHIDMATAN DI MALAYSIA

Oleh

Lim Chin Chien

Kajian ini bertujuan untuk menyelidik hubungan antara ekuiti jenama dengan prestasi sesebuah firma di Malaysia. Kajian ini menggunakan 100 sample firma dalam sector perdagangan dan perkhidmatan yang disenaraikan di Bursa Malaysia bagi tahun 2008. Kaedah yang telah digunakan dalam kajian tersebut ialah Multiple OLS Regression. Kaedah tersebut menunjukkan bahawa ekuiti jenama boleh membawa kesan kepada prestasi firma dan dengan demikian, mempengaruhi harga saham firma. Oleh itu, keputusan ini mempastikan hubungan antara ekuiti jenama dengan prestasi sesebuah firma adalah positif.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Brands represent greatly valuable pieces of legal property, capable of influencing consumer behavior, being bought and sold, and providing the security of sustained future revenues to the owner. The value directly or indirectly accrued by these various benefits is often called brand equity (Kapferer, 2005; Keller, 2003).

A basic view of brand equity is that the power of a brand lies in the minds of consumers and it show what they have experienced, gained and learned about the brand over the time. Brand equity can be thought of as the "added value" endowed to a product in the thoughts, words, and actions of consumers. There are many different ways that this added value can be created for a brand. Similarly, there are also many different ways the value of a brand can be manifested or exploited to benefit the firm (i.e., in terms of greater revenue and/or lower costs).

In other words, the real power of a brand is in the thoughts, feelings, images, beliefs, attitudes, experiences and so on that exist in the minds of consumers. This brand knowledge affects how consumers respond to products, prices, communications, channels and other marketing activity such as increasing or decreasing brand value in the process.

A strong brand provides a series of benefits to a service firm, such as greater customer loyalty and higher elasticity to endure crisis situations, higher profit margins, more favorable customer response to price change, and licensing and brand extension opportunities (Keller, 2001). For example, adding the ''by Marriott'' name tag on distinctive brand names aids the Marriott corporation in maintaining the differentiation, lowers operating risk, limits new-product introduction costs, and results in an improvement in corporate performance.

Financial professionals have developed the notion that a brand has an equity that may exceed its conventional asset value. Indeed, the cost of introducing a new brand to its market has been approximated at $100 million with a 50 percent probability of failure (Ourusoff, 1993).

1.1 Global Brand Value

Based on the annual report of the world's most valuable brand 2009, the world's most valuable brand is Wal-Mart with a brand value of US$ 40.6 billion. However, the US is the world's branding powerhouse which contributing 44% of the Global 500's total value, 29 of the Top 50 brands and the world's six most valuable brands. According to the report, the country with the highest number of brands in the 500 list is still the US with 177 brands, followed by Japan (55), UK (38), France (38) and Germany (34).

1.1.1 An overview of Brand Value in Malaysia

The value of Malaysia's brands has fallen in year 2008 due to the global economic downturn. According to Brand Finance's latest Global Intangible Finance Tracker (GIFT), the global financial crisis has shaved 26 per cent off the world's intangible asset values which accounted for 40 per cent of global market value. The intangible asset values fell from a high of 66 per cent in 2007.

Intangible assets are non-monetary assets without physical substance, such as brands, contracts, patents, technology, customer relationship and other intellectual properties.

According to GIFT, intangible asset for the total enterprise value of corporate Malaysia is divided into four components which is undisclosed value, tangible net assets, disclosed intangible assets and disclosed goodwill. Undisclosed value is the difference between the market and book value of shareholders' equity. It often referred to as the 'premium to book value'. Tangible net asset is added to investment, working capital and other net assets. Intangible assets disclosed on balance sheet including trademarks and licenses. The goodwill disclosed is on balance sheet as a result of acquisitions.

Table 1: Malaysia's Top 10 Brands in Year 2009

Rank		Brand	Brand Value (MYR m)		Brand Rating
2009	2008		2009	2008	2009
1	1	Petronas Group	10,709	8,279	AAA-
2	2	Genting	4,110	4,175	AA
3	5	Tenaga Nasional Berhad	3,493	3,241	A
4	4	Maxis	3,355	3,348	AA-
5	R	YTL Corporation Berhad	3,265	3,343	A+
6	6	Sime Darby	3,259	2,960	A+
7	3	Maybank	2,976	4,142	AA-
8	8	Telekom Malaysia	2,020	2,621	A+
9	13	IOI Corporation	2,001	1,892	A+
10	10	Resort World	1,909	2,260	A+

Note: R = Restated

Sources: Malaysia's Performance on Intangible Assets and Brands Annual Report 2009.

The total value of Malaysia's 50 largest brand and brand portfolios is RM 61 billion (US$ 17.7 billion) representing a 5.8% decline over year 2008. Based on the table 1 above, clearly show that Petronas Group is the most valuable brand in year 2009 with the brand value 10.709 million (MYR). Follow by Genting and Tenaga Nasional. Additional, Air Asia Berhad is the best performing Malaysian brand with brand ranking 27, brand value (MYR) 502 million. The details of others top 10 brands are shown in the table 1.

1.2 Metrics Associated with Branding

According to Derrick Daye and Brad VanAuken (2009), there are three metrics associated with branding which are knowledge, preference and financial metrics. Each of the measures under these three metrics is critical and the boardroom must ensure that the brand portfolio scores high in each of these parameters to optimize the financial outcome from strong brands.

1.2.1 Knowledge Metrics

Measure a brand's awareness and associations through the many stages of recognition, aided, unaided and top of mind recall. Basically, the functional and emotional associations of a brand are important drivers of brand equity. Brands should score high on both awareness and association attributes.

1.2.2 Preference Metrics

Measure a brand's competitive position in the market and how it benchmarks to competing brands. Customers pass through various levels of preference toward the brand, ranging from little awareness to strong loyalty and recurrent revenues from the customer base. A strong brand has the brand equity to build customer loyalty.

1.2.3 Financial metrics

Measure a brand's monetary value through the various parameters of market share, price premium a brand commands, the revenue generation capabilities of a brand, the transaction value, the lifetime value of a brand and the rate at which brands sustains growth. These measures allow a company to estimate an accurate financial value of brand equity linked to marketing metrics.

There are four main factors that can examine financial value. The first one to examine financial value is price premium which the financial advantage of a strong brand is its ability to command a price premium in the market. Measuring the differential price points between the brands and competing brands indicates the level of value-creation, and the premium adds to the overall brand equity.

Transaction value is about the average transaction value per customer divided into segments, product segments and geographical markets. The trend of this metric shows how well the brand develops its customers in the form of cross-selling and/or up-selling to other products and brands.

According to metrics, the average lifetime value of customers divided into segments, product segments and geographical markets. The trend illustrates whether the brand extracts more value from customers through their life cycle with the brand.

The last financial value is about the growth rate. It examines the level of brand strength and its equity in the market along with the level of customer loyalty and the pipeline of prospective customers determines the growth opportunity of the brand.

1.3 Brand and Shareholder Value Relationship

Brands and brand equity affect all stakeholder groups. It influencing the perceptions they have of the branded business, the preference or loyalty to that organization and the behavior. Consumer and customers buy more, for longer, at higher prices, while suppliers offer better terms of business and finance providers invest at lower cost. These and other stakeholder behaviors affect business value drivers to give higher revenues, lower costs and greater capital value.

According to Roger and Raj (1998), they claimed that there are a positive relationship between firm's brand value and shareholder value. Their research stated that firms with higher accumulated brand value have higher Market to Book ratios.

Cash flow [1] (cash inflow versus cash outflow) has a central role in determining the financial market value of a firm and ultimately shareholder value. (Kerin, Mahajan, and Varadarajan 1990).

[1] Refer to the movement of cash into or out of a business, a project, or a financial product.

1.4 Problem Statement

Brand equity plays a very important role toward the firm performance. In Malaysia, there are many listed company from bursa are invest in their brand image of company. Furthermore, the impact of brand equity reflected the company's sales and also market performance.

Regarding the report of Malaysia's Performance on Intangible Assets and Brands, it's highlighted the top 50 Malaysian Brands in year 2008. From the report, it proved that Malaysia is ranked 23^{rd} in the world for intangible assets' contribution to enterprise value compared to 29^{th} place in 2007 although a stark decline from 43% to 14%. Switzerland led the pack with 57% intangible value contribution while the United States came in a close second with 55%. For the bank sector in Malaysia, it still is the top among the other sectors in term of enterprise value and yet the banking sector experiencing the highest implied write-off in absolute value which is US$ 17 billion. The total value of Malaysia's 50 largest brand and brand portfolios is RM 61 billion (US$ 17.7 billion) representing a 5.8% decline over year 2008.

There is limited study on the impact of the brand equity on firm performance in Malaysia. Moreover, brand is the intangible asset; it's hard to numerate the return on investment for brand name. It is interesting to know whether the strategies of the company are successful to create the strong brand name.

1.5 Objective of Study

The purpose of this study is to examine the influences or relationship between firm's brand equity and stock price evidence from Bursa Malaysia. To investigate that the more customers are satisfied, the more they prefer the brand and the more they return. This also can translate into higher sales revenue. The band equity will more efficient that reflect to the stock price for company. The study's result could offer a diagnostic decision-making toll to help company managers maximize the value of their brands.

1.5.1 Specific Objective

1. The study is to investigate the relationship between revenue and firm performance in short term period.
2. The study is to investigate the relationship between intangible assets and firm performance in long term period.
3. The study is to investigate the relationship between firm performance and stock price in short and long term period.

1.6 Significant of the Study

The study will benefit the owner, merchant or managers in firm to understand the causal relationship between firm's brand equity and stock price of company. The rationale of this research is to provide efficient information for the components of brand equity and helps the firms to determine the factor of brand image that will reflect the stock price of company. The empirical results of this study can help the Malaysian listed company to manage the brand name of their company or product. Moreover, Malaysian firms will understand how to measure the brand equity and maximize the profit from getting known the influences of brand equity on stock price.

1.7 Scope of the Study

The scope of the study covers 100 companies of trading and services sector. The model Multiple Ordinary Least Squares (OLS) Regression is applied to test the relationship between brand equity and firm performance.

This study consists of 5 chapters which arrange as follow. Introduction is in the chapter one. Chapter two presents the literature review of brand equity and firm performance. In chapter three, the researches on methodology and data collection are discussed. Chapter four present the findings from the data collection in chapter three. Lastly, conclusion and recommendations for future study is in the final chapter of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

There have been numerous ways of measuring and estimating brand equity over the past since the term "brand equity" emerged in the 1980s. Both academicians and practitioners have been most concerned with definitional issues on brand equity, but numerous authors have stressed the need to provide accurate measurement in order to assist managers with guidance on ways to enhance or build brand equity (Green and Srivivasan, 1978, 1990; Crimmins, 1992).

This chapter focuses on the empirical studies on measuring brand equity, dimensions of brand equity and also the relationship between brand and shareholder value. The perspectives of measuring the brand equity and firm performance will be discussed. In this chapter, the question of the fundamental relationship between brand equity and firm performance are presented to give an understanding on the related studies.

2.1 Measuring of Brand Equity

There have been three different perspectives for considering brand equity which are financial perspectives, customer- based perspectives and combined perspectives.

2.1.1 Financial Perspectives

Usually, financial measures focus mostly on stock prices or brand replacement. Simon and Sullivan (1993) used movements in stock prices to capture the dynamic nature of brand equity, on the theory that the stock market reflects future prospects for brands by adjusting the price of firms. According to their research, they claimed that financial market value of a firm is based on the aggregate earning-power of assets which including tangible and intangible. They also indicate that brand equity is the capitalized value of the profits that result from associating the brand's name with particular products or services.

When separate the market value of a firm into tangible and intangible, Simon and Sullivan (1993) indicated that tangible assets fall into three group which are 1) property, plant and equipment, 2) current assets, made up of inventories, marketable securities and cash, and 3) investment in stock and long-term bonds. However, intangible assets are defined as any factors of production or specialized resources that permit the company to earn cash flow in excess of the return on tangible assets.

Besides that, Mahajan *et al.* (1991) used the potential value of brands to an acquiring firm as an indicator of brand equity. Another financial measure (applicable only when launching a new product) is based on brand replacement, or the requirements for funds to establish a new brand with the probability of success (Simon and Sullivan, 1993).

Finally, one of the most publicized financial methods is used by Financial World (FT) in its annual listing of world-wide brand valuation (Ourusoff, 1993). FW's formula calculates net brand-related profits, and then assigns a multiple based on band strength. Brand strength defined as a combination of leadership, stability, trading environment, internationality, ongoing direction, communication support, and legal protection. Obviously, the stronger the brand, the higher the multiple applied to earnings.

2.1.2 Customer- based Perspectives

According to Aaker (1991), customer- based brand equity (CBBE) define as a set of assets and liabilities linked to a brand's name and symbol that add to or subtract from the value provided by a product or service to a firm and/or that firm's customers.

On the other hand, Blackston (1995) has referred to brand equity as brand value and brand meaning. Brand meaning implies brand saliency, brand associations, and brand personality. However, brand value is the outcome of managing the brand meaning.

Within the marketing literature, customer based-brand equity usually falls into two groups (Cobb-Walgren et al. (1995); Yoo & Donthu (2001)): consumer perception which consider on brand awareness, brand associations, perceived quality and consumer behaviour which is brand loyalty that consumer are willing to pay a high price.

According to Keller (1993), there are indirect and direct approaches to measuring customer-based brand equity. The indirect approach requires measuring brand awareness and the characteristics and relationships among band associations. Brand awareness can be assessed effectively through a variety of aided and unaided memory measures that can be applied to test brand recall and recognition. Brand associations can be measured by qualitative techniques such as free association task that lead customers to describe what the brand means to them, projective techniques such as sentences completion, and picture interpretation, and brand personality descriptors. However, the direct approach requires experiments in one group of customers responds to an element of the marketing program when it is attributed to the brand and another group of consumers responds to that same element when it is attributed to an imaginary named or unnamed version of the product or service.

Keller (1993) has also defined brand equity as the differential effect of brand knowledge on consumer response to the marketing of the brand. The four dimensions of brand equity consider of brand loyalty, brand awareness, perceived quality and brand image will suggested by Aaker (1991, 1996) have been broadly accepted and employed by many researchers (Keller, 1993; Motameni & Shahrokhi, 1998; Low & Lamb Jr., 2000; Prasad & Dev, 2000; Yoo & Donthu, 2001). This paper is then following the Aaker (1991) to develop the conceptual framework. Aaker is one of the few authors to incorporate both perceptual and behavioral dimensions. He suggested using a brand-earnings multiplier that is based on a weighted average of the band on five key components of brand equity which consists of brand awareness, brand associations, perceived quality, brand loyalty and other proprietary assets such as patents and trademarks. Below are the conceptual frameworks that develop by Aaker (1991).

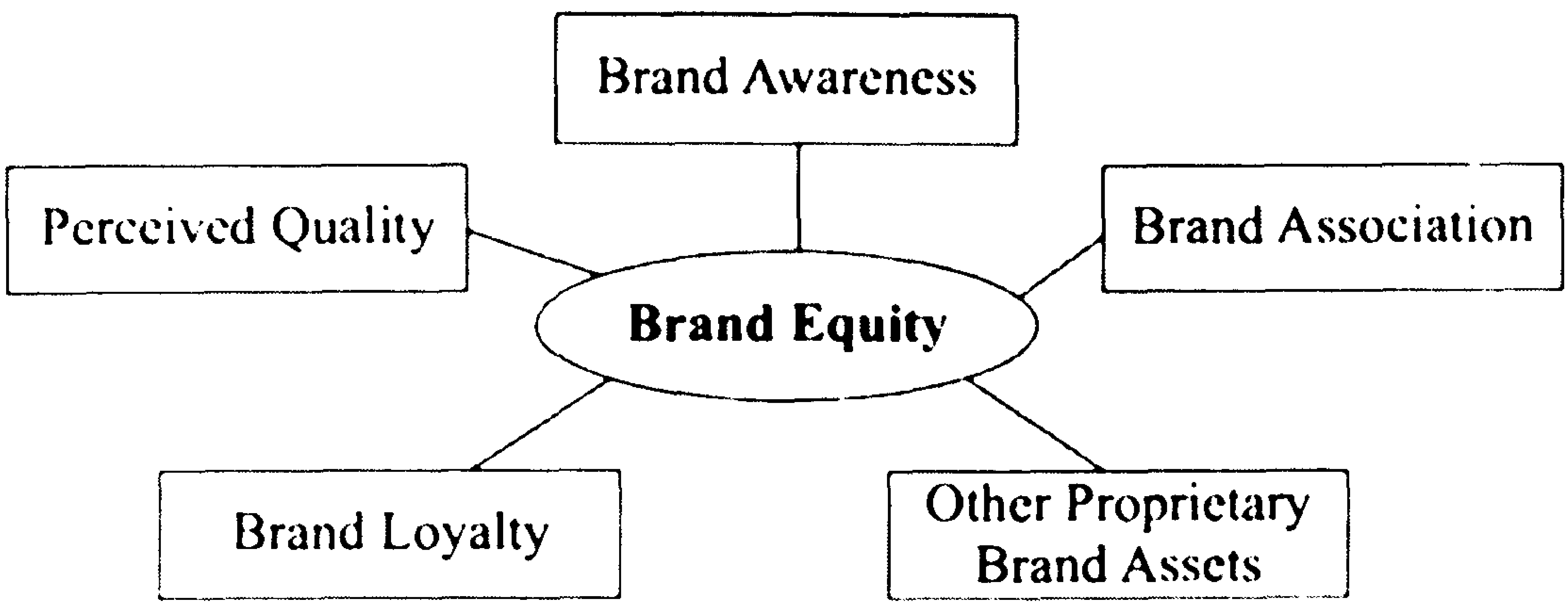

Figure 1: Brand Equity Framework
Source : Aaker (1991)