Influence of Brand Loyalty on Price Premium: A Case of Chinese Snack Food Products

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Abstract

This study aims to study the influence of brand equity on customers' willingness to pay a price premium for snack products. Its study is based on Cognitive Psychology Theory as well as Brand Value Chain Theory. The study focuses on a systematic analysis of brand equity drivers and composition dimensions; it was a quantitative research design using a structured survey questionnaire to collect data from 480 snack food product consumers in Yunnan province, China, who have experience purchased and consumed snack foods. The study employed Structural Equation Modeling (SEM) to analyze the data variables and test hypotheses.

The findings found that products and places were found to have a considerable positive correlation with brand equity enhancement in the snack product industry. Furthermore, it also revealed that brand utility had positive impacts on both brand equity dimensions and brand loyalty. Brand utility acted as an intermediary for the relationships between product, distribution channels and brand loyalty. Finally, the results from the study confirmed that both brand equity dimensions and brand equity enhancement had positive influence on customers' willingness to pay a price premium for snack food products.

Keywords: Brand equity, brand loyalty, price premium, snack food products

Background of Study

People in Asia-Pacific are the largest and fastest-growing consumers consuming up to 56% of snack food products in the world market in 2020, followed by North America, accounting for 25% with the demand increase, particularly, India and China (Research and Markets, 2021). Currently, the snack food industry in China is in the rapid growth stage that is raised by the introduction of healthy snacks and more effective and higher efficiency of distribution channels' services. As a result, in 2020, the Chinese snack food market value is worth US$90.7 billion (Research and Markets, 2021).

Brand equity as powerful assets represent the essence of a company; therefore, many companies must be carefully developed and managed (Keller & Lehmann, 2003). Due to marketing research shifting focus from one-time transactions to continuing relationship development between companies and consumers, the notion of brand equity increasingly captivates managers and academics (Huang & Cai, 2015). Although a great deal of research has been carried out in the field of brand equity since the emergence of the concept in the 1980s, fewer researchers have studied and investigated how to enhance the brand equity of snack food producers. Some prior researchers have studied brand equity in manufacturing sectors such as luxury brands (Godey, et al. 2016), retail (Cifci, et al. 2016), and dairy industry (Emami, 2018). However, only few studies have been done on the brand equity of the snack foods in China. With the development of the market economy, the value of brand equity accounts for an increasingly large proportion of product value, so understanding the path of brand equity formation can play a huge role in increasing product value. However, in order to explain the path of brand equity formation, it is necessary to clarify the driving factors of brand equity, the dimensions of its composition, and its impact on market performance. In previous studies, the factors considered by empirical studies as effective on the dimensions of brand equity were categorized into three groups presented: factors related to the marketing mix, factors related to the consumer, and factors related to the company. For marketing mix factors, although research on how to promote the relationship between marketing mix and brand equity is gradually receiving a lot of attention from academics as well as corporate practitioners, there is a lack of in-depth analysis, and the deeper theoretical logic is yet to be investigated, and the path by which marketing mix works is yet to be explored. Specifically, not many studies in the past have been conducted on the existence of mediating variables between marketing mix and brand equity.

Based on consumer behavior theories, consumers' purchase process is influenced by their physiological and psychological effects, and they tend to make purchase decisions based on cognition and affection; therefore, the degree of consumers' brand awareness and perception determines the strength of the brand. Thus, following the Theory of Cognitive Psychology, the effect of marketing mixes factors on consumers goes through the process of cognition, affection, and conation. Therefore, corporate marketing strategies may not necessarily produce direct purchase behavior for consumers, but the strategies can form a strong, well-loved, and unique brand image and brand utility in consumers' minds, which in turn accumulates to form brand equity.

In addition, in the past, there was a lack of studies that combining cognitive psychology and information economics in the studies of brand equity significant role models. The results from analyze of existing literature could be concluded that brand equity models mainly include brand equity models under the cognitive paradigm (e.g., the Aaker model, the Keller model, the Yoo & Donthu model) and brand equity models under the information economics paradigm (e.g., the Erdem & Swait models). These two models are not opposed to each other but complement each other, and they help companies to better understand brand equity based on customer mindset from different sides. However, many researchers have used Aaker, Keller, and Yoo's brand equity models as the foundation for their studies, and they studied brand equity from a cognitive psychology perspective, while there is a relative lack of study on brand equity from a combined cognitive psychology and information economics perspective.

Finally, the measurement model of brand equity based on customer mind needs to be further studied for its influence on marketing practice. Previous literature about customer mind has focused on the measurement of brand equity in terms of its constituent dimensions, while the relationship between antecedents (drivers affecting brand equity) and consequences (product market performance, financial market output) has been seriously under- researched. Keller and Lehmann (2001) divided brand equity evaluation methods into three categories: customer mindset-based brand equity evaluation, product-market outcomes-based brand equity evaluation and financial-market outcomes-based brand equity evaluation (Ailawadi, Lehmann, & Neslin, 2003). Past studies have mostly looked at the three brand equity perspectives in isolation, with little research on the relationships between them. For brands, the starting point for the formation of brand equity is the marketing investment of the company, but the differentiated response of consumers to different brands is the fundamental driver for the formation of brand equity, which is directly expressed in the form of increased product market output, such as the willingness of customers to pay a premium. To create a strong brand for a snackbrand, it is essential to understand both drivers and outcomes of brand equity so that practical management measures can be taken in the brand management process. On the other hand, although some studies are now beginning to focus on the impact of brand equity on product-market performance, most of them are only at the stage of conceptual modeling, and few have been empirically studied, let alone confirmed the existence of this relationship from a multidimensional perspective. Therefore, the measurement model of brand equity based on customer mind still needs further study.

Therefore, to address the above problems and the gaps of existing academic research, this paper conducts an in-depth and systematic study on the construction and enhancement of snack food products in Yunnan province, China. This study follows the perceptions of the brand value chain and divides the brand equity enhancement process of the snack products into three major stages including marketing strategy, consumers mind model, and market performance; it focuses on the whole process of establishing, improving and enhancing brands of snack products; and it explores the complete and systematic path and mechanism of brand equity enhancement of snack food products, so as to provide valuable theoretical guidance for manufacturers to properly design brand enhancement, marketing plans, effectively spread brand word-of-mouth, and enhance pricing strategy, particularly for snack food products.

Research Objectives

The purpose of this study is to investigate the inner mechanism and path of brand equity enhancement of snack food product enterprises from the perspective of customer mind and to provide data support and theoretical construction for the snack food product enterprises and other similar business entities to enhance brand equity and brand management that beneficial for pricing strategy. The success of enhancing the brand equity of snack food product depends on the analysis of the influencing factors and mechanisms in the process of brand management and brand equity enhancement of snack food products, with the following specific research objectives; 1). to study the relationships between brand equity dimensions (brand awareness, brand association, perceived quality, perceived value) and customers' willingness to pay a price premium, 2). To study how brand loyalty influences the consumers' willingness to pay for a premium price of snack foods, and 3). to explore the path and structural model for cultivating and enhancing the brand equity of snack food products in China.

Literature Review

Price

This study investigates how consumers perceive the premium price of snack foods. Price is the second most important element in the marketing mix. Pricing can be defined as a process of determining the value that is received by an organization in exchange for its products or services (Kotler & Armstrong, 2009). Therefore, the pricing decisions of an organization have a direct impact on its success (Kotler & Armstrong, 2009). Various factors that influence price setting include demand for a product, costs, consumer's ability to pay, competitors' prices for similar products, government restrictions etc. In fact, pricing is a very crucial decision area as it has its effect on demand for the product and also on the profitability of the firm. (Kotler & Armstrong, 2009). In determining the price of its products, an organization needs to ensure that the price must cover the cost of producing the product and the profit margin. If the price of the product does not cover the cost, then the organization's financial resources will be depleted, ultimately leading to the failure of the business (Needle, 2004). An organization uses a number of methods and strategies to determine the price of its products. From an economic point of view, an effective pricing strategy is one that aims to obtain a consumer surplus for the producer. From the marketer's point of view, an effective price is one that is very close to the maximum price that the customer is prepared to pay. A good pricing strategy is one that strikes a balance between a price floor (the price below which the organization ultimately loses money) and a price ceiling (the price at which the organization experiences a no-demand situation). An organization's pricing strategy should be realistic, flexible, and profitable (Kotler & Armstrong, 2014). Price can act as a substitute for product quality, effective promotions, or an energetic selling effort by distributors in certain markets (Cant, Wiid & Sephapo, 2016).

Keller (2002) argues consumers often infer the quality of a product based on the price it is sold. The status of many brands is supported by their selling prices. The high price of those brands sets it apart and makes it unique. Compared with low priced brands, high priced brands are often perceived to be of higher quality and less vulnerable to competitive price cuts. (Yoo et al., 2000). Therefore, it is essential to have the price according to the perceived quality of the product. For the snack food industry, to increase brand equity, dried forest fruit companies need to use price points to increase the perceived quality of their products.

Perceived Value and Brand Loyalty

Consumer’s perceived value involves consumer’s overall assessment of the brand functional, experiential, or symbolic attributes and benefits in relation to the cost and effort made by the consumer (Netemeyer et al., 2004). Tzavlopoulos, et al. (2019) confirmed the positive impact of quality on customer loyalty through perceived value and satisfaction. Chen and Hu (2010) state that perceived value positively influenced customer loyalty in the Australian coffee outlets industry. Yang and Peterson (2004) identified that customer loyalty was positively influenced by customer-perceived value. Results of Oh’s (2000) study illustrate the importance of customer value as a powerful predictor of customer loyalty in dining decision processes.

Kwun and Oh (2004) and Tam (2004) find that perceived value has a positive impact on customer loyalty in the restaurant industry. Chaudhuri and Holbrook (2001) show that consumer purchase loyalty and attitudinal loyalty is based on brand trust and brand affect, while hedonic value and utilitarian value perceived by customers directly affect brand trust and brand affect. In addition, Yue and Chanchai (2021) and Al-Amin and Dewi (2021) suggest that perceived value has a positive and significant effect on customer loyalty. However, Yarmen (2017) argues that perceived value had no significant effect on customer loyalty. Moreover, Nikhashemi, et al (2016) found that store attributes have an indirect effect on store brand loyalty through customers’ perceived value of the store brand, hinting toward a mediating effect of perceived value. Based on the above discussion, the author of this current study hypothesized perceived value is significant related brand loyalty.

Brand loyalty is the attachment of customers to a brand (Aaker, 1991). Brand loyalty and price premium brands higher in loyalty cause higher prices and lead to greater willingness to sacrifice by paying a premium price for a valued brand (Chaudhuri & Holbrook, 2001). Therefore, a better brand loyalty will generate more profit and market share, that it can reduce marketing cost and may be helpful for building brand equity.

Besides, it is also a core dimension of brand equity (Aaker, 1996). Brand loyalty gives firms a competitive advantage, such as the brand's ability to pay a price premium (Aaker, 1991). Previous studies' results confirm that brand loyalty has a significant positive effect on price premium payment, then, high levels of brand loyalty increase brand sales and make customers less susceptible to price competition. Price is a strong concept highly connected with loyalty (Mutonyi, et al. 2016). Thus, brand loyalty influences price premiums by segmenting customers into different price sensitivities and offering different products (Sayman & Hoch, 2014). Specifically, the authors argue that consumers are willing to pay a price premium as a result of the loyalty rewards offered by firms. Furthermore, higher brand loyalty can increase brand performance and improve sales-related outcomes (Chaudhuri & Holbrook, 2001). Chaudhuri and Ligas (2009) find a significant correlation between premium payments and brand loyalty in the retail markets while Ning (2006) reveals the greatest influence on brand equity is brand loyalty and the premium paid for the brand; if the expected utility of the brand is higher, the more loyal consumers are to the brand and the more willing they are to pay a price premium for the brand.

Methodology

This study is quantitative research design investigates relationships between brand loyalty and willingness to pay for premium price of snack food products. The researcher distributed a structured-survey questionnaire via online channel and using snowball sampling to collect primary data from customers who ages are above 18 years old and have experience in purchasing and consuming at least once from four well-known snack food enterprises incorporating in China. The obtained data are analyzed using descriptive statistics including frequency, percentage, mean, standard deviation to determine customers' purchasing behavior, brand loyalty awareness, and willingness to pay price premium. In addition, the study employs structure equation modellings (SEM) to investigate relationships among brand equity dimension, brand loyalty and price premium by calculating in AMOS statistical program.

To verify if the four single-item marketing components, product, price, promotion, and place, contributed to the brand equity dimension (brand awareness, perceived quality, brand associations, perceived value, and brand loyalty) structure as supposed, a confirmatory factor analysis (CFA) was run using structural equation modeling, the fit of the model was good. All factor loadings were high and significant, and the reliability and validity value were also satisfactory.

Research Findings

The findings reveal there are 286 female and 194 male participants. Most of the participants' ages are 19 – 35 years old and inhabit urban areas, purchase snack foods from nearby convenience stores.

CFA of Price Premium

A CFA was performed on the price premium and the results are shown in Figure 4.9. Originally, there were 5 measurement items for the price premium, but since the model fit did not fully meet the requirements, 4 items were left after deletion and adjustment, and these 4 items meet the requirements for model fitting.

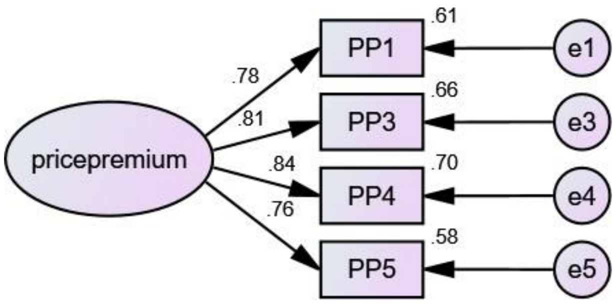

Figure 1 The CFA Model of Price Premium

Table 1 The Goodness-Of-Fit Index of The CFA Model of Price Premium

Fit indices	χ2	χ2 /df	GFI	AGFI	IFI	TLI	CFI	RMSEA
Result		<3	>0.8	>0.8	>0.9	>0.9	>0.9	<0.08
	3.809	1.905	0.996	0.981	0.998	0.994	0.998	0.043

From Table 4.24, it can be seen that χ2 /df of price fit is 1.905 < 3, GFI is 0.996 >0.9, AGFI is 0.981>0.8, CFI value is 0.998 >0.9, IFI value is 0.998 >0.9, TLI value is 0.9940 >0.9, and RMSEA is 0.043 < 0.08, all meeting the minimum requirements for model fitting.

Table 2 Parameter Estimation of CFA Model of Price Premium

			Ustd.	S.E.	C.R.	P	S. F. L.
PP1	<---	Price premium	1				.779
PP3	<---	Price premium	1.091	.061	17.981	***	.812
PP4	<---	Price premium	1.159	.063	18.461	***	.835
PP5	<---	Price premium	1.013	.06	16.803	***	.762

*P< .05; **P<.01; ***P<.001

As can be seen from Table 2, the parameter estimates of CFA model in the price premium fit are significant, and the standardized factor loading values are all greater than 0.7, indicating that the model has a good fit. Hence, the CFA model of place factor is acceptable.

Table 3 Hypothesis Test Results

Hypothesis	Content	Result
H_1	There is a significant relationship between brand equity dimensions (brand awareness, brand association, perceived quality, perceived value) and customers' willingness to pay a price premium.	Accepted
H_2	There is a significant relationship between brand equity enhancement (brand loyalty) and customers' willingness to pay a price premium.	Accepted

The results from H_1 test confirmed that there is a positive relationship between brand equity dimensions and price premium (β=0.624, p <0.001). This finding is consistent with prior research (Aminu & Ahmad, 2018). The result of the study indicates that consumers are willing to part with more money to purchase a specific brand which is a very vital outcome of brand equity. Brand equity affects consumer brand preference and their willingness to pay a higher price for a brand (Aminu & Ahmad, 2018). Consumers are less sensitive to price hikes in brands with strong equity and are willing to pay higher prices because of the perceived superior value in the brand that they believe is non-existent in other alternative brands (Hoeffler & Keller, 2003; Keller & Lehmann, 2003).

The results from H_2 test revealed that the brand loyalty would relate positively to price premium (H_2: β=0.306, p <0.001). This finding is in line with previous studies of Hu (2013) and Anselmsson, Johansson and Persson (2007), Huang, and Bunchapattanasakda (2023) who confirmed that consumers' brand loyalty had positive effects on consumers' willingness to pay a premium from a multidimensional perspective. Anselmsson et al. (2007) suggested that customers' willingness to pay a premium for a food brand is determined by five aspects, one of which is brand loyalty. Consumers' willingness to pay a premium represents an important indicator of brand value and competitive advantage (Aaker, 1996). In the dried forest fruit industry, we confirmed a positive relationship between brand loyalty and customers' willingness to pay a premium. The results of this study also confirmed that each individual marketing campaign contributes to its role in brand building, as they are positively linked to the various dimensions of brand equity. Specifically, the results reveal that marketing mix strategies of company can affect consumers' brand psychological and emotional responses and thus help enhance the brand equity of snack food products. It could be concluded that snack food products with a good brand image as a result of their brand equity, could plan for their price premium level while consumers are willing to pay for their premium prices.

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