Chapter V
Returns on e-Branding Investment: Linking Pre-Acquisition Marketing Activity to Customer Profitability

Patrali Chatterjee
Montclair State University, USA

ABSTRACT

Consumer-centric organizations recognize customer relationships with brands as a source of sustainable competitive advantage that they can leverage to successfully introduce brand extensions. Marketers seeking to leverage brand equity associated with core off-line products to introduce e-brand extensions recognize that success depends on initiating brand relationships with prospective customers, as well as maintaining relationships with existing customers. This research proposes and empirically demonstrates that investment on e-branding relationships with current users generates higher returns for online extensions that have close fit with the core off-line product. In contrast, investments on nonusers have a higher return on adoption of online brand extensions that have low-fit with core products, compared to current customers and can increase overall profitability. Further, we show that Web site features like personalized e-mail and interactive aids have a significantly higher impact on customer profitability and motivate prospective consumers to move to higher levels of relationship with the firm, than financial incentives like sales promotions. Managerial implications for return on e-branding investments and future research directions are discussed.
INTRODUCTION

Firms are increasingly leveraging the equity associated with well-known and well-respected off-line brand names to develop brand extensions in the form of information or content services as documented in the business media, for example, Encyclopedia Britannica launching its online subscription service (Deleersnyder, Geyskens, Gielens & Dekimpe 2002). However, there are several examples of well-known brands that failed in their attempts to establish a stable and loyal online customer base for their e-brand extensions. Although there are several studies that have investigated how firms are using online communications and their Web sites to sustain brand relationships, and enhance brand equity for their core (and often off-line) products. There is a lack of research investigating how consumers’ relationship with core brands affects their adoption and purchase of online brand extensions. Further, given the prospective that online brand extensions can cannibalize core off-line products among existing customers (Biyalogorsky & Naik 2003), it is imperative to examine how this strategy affects firm profitability.

The strategy of developing online brand extensions, primarily for service-based brands, is motivated by the desire to attract a new market composed of consumers whose category needs are either met better by competitors (competitive users) or not met by existing product offerings in the industry (nonusers in the category) (Schultz & Bailey 2000). The increasing availability of customer information and the sophistication of the technology for capturing, tracking, processing and analyzing this information now makes it possible for firms to identify, communicate and build one-to-one brand relationships with prospective and existing customers (see for example, Glazer 1991). The Internet and World Wide Web (Web, henceforth) allows firms to provide highly interactive, customized experiences, respond directly to customer’s information needs and requests to establish, nurture, and sustain long-term customer relationships at a lower cost than has been previously possible in the off-line world. More importantly, brand relationship building efforts previously directed to existing customers can be adapted to information and experience needs of prospective customers whose preferences may match benefits offered by the online extension of the brand rather than the core brand itself.

In this research we address the following questions:

1. Do existing and prospective customers differ in their response to e-branding communications by the firm?
2. Do existing and prospective customers differ in their adoption of online brand extensions and overall profitability?
3. How does the fit of online extensions compared to the core product associated with the brand affect online extension adoption behavior?
4. Does the effectiveness of financial incentives on adoption of online brand extensions differ across existing and prospective customers?

THEORETICAL BACKGROUND AND HYPOTHESES

Brand equity is defined as the differential effect brand knowledge has on consumer response to the marketing of a brand (Keller 1993). From an information economics view, Erdem and Swait (1998) argue that consumer-based brand equity is the value of a brand as a credible signal of a product’s position. These definitions share the view that the value of a brand to a firm is created through the brand’s effect on consumers. Most brand equity conceptualizations are further linked to consumers by emphasizing consumer-based concepts such as brand associations, brand knowledge (Keller 1993), perceived clarity and
Related Content

An Empirical Study on the Effect of Innovation Financing on Technology Innovation Competency: Business Performance of SMEs in Korea
[www.igi-global.com/article/an-empirical-study-on-the-effect-of-innovation-financing-on-technology-innovation-competency/218250?camid=4v1a](www.igi-global.com/article/an-empirical-study-on-the-effect-of-innovation-financing-on-technology-innovation-competency/218250?camid=4v1a)

The Death of Social Media in Start-Up Companies and the Rise of S-Commerce: Convergence of E-Commerce, Complexity and Social Media
[www.igi-global.com/article/death-social-media-start-companies/70211?camid=4v1a](www.igi-global.com/article/death-social-media-start-companies/70211?camid=4v1a)

Deception in Electronic Goods and Services
[www.igi-global.com/chapter/deception-electronic-goods-services/9455?camid=4v1a](www.igi-global.com/chapter/deception-electronic-goods-services/9455?camid=4v1a)

Findings and Discussion
[www.igi-global.com/chapter/findings-discussion/24502?camid=4v1a](www.igi-global.com/chapter/findings-discussion/24502?camid=4v1a)