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## **Brand Equity, Consumer Satisfaction and Brand Loyalty: An Empirical Study of Luxury Fashion Brands Consumption in China**

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### **Abstract:**

*This study aims to investigate the relationship between consumer-based brand equity, consumer satisfaction and brand loyalty. Based on a sample of 738 Chinese luxury customers and using structural equation modeling approach, brand equity is found to have positive effects on brand loyalty mediated by consumer satisfaction. The findings of the study also suggest that the perceived value of cost is the most significant factor of brand equity.*

**Keywords:** brand equity, customer satisfaction, brand loyalty, SEM.

### **1. Introduction**

During the last few years, the Chinese luxury market has sustained constant growth. Chinese consumers are increasingly brand aware, and they intend to invest in luxury fashion brands (Bruce & Kratz, 2007). The importance of the high-end Chinese market for western luxury fashion brands has been so far the centre of substantial scholarly interest (Bonetti Francesca, 2014). Although scholars often study brand equity, consumer satisfaction and brand loyalty issues, only a few of them have focused on the relationship of brand equity, consumer satisfaction and brand loyalty in recent years. For example, Janghyeon Nam et al. (2011) investigate the mediating effects of consumer satisfaction on the relationship between consumer-based brand equity and brand loyalty in the hotel and restaurant industry. A wide literature search suggests that no studies have been conducted when it comes to luxury fashion brands in this sector. The aims of this study are: confirming the main factors influencing brand equity and brand loyalty of luxury fashion brands; investigating the relationship between consumer-based brand equity, consumer satisfaction and brand loyalty by empirical analysis.

### **2. Literature Review**

#### *2.1. Conceptualizing luxury fashion brands*

The term “luxury” is routinely used in our everyday life to refer to products, services or a certain lifestyle. The word luxury is derived from the Latin word, *luxus*, meaning indulgence of the senses, regardless of cost according to the Oxford Latin Dictionary (1992). Luxury can be defined from a consumer perspective, or from a product/brand point of view. Luxuries are characterized as objects of desire that provide pleasure (Berry 1994). Gutsatz (1996) suggests that “Luxury includes two levels of representation. The first is material, it includes/understands the product and the brand (its history, identity, unique know how, the talent). The second level is psychological . . . and covers representations, which are influenced by our social environment and the brand values”. The word luxury “defines beauty; it is art applied to functional items. Like light, luxury is enlightening . . . Luxury items provide extra pleasure and flatter all senses at once . . . Luxury is the appendage of the ruling classes” (Kapferer, 1997). Six elements of luxury have been identified by Dubois et al. (2001) as follows: Excellent quality; High price; Scarcity and uniqueness; Aesthetics and poly-sensuality; Ancestral heritage and personal history; Superfluosity. Webster’s Third New International Dictionary (2002) defines luxuries as “non-essential items or services that contribute to luxurious living; an indulgence or convenience beyond the indispensable minimum”.

There are many definitions of luxury, but there are few definitions of the luxury brand. Phau and Prendergast (2001) assume that luxury brands “evoke exclusivity, have a well known brand identity, enjoy high brand awareness and perceived quality, and retain sales levels and customer loyalty”. Beverland (2004) provides a model of a luxury branding which identifies and unites six component dimensions: product integrity; value-driven emergence; culture; history; marketing; and endorsement. However, Beverland model has some limitations, such as the transferability of the model to other luxury product categories, and particularly to luxury fashion. Moore and Birtwistle (2005) are critical towards this model, and assert that other details need to be incorporated in order to build a modern luxury brand. Wiedman et al. (2007) define luxury brands as the highest level of prestigious brands that

provide several types of physical and psychological values. Tynan et al. (2010) assume that “luxury brands” identifies high quality, expensive and nonessential products and services that are perceived by consumers as rare, exclusive, prestigious, and authentic and that offer high levels of symbolic and emotional value.

Four main categories of luxury goods can be identified: fashion (couture, ready-to-wear and accessories), perfumes and cosmetics, wines and spirits, watches and jewelry (Jackson, 2004). Recently other categories were added: luxury automobiles, hotels, tourism, private banking, home furnishing and airlines (Chevalier and Mazzalovo, 2008). Jackson (2004) argues that the luxury fashion brand is: ‘characterized by exclusivity, premium prices, image and status, which combine to make them desirable for reasons other than function’. He also suggests that luxury fashion brands are distinguished by: Global recognition; Critical mass; Core competence and other products; High product quality and innovation; powerful advertizing; immaculate store presentation; superb customer service. Vigneron & Johnson (2004) argue that luxury fashion brands are publicly consumed luxury products that consumers can easily employ to signal wealth.

## 2.2. Brand equity

Brand equity is defined as consumers’ overall intangible assessment of a brand, beyond its objectively perceived value (Rust et al., 2004; Vogel et al., 2008). Brand equity has been examined from two different perspectives – financial and customer based. This paper focuses on the customer-based perspective because customer-based brand equity is the driving force for incremental financial gains to the firm. When it comes to the sources of brand equity, Aaker (1991) and Keller (1993) are the most frequently referred in this research area. Aaker (1991, 1996) separates the brand equity in four dimensions: loyalty, awareness, perceived quality and associations. Keller (1993) makes a rougher outline and discusses brand equity (brand knowledge) in terms of awareness and image. Aaker’s dimensions on brand equity have come to dominate the empirical research, perhaps because his framework is more practically useful and more easily measured. Further in this perspective, more universal models have been developed (Yoo and Donthu, 2001; Netemeyer et al., 2004), but general models are less useful when attempting to gain in-depth understanding of specific industries or categories. Therefore, empirical studies have focused on specific products or services (see Martin and Brown, 1990; Lassar et al., 1995; Va’zquez et al., 2002; Washburn and Plank, 2002; Johan Anselmsson et al.2007; Soyoung Boo et al., 2009).

## 3. Research Model

The purpose of this research is to investigate the relationship between consumer-based brand equity, consumer satisfaction and brand loyalty of luxury fashion brands consumption in China. As Figure 1 depicts, the important variables of this research include brand equity as the independent variable, consumer satisfaction as the mediating variable, and brand loyalty as the dependent variable. Here, three dimensions of brand equity, namely perceived quality, perceived value of cost, and brand premium, are assumed to construct the context of brand equity. Measures of brand loyalty consist of behavioral loyalty and attitudinal loyalty.

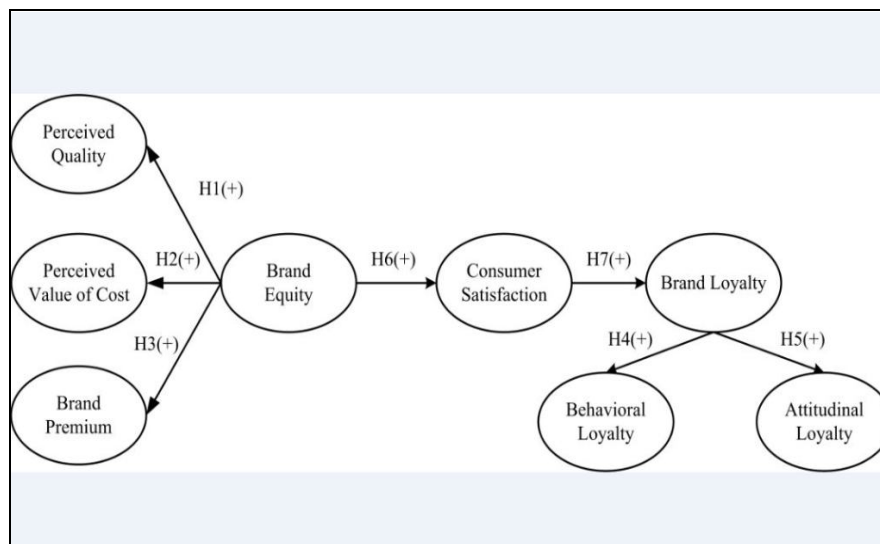


Figure 1: Conceptual Model

### 3.1 Independent Variable: Perceived Quality

Perceived quality is considered a “core/primary” facet across Customer-Based Brand Equity frameworks (Aaker, 1996; Dyson et al., 1996; Farquhar, 1989; Keller, 1993) because it has been associated with the willingness to pay a price premium, brand purchase intent, and brand choice. A definition that is widely accepted views perceived quality as the customer’s judgment of the overall excellence, esteem, or superiority of a brand (with respect to its intended purposes) relative to alternative brands (Netemeyer, 2004). Perceived quality is at a higher level of abstraction than any specific attribute, and differs from objective quality as perceived quality is more akin to an attitudinal assessment of a brand—a global affective assessment of a brand’s performance relative to other brands (Zeithaml, 1988; Keller, 1993; Aaker, 1996). Perceived quality provides a surrogate variable for other more specific elements of brand equity, and it is applicable across product classes (Aaker, 1996; Keller, 1993, 1998). The first hypothesis of this study is as follows:

H1: Perceived quality is effective on brand equity.

### 3.2 Independent Variable: Perceived Value of Cost

Perceived value of cost is included because consumer choice of a brand depends on a perceived balance between the price of a product and all its utilities. Perceived value of cost is a “core/primary” facet and is considered a cornerstone of most Customer-Based Brand Equity frameworks (Aaker, 1996; Farquhar, 1989; Keller, 1993). Perceived value of cost is defined as the customer’s overall assessment of the utility of the brand based on perceptions of what is received (e.g., quality, satisfaction) and what is given (e.g., price and nonmonetary costs) relative to other brands (Netemeyer, 2004). The hypothesis stating this is:

H2: Perceived value of cost is effective on brand equity.

### 3.3 Independent Variable: Price Premium

Price premium is included because it reflects the brand’s ability to command a higher price than its competitors (De Chernatony and McDonald, 2011) and is considered important for all types of brands. Some writers, such as Doyle (2000) even argue that a price premium is the most important way in which brands create shareholder value. A wide literature search suggests that price premium is an important theme in research on brand equity. Plenty of research suggest that price premium is the most useful and profitability driving measure of brand equity (Aaker, 1996; Sethuraman, 2000; Blackston, 1995). Aaker (1996) define price premium as the sum consumers are willing to pay for a brand, compared to other relevant brands, and can be either negative or positive. Agarwal and Rao (1996) demonstrated that price premium was the measure that best could explain choice of brand at individual level as well as aggregated market shares. Ailawadi et al. (2003) confirms that price premium is an excellent global measure, as it is relatively stable over time but yet captures variations in the brands health, and in addition correlates with other global measures of brand equity. This leads to the following hypothesis:

H3: Price Premium is effective on brand equity.

### 3.4 Dependent Variable: Brand Loyalty

Brand loyalty is a focal point of interest for marketing researchers and practitioners. Aaker (1991) defines loyalty as “the attachment that a customer has to a brand, is an important component of brand equity”, while Keller (1993) views loyalty as a consequence of brand equity, i.e. when favorable attitudes results in repeated purchase. As early as the 1960s, there are two schools of thought when it comes to defining and measuring brand loyalty: behavioral and attitudinal loyalty. Behavioral researchers focus on the observable actions of loyal customers (Ehrenberg and Goodhardt, 2000) and attitudinal researchers investigate commitment to brands and repurchase intentions (Dorsch et al., 2000; Patterson et al., 1997). The corresponding hypotheses tested are:

H4. Behavioral loyalty is effective on brand loyalty.

H5. Attitudinal loyalty is effective on brand loyalty.

### 3.5 Mediator: Consumer Satisfaction

Satisfaction is defined as an affective response to a purchase situation (Babin & Griffin, 1998; Bagozzi et al., 1999). Hunt (1977) conceptualized satisfaction as “an evaluation rendered that the consumption experience was at least as good as it was supposed to be”. Oliver (1996) classifies satisfaction as one of five end-states: satisfaction-as-contentment, satisfaction-as-pleasure, satisfaction-as-relief, satisfaction-as-novelty, and satisfaction-as-surprise.

Some authors suggest a positive connection between consumer satisfaction and brand equity (Aaker, 1992; Anderson and Sullivan, 1993; Blackston, 2000; Keller, 2011). In the past, different studies have concentrated on the relationship between consumer satisfaction and brand loyalty, with increases in satisfaction leading to increases in attitudinal brand loyalty (Bennett, 2001; Bolton, 1998; Jones & Suh, 2000; Ringham, Johnson, & Spreng, 1994). This allows us to arrive at the final hypothesis of this study:

H6. Brand equity has a positive influence on brand loyalty. mediated by consumer-based brand equity.

## 4. Methods

### 4.1 Data Collection and Sample

Data for this paper is from the national key project “Apparel Brand Value Ranking in China 2009” which was researched by Donghua University. This research was conducted in Shanghai, Beijing, Guangzhou, Chengdu, Wuhan and Harbin. The survey was distributed at main shopping malls of these six cities within two months. A sample of 738 respondents was selected.

### 4.2 Measures

The questionnaire utilized five-point Likert-type items to measure brand equity, consumer satisfaction, and brand loyalty. The Cronbach's alpha reliability coefficient is 0.749, higher than 0.7, indicating satisfactory reliability.

## 5. Findings

### 5.1 Descriptive Results

The means of the consumer-based brand equity dimensions are 2.626, 3.293 and 4.447 for Brand Premium, Perceived Value of Cost and Perceived Quality respectively. As a preliminary analysis of the structural equation modeling, all the brand equity dimensions are positively correlated with consumer satisfaction and brand loyalty indicators.

As can be seen from the measures of consumer satisfaction (average score = 3.967) and brand loyalty (Attitudinal Loyalty average score = 3.667, Behavioral Loyalty average score = 2.862), the respondents are moderately satisfied, and are loyal to the luxury fashion brands.

### 5.2 Measurement Model

Normality and validity of the measures were established by statistical normality tests and factor analysis. The results reveal that the data distribution was normal. Then, we analyzed the structural equation model, using the Amos17.0 software program. We will now present the results of structural equation model estimation.

Overall, the model displays an acceptable level of goodness-of-fit ( $\chi^2/df$ : 2.026<3; NFI: 0.913>0.9; CFI: 0.951>0.9; IFI: 0.954>0.9; RMSEA: 0.037<0.05). Thus, we conclude that the model fits the data well. Focusing on the hypothesized relationships between the framework variables, the data analysis reveals support for all hypotheses predicted (Figure 2).

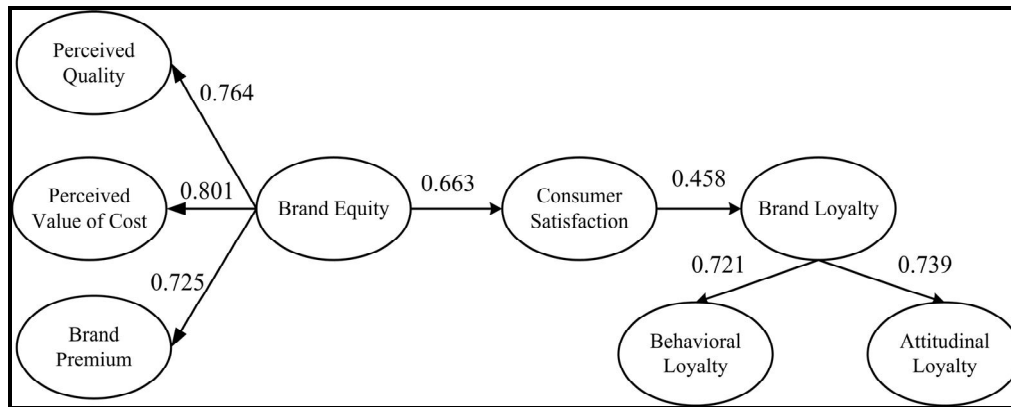


Figure 2: Results of Structural Equation Modeling for Conceptual Model

The current research predicts, in H1, that Perceived quality is effective on brand equity. The results of the study support this proposition. The findings of the model testing also support H2 and H3, and therefore confirm that Perceived value of cost and price premium is effective on brand equity. Among these three core facets of consumer-based brand equity, perceived value of cost is the most effective factor. Further, this study posits that behavioral loyalty and attitudinal loyalty is effective on Brand loyalty, and attitudinal loyalty has more positive influence on brand loyalty than behavioral loyalty does. Hence, the findings of the study support H4. Similarly, H5 is also supported. The current research indicates that consumer-based brand equity has a positive relationship with consumer satisfaction, and consumer satisfaction has a positive influence on brand loyalty. The findings of the model testing support H6, and confirm that the relationship of brand equity and brand loyalty is mediated by consumer satisfaction.

### 5. Conclusions

This study contributes to the growing body of literature on consumer-based brand equity and brand loyalty in four ways. Firstly, previous study suggests that brand loyalty has positive influence on brand equity, but little empirical research studied that brand equity is effective on brand loyalty. Secondly, this study shows that Perceived value of cost is the most effective factor to improve consumer-based brand equity while a wide literature didn't have a priority ranking of these core facets of consumer-based brand equity. Thirdly, this study contributes to the existing body of knowledge by examining the effect of customer satisfaction in predicting brand loyalty. This empirical study is the first to examine the influence of consumer satisfaction on the relationship between brand equity and brand loyalty in luxury fashion industry. Lastly, attitudinal loyalty has more positive influence on brand loyalty than behavioral loyalty does which is in line with the fact that many theoretical and empirical studies show that behavioral loyalty is influenced by attitudinal loyalty across many brands.

### 5.1 Limitations and Future Research

Although the present research makes contributions to the existing brand management literature, it has some limitations. One of the limitations of this research is that it is specific to one culture (Mainland China). The second limitation relates to the survey time. The consumers' views towards different luxury fashion brands may have changed four years later.

Although, this research provides some preliminary insights into the relationships between consumer-based brand equity, consumer satisfaction, and brand loyalty of luxury fashion brands, future research should build upon this research model and provide further insights into the nature of these relationships in different consumption situations and different cultures.

### 5.2 Managerial implications

Results of the study provide useful guidelines to practitioners.

The results reveal that Chinese luxury consumers hold the opinion that the perceived value of cost is the most significant factor influencing brand equity. Luxury items are identified by the top quality and service, but reports about some luxury products quality is questioned in mainland China are emerging. Chinese consumers complain that the domestic and international service standards are not uniformly maintained. On the other hand, luxury goods' prices are much higher than abroad. Rising in the mainland, high luxury brand prices in China squeeze customers abroad. Consumers expect luxury brands treat them appropriately in mainland China. China being the second largest market in the world for luxury goods means that no established or aspiring international luxury brand can ignore Chinese luxury consumers.

The best strategy for luxury brands to improve their customers' brand loyalty is first get an understanding of the culture and values that determine the buying behavior of Chinese luxury consumers. The overwhelming majority of the affluent Chinese are below the age of 46. Some 65.3% of them are between 16 and 35 years old, and another 22.6% are between 36 and 45 years old. An impressive number or 68.7% of the affluent Chinese have university degree and 14.4% of them have post-graduate education. With the better education, younger age of the Chinese luxury consumers, their motivation to buy luxury brands has its roots in the complex Confucian values and demand for social recognition, and the growing influence of Western values. For this reason, luxury products are often used by Chinese customers to create their individual identities as well as communicate their achievements and social standing to others. From this perspective, measures of building relationship with Chinese consumers to improve customer satisfaction, such as, investment in advertising and improvement of service in retailing, may help to increase brand loyalty in the long term. As the survey indicates that the majority of luxury products consumers are middle-income, luxury marketers should continue making their products more affordable by extending their brands from which some brands have already benefited.

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