The influence of brand image and company reputation where manufacturers market to small firms: A customer value perspective

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Abstract

Branding research has largely focused on consumer goods markets and only recently has attention been given to business markets. In many business markets the company’s reputation has a strong influence on buying decisions which may differ from the more specific product related influence of the brand’s image. In this paper we investigate these differences by testing the hypotheses about the influences of brand image and company reputation on customers’ perceptions of product and service quality, customer value, and customer loyalty in a business market where there are three manufacturers marketing their brands directly to a large number of small firms. The results indicate that the brand’s image has a more specific influence on the customers’ perceptions of product and service quality while the company’s reputation has a broader influence on perceptions of customer value and customer loyalty.

Keywords: Brand image; Reputation; Product quality; Service quality; Customer value; Loyalty; Business markets

1. Introduction

The initial focus of branding research has been about consumers’ associations and their beliefs about the attributes of the brand (e.g. Keller, 1993). However, when Berry (2000) examined branding in consumer service settings, what was found to be more important was the brand’s “meaning” that the customers derived from the service experiences they have. In these situations the reputation of the company can have a major influence on the buyer process and consumption experience. Hence, Berry (2000, p. 128) suggests that “the company” becomes the primary brand rather than the product. In many business markets the company’s service also plays a major role because there is a need for technical advice about the products. Hence, like consumer service markets, the company’s reputation is likely to have an important influence on the buying processes that is different to the product specific influence of the brand’s image. Given that there are substantial marketing investments in building brand image and building company reputation, this is an area requiring investigation.

While there has been considerable research about branding and company (corporate) reputation, these two streams of research have been largely independent. Only recently there has been an attempt to understand the different influences of company reputation and brand image on buying processes (Balmer, 2001). In business markets it is common for the company’s name to also be the brand name across a range of product groups. In these situations the reputation associated with the company’s name acts as the umbrella brand for the range of product categories, while the brand images will be specific to the particular product category. Thus, it is necessary to distinguish between the influences of the brand’s image that are associated with a specific product category, and the broader influence of the company’s reputation.

One way to distinguish between brand image and company reputation is to examine the different influences they have on the processes that create perceptions of customer value and...
customer loyalty for the company’s products. Understanding the nature of these processes has recently received attention in marketing by both academics and consultants in service markets (e.g., Gale, 1994; Kordupleski, Rust & Zahorik, 1993; Rust, Lemon & Zeithaml, 2004) and also in business markets (Eggert & Ulga, 2002). However, research in this area has given little explicit attention to distinguishing between the influences of brand image and company reputation.

The purpose of this paper is to develop an integrated model that explicitly accounts for influences of brand image and company reputation on business customers’ perceptions of quality, value and loyalty. The study had three international companies that marketed beauty care products where the companies’ names were also used as the brand names for a range of product categories. Each company had a strong reputation associated with their company name for the range of products that were marketed across the categories. The particular business market chosen was for shampoo products that were sold directly to hair salons. In this established market each company had a shampoo brand with a distinctive image that emphasized benefits that were specific to the hair care market.

This research provides a general application to business markets where few manufacturers sell to a large number of small (micro) firms. The research extends Mudambi’s (2002) exploratory study which examined the influences of branding and company reputation in a business market. While the Mudambi study focused on customer choice, our study focuses on the value loyalty process. In this process, the trade-off between perceived quality and costs determines perceived customer value, which in turn determines customer loyalty. Thus we can examine whether brand image has a more specific influence on the perception of product quality and whether company reputation has a broader influence on perceived customer value and customer loyalty. In addition, by focusing on value creation, the study responds to the Institute of the Study for Business Markets (2003) priority area of research of “how to better create, measure, and deliver customer value in business markets”.

The paper proceeds as follows: in the literature review section we examine branding in business markets, the process of delivering customer value, and research about the constructs of brand image and company reputation. The next section develops the conceptual model and the hypotheses and the following sections describe the methodology, the results, and the implications.

2. Background literature

2.1. Branding in business markets

With the increasing emphasis on services in all markets, the differences in marketing practices in consumer and business markets are diminishing (Vargo & Lusch, 2004). However, some differences may exist when it comes to branding (Mudambi, 2002, p. 527). This is because the buying processes for business markets involve more direct interactions with the selling organisation. Products may be more technical and personal selling can also play an important role in building relationships between the buyer and seller. In addition, there may be more emphasis on the rational or technical aspects and less emphasis on the self-expressive and emotional benefits of brands (Wilson, 2000). Thus for business markets it is necessary to have a broader based conceptual framework than has traditionally been used to investigate brands in consumer markets. This framework will need to distinguish between the more specific product related influences associated with the brand image and the broader experiences the customer has with the company including the relationships the customer may develop with the sales representative. While research that focuses on understanding the influence of the brand image will still be important, it will also be necessary to integrate the more recent research that has examined the influences of company and corporate reputation.

Our review of branding research in business markets indicates that it has largely been exploratory and there has been little systematic development and testing of comprehensive models. Table 1 provides a summary of the more important published studies. The first two studies examine the importance of the brand name in business markets, while the other studies start to develop more comprehensive frameworks. The most recent of these studies by Bendixen, Bukasa and Abratt (2004) used customer choice experiments to examine the relative importance of “the brand” versus “delivery”, “price”, “technology” and “availability of spare parts”. However, with the exception of the study by Mudambi (2002), little explicit attention has been given to distinguishing between influence brand image and company reputation.

Mudambi’s (2002) model includes product attributes (physical product properties, the price), service attributes (the technical support services, the ordering and delivery services, the quality of the working relationship) and branding attributes (how well known the supplier is, the general reputation of the supplier). This exploratory study, which was based on a sample of 116 UK firms, revealed that a third of the firms were “branding receptive”, and that these firms were more loyal to a particular supplier. While the Mudambi (2002) study provides a good starting point by distinguishing between the influences of brand name and company reputation, further refinement is needed. We suggest this can come from focusing on the influences of brand image and company reputation on the customer value and customer loyalty process.

2.2. The customer value and customer loyalty process

Understanding the processes that create customers’ perception of value which in turn leads to customer loyalty is a fundamental issue in contemporary marketing because it provides the link between marketing and financial performance (Reichheld, Markey & Hopton, 2000). Hence, the area has received considerable attention by both consultants and researchers in the last two decades. As with the development of any new area, there has been discussion and debate about the alternative ways perceived customer value can be defined (e.g., Zeithaml, 1988 p. 13) and this has led to different methodologies to measure it (Payne & Holt, 2001; Woodruff, 1997). However there is a general consensus that perceived customer value determines customer loyalty.
Table 1
Branding research in business markets

<table>
<thead>
<tr>
<th>Study</th>
<th>Product</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saunders and Watt (1979)</td>
<td>Man-made fibre products</td>
<td>Consumers perception of brands</td>
<td>Brand-naming strategies have mixed effectiveness</td>
</tr>
<tr>
<td>Sinclair and Seward (1988)</td>
<td>Wood products</td>
<td>Brand-name strategies and the effect on</td>
<td>Brand-naming strategies have mixed effectiveness</td>
</tr>
<tr>
<td>Vyas and Woodside (1984)</td>
<td>Textile fibres, railway equipment,</td>
<td>Decision-making process about the</td>
<td>Buyers are willing to pay a premium price for an offering that is superior</td>
</tr>
<tr>
<td></td>
<td>electric tools, chemical substances</td>
<td>acquisition of materials</td>
<td>to its competitors</td>
</tr>
<tr>
<td>Gordon, Calantone and</td>
<td>Electrical products</td>
<td>Organisational-buying</td>
<td>Brands have an important influence on buying decisions and loyalty to</td>
</tr>
<tr>
<td>di Benedetto (1993)</td>
<td></td>
<td></td>
<td>supplier is also important</td>
</tr>
<tr>
<td>Mudambi et al. (1997)</td>
<td>Precision bearings</td>
<td>Sources of industrial brand value and</td>
<td>Brands differentiate the firm’s offering from its competitors, brands</td>
</tr>
<tr>
<td></td>
<td></td>
<td>decision-making process in</td>
<td>comprise both tangible and intangible attributes</td>
</tr>
<tr>
<td>Hutton (1997)</td>
<td>Computers, copiers, fax machines and</td>
<td>Organisational buying</td>
<td>Branding influences buyers’ willingness to pay a premium price, and to</td>
</tr>
<tr>
<td></td>
<td>floppy disks</td>
<td></td>
<td>recommend and to buy other products with the same brand name</td>
</tr>
<tr>
<td>Michell, King and Reast (2001)</td>
<td>Industrial products</td>
<td>Brand values in industrial markets</td>
<td>Brand value is associated with perceived quality, image, market leadership,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>company reputation and credibility</td>
</tr>
<tr>
<td>Mudambi (2002)</td>
<td>Precision bearings</td>
<td>Importance of branding and company</td>
<td>Company reputation has different influences in the loyal and non-loyal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>reputation with different loyalty</td>
<td>market segments</td>
</tr>
<tr>
<td>Bendixen et al (2004)</td>
<td>Medium voltage electrical equipment</td>
<td>Understanding the relative importance of</td>
<td>The brand has a role to play but price and delivery were more important</td>
</tr>
</tbody>
</table>

The reason to focus on perceived customer value as opposed to customer satisfaction is because customer value is a better predictor of customer loyalty (Rust, Zahorik & Keiningham, 1995). The approach proposed by Rust et al. (1995) and Gale (1994) draws on Zeithaml’s (1988 p. 14) assumption that the customers’ perceptions of the value of the firm’s offering are derived from the trade-off between the benefits (i.e. perceptions of product and service quality) of the firm’s offer, and sacrifices (i.e. prices and non-monetary costs) of the offer. This is referred to as “worth what paid for”. The perceptions of the “benefits” of product and service quality are not only limited to functional aspects (physical attributes, service attributes and technical support) of the offering but can include emotional components so both the cognitive and affective influences of brand image can be incorporated (Brady & Cronin, 2001; Patterson & Spreng, 1997).

While research using the customer value framework has included brand image as one of the influences on product and service quality, little explicit attention has been given to how company reputation influences the process. Because company reputation is linked with the organisation’s values, vision and purpose, it can be expected to have a broader influence. This means it may have a more direct impact on perceptions of customer value and customer loyalty (Balmer, 2001). In our study we explore these alternative influences of brand image and company reputation.

### 2.3. Brand image

Brand image has been defined as the consumer’s mental picture of the offering (Dobni & Zinkhan, 1990), and it includes symbolic meanings that consumers associate with the specific attributes of the product or service (Padgett & Allen, 1997). It is seen as the representation of a brand in the consumer’s mind that is linked to an offering (Dobni & Zinkhan, 1990), or a set of perceptions about a brand the consumer forms as reflected by brand associations (Keller, 1993). Hence it can be defined as “...the reasoned or emotional perceptions consumers attach to specific brands” (Low & Lamb, 2000, p. 352). In business markets brand image can also be expected to play an important role, especially where it is difficult to differentiate products or services based on tangible quality features (Mudambi, Doyle & Wong, 1997).

#### 2.4. Company reputation

The influence of company reputation, or what is often referred to as corporate reputation, can be expected to become more important when there are higher levels of service. In many business markets there is a large service component because of the technical nature of the products. Hence the seller’s reputation is an important influence.

Company reputation has been broadly described as the long-term combination of the stakeholders’ assessment about “what the firm is”, “how well the firm meets its commitments and conforms to stakeholders’ expectations”, and “how well the firm’s overall performance fits with its socio-political environment” (Logsdon & Wood, 2002). Consequently, company (corporate) reputation has been defined as “a particular type of feed-back received by an organisation from its stakeholders, concerning the credibility of the organisation’s identity claims” (Whetten & Mackey, 2002, p. 401).
While the company’s reputation is derived from perceptions of all stakeholders, Wartick (2002, p. 377) suggests it is pragmatic to focus just on the immediate customers, as they usually are the group that have the major influence. Greyser (1999) identifies three general influences that the company’s reputation can have on its customers. The first relates to differentiating customers’ perceptions of the product and service quality, so it is similar to the influence of the brand’s image. The second and third are broader influences on customers’ perceptions of financial value and their loyalty to the company.

3. Conceptual model and hypotheses

In this study we use the customer value methods developed by Gale (1994) and Rust et al. (1995). We extend their work by paying explicit attention to the influences of brand image and company reputation. The model and hypotheses are provided in Fig. 1. The model is made up of the core customer value and loyalty process where customers’ trade-off between benefits (quality) and sacrifices (price and costs) determine perceptions of customer value, which then determines customer loyalty. Brand image and company reputation are hypothesised to have multiple primary and secondary influences on perceptions of product and service quality, perceptions of customer value and customer loyalty. We also recognize that while brand image and company reputation are distinctly different constructs, they are likely to be associated and have a mediating influence on each other. This is especially the case in business markets where the company name is used as the brand name.

We now provide justification for the hypotheses about the relationships that underpin our conceptual model.

3.1. The influence of brand image on perceived quality, perceived customer value and loyalty

Evidence of the role of brand image, as a specific influence, on the perceptions of the quality of a product or service has been provided in a qualitative study by Brown, Easingwood and Murphy (2001) and quantitative studies of service markets by Andreassen and Lindestad (1998) and Bloemer, de Ruyter and Peeters (1998). We propose H1a as a primary hypothesis due the specific influence the brand image is likely to have.

H1a. Brand image has a positive impact on perceived quality.

While the primary influence of the brand’s image is likely to be on customers’ perceptions of quality there is some evidence that it may also influence customer choice (Andreassen & Lindestad, 1998; Bloemer et al., 1998) and the perceptions of customer value (Maklan & Knox, 1997). However, this evidence is based on consumer markets so we propose H1b as a secondary hypothesis.

H1b. Brand image has a positive impact on customer value.

In addition, the brand’s image may also have an influence on consumer loyalty (Zeithaml, 1988; Selnes, 1993; and Zins, 2001). As H1b we propose H1c as a secondary hypothesis.

H1c. Brand image has a positive impact on customer loyalty.

3.2. The influence of company reputation on perceived quality, perceived customer value and loyalty

Consumer research shows the reputation of a company may be used as a heuristic for judging the quality of the offering (Dawar & Parker, 1994; Hoyer & Brown, 1990; Jacoby, Szybillo & Berning, 1976; Rao & Monroe, 1989). Other consumer research shows customers use signals or extrinsic cues, such as advertising, brand image or company reputation, to infer product quality and to refine their choices (Bolton & Drew, 1991; Richardson, Dick & Jain, 1994; Teas & Agarwal, 2000). In addition, a firm with a good reputation is likely to be perceived by customers as being more trustworthy and credible as opposed to one with a poor reputation which will positively influence the perceived quality of the offering (Chen & Dubinsky, 2003). While company reputation may influence perceptions of quality its influence is not likely to be as immediate as the influence of brand image. Thus we propose H2a as a secondary hypothesis.


Company reputation is a broader construct than brand image and hence it is more likely to have a strong influence on the perceptions of customer value (de la Fuente Sabate & de Quevedo Puente, 2003). In particular Mudambi et al. (1997) suggest that aspects of reputation such as “being world class”, “technical leadership” and “global presence” have the potential to influence perceptions of customer value. Empirical research that has demonstrated a positive influence of company reputation on customers’ perception of value includes studies by Shapiro (1983) and Yoon, Guffey and Kijewski (1993). In another study of a business market, company reputation has been found to be ranked second behind price in influencing the value of an offering (Lehmann & O’Shaughnessy, 1974). Also,
Brown and Dacin (1997) have shown that the associations customers have about the reputation of a retailer influence the perception of the value of what they purchase from a store. Based on the strong theoretical and empirical evidence we propose H2b as a primary hypothesis.

**H2b.** Company reputation positively influences customer value.

In service industries, company associations may also play an important role, not only in attracting customers but also in retaining customers (Andreason & Lindestad, 1998). Empirical research that links the effect of company reputation to loyalty includes studies by Ryan, Rayner and Morrison (1999), Raj (1985) and Zins (2001). Service associated with personal selling can also play an important role in the business markets so we propose H2c as a primary hypothesis.

**H2c.** Company reputation positively influences customer loyalty.

### 3.3. The core customer value and customer loyalty process

In addition to the hypotheses about brand image and company reputation, three hypotheses about the core processes in framework are included. Perceptions of customer value can be viewed as a trade-off between perceived benefits (i.e. perceived product and services quality) and perceived sacrifices (i.e. prices and costs, both monetary and non-monetary). Empirical research to support these relationships includes studies by Gale (1994), Hurley and Laitamaki (1995), Laitamaki and Kordupleski (1997), Higgins (1998) and Rust, Lemon and Zeithaml (2001). Hence the following hypotheses are proposed:

**H3.** There is a positive relationship between perceived quality and customer value.

**H4.** There is a positive relationship between prices and costs and customer value.

There is considerable practical experience and empirical evidence to show that perceptions of customer value have a positive influence on customer loyalty (e.g. Gale, 1994; Hurley & Laitamaki, 1995; Laitamaki & Kordupleski, 1997; Rust, Danaher & Varri, 2000; Rust et al., 1995, 2000; Zeithaml, 1988). Hence the following hypothesis is proposed:

**H5.** Customer value has a positive impact on customer loyalty.

### 4. Methodology

#### 4.1. Choice of study area and data collection

In order to test the hypotheses we chose an established business market where three large manufacturers sold shampoo products to a large number of hair salons. The three multinational firms comprised approximately 80% of the total market, with the rest of the market being made up of five smaller suppliers each with market shares of 5% or less. Each of these multinationals used its company name as its brand name and all three had strong reputations associated with their company names. The hair salons were relatively small and they usually had a manager and a number of hairdressers. The three competing companies had active sales teams who regularly visited the salons and sold directly and not through intermediaries. The buying was usually undertaken by the manager of the salon. Personal selling had a major influence and there was a lot of interaction between the sales-people and the salon managers which resulted in the companies developing different reputations. The three brands were promoted heavily with advertising, sponsorship of fashion events and other public relations activities which resulted in distinctly different brand images.

The initial research involved qualitative interviews with the managers of the hair salons to determine the drivers and sub-drivers of product and service quality, prices and costs. A structured questionnaire was administrated to the managers of the salons using telephone interviews. Respondents were asked about their recent product and service experiences with their supplier. The survey elicited perceptual ratings for the drivers and sub-drivers of product and service quality, prices and costs, perceived customer value and customer loyalty using 10-point scales anchored by 1=poor and 10=excellent. The sample was drawn on a source list of all hair salons in the country. It achieved a sample of 377 salons which represented 20% of the total number of hair salons in New Zealand. It was matched against the source list to ensure there was no sample bias due to salon size or location.

#### 4.2. Measures

Multiple item scales were used for the measures of brand image, corporate reputation and customer loyalty, while single item measures were used for the perceived quality of the offering, the prices and costs, and the perception of customer value.

##### 4.2.1. Brand image

There are numerous definitions of brand image in the literature which initially may cause confusion about what is the best scale to use (Dobni & Zinkhan, 1990). However, because brand image is largely “product category specific” (Low & Lamb, 2000, p. 352), it is suggested that the choice of scale should be dictated by the research problem and its context (Christensen & Askegaard, 2001; Lemmink, Schuijf & Streukens, 2003). Thus the scale used in this study is from a scale developed for shampoo products by Low and Lamb (2000). The following items were used: “well known and prestigious”, “fashionable and trendy”, “having reputation for quality”, “elegant”, “useful”, “natural”, and “sophisticated”.

##### 4.2.2. Company reputation

As with brand image it was also necessary to develop a customised measure of company (corporate) reputation (Lewellyn, 2002). The items used for this study were “being well managed”, “being product driven”, “being successful”, “being
innovative”, “having customer focus”, “keeping you informed about what is happening with the company”, and “being a good corporate citizen”. These items were derived from studies undertaken in marketing and management by Yoon et al. (1993), LeBlanc and Nguyen (1996), Doney and Cannon (1997), Greyser (1999), and Deephouse (2000).

4.2.3. Customer loyalty

One way to measure customer loyalty is to focus on the behavioural dimension of loyalty (Caruana, 2002), and have a scale to measure repurchase intention or the intention to remain with the company (de Ruyter & Wetzels, 2000). However, equally important is the attitudinal component (Butcher, Sparks & O’Callaghan, 2001). While the behavioural component measures a particular customer’s behaviour and indicates the repeat purchase probability (Bowen & Shoemaker, 1998), measures a particular customer’s behaviour and indicates the repeat purchase probability (Bowen & Shoemaker, 1998), attitudinal dimensions provide a measure of preference. Preference is less constrained and may also provide an indication of the likelihood to recommend the product (Gremler & Brown, 1996; Zins, 2001). Thus two measures of customer loyalty were used; “the increase in the amount spent on company’s products”, and “the likelihood to recommend the company to others in the trade”.

4.2.4. Perceived quality, prices and costs and perceived customer value

Single items were used to measure these constructs. For perceived product and service quality as well as for prices and costs direct questions were asked (i.e. “Overall what rating would you give <supplier> on providing products and services that meet your needs?”) and “Overall, what rating would you give <supplier> on their prices and costs?” For perceived customer value, which was defined as a trade-off between perceived quality (i.e. benefits) and prices and costs (i.e. sacrifices), the following question was asked “Overall, how would you rate your purchases from <supplier> as being worth what paid for?” It is important to note that the measure of “perceived product and service quality” in this study is a measure of need fulfilment rather than some absolute measure of perceived quality. This distinction is particularly important in this study where perceived value is conceptualized as a trade-off between benefits and costs (includes quality versus price). For example the customer’s perceptions of customer value may be the same for a product that has acceptable quality (meets needs) and low price as one of high quality and high price.

The constructs and measurement items are listed in the Appendix.

4.3. Measure refinement

Internal and external consistency of the three multi-item scales (brand image, corporate reputation and customer loyalty) were assessed with goodness-of-fit statistics (Anderson, Gerbing & Hunter, 1987) and the use of item-to-total correlation measures (Gerbing & Anderson, 1988). The scales were refined, and the items exhibiting low squared correlations (below 0.5) were removed. In addition the items that had standardised residuals from the covariance matrix which were excessively large were removed (Gerbing & Anderson, 1988; Steenkamp & van Trijp, 1991).

The reliabilities of the resulting scales were then examined by calculating the Cronbach alpha statistics. The value for “brand image” (4 items) was 0.84 and the value for “corporate reputation” was 0.86, which are well above the acceptable level. The value for “customer loyalty” was lower (0.63), but still above the minimum level (Nunnally, 1967).

The measures and confirmatory factor analysis results are provided in Table 2, which displays standardised factor loadings and the t-values. Except for “the likelihood to recommend” all the factor loadings are considerably greater than the recommended minimum level of 0.50 (Hair, Anderson, Tatham & Black, 2000). In addition the convergent validity for the constructs is indicated by high factor loadings (Gerbing & Anderson, 1988; Steenkamp & van Trijp, 1991). The goodness-of-fit statistics indicated that the scales were unidimensional (Anderson et al., 1987).

The means and correlations amongst the constructs are reported in Table 3. As it was expected all the variables in the core customer value and customer loyalty process are moderately or highly correlated. However of particular interest is the association between brand image and corporate reputation. The correlation coefficient of 0.62 indicates the two constructs have a mediating effect between each other.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Item</th>
<th>Standard estimates</th>
<th>t-values</th>
<th>Cronbach alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand image</td>
<td>Being fashionable and trendy</td>
<td>0.79*</td>
<td></td>
<td>0.84</td>
</tr>
<tr>
<td></td>
<td>Having a reputation for quality</td>
<td>0.63</td>
<td>12.24</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Being elegant</td>
<td>0.76</td>
<td>15.54</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Being sophisticated</td>
<td>0.84</td>
<td>16.92</td>
<td></td>
</tr>
<tr>
<td>Company reputation</td>
<td>Being well managed</td>
<td>0.80*</td>
<td></td>
<td>0.86</td>
</tr>
<tr>
<td></td>
<td>Having customer focus</td>
<td>0.82</td>
<td>17.74</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Keeping you informed about what happens</td>
<td>0.74</td>
<td>15.45</td>
<td></td>
</tr>
<tr>
<td></td>
<td>with the company</td>
<td>0.72</td>
<td>14.99</td>
<td></td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>The increase amount spent on company’s</td>
<td>0.86*</td>
<td></td>
<td>0.63</td>
</tr>
<tr>
<td></td>
<td>products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The likelihood to recommend the company</td>
<td>0.50</td>
<td>8.68</td>
<td></td>
</tr>
</tbody>
</table>

Note 1: *=fixed parameters.

Note 2 for brand image “well known and prestigious”, “useful”, and “natural” and company reputation “being product driven”, “being successful”, “being innovative” were deleted for as a result of the scale refinement.
Equally important was to assess whether there was discriminant validity between these two constructs. Following Steenkamp and van Trijp (1991) and Anderson and Gerbing (1988), we constrained the correlation between the two constructs to 1. The difference in the chi-squared values for unconstrained and constrained model ($\chi^2=168.5$ and $df=20$) and the constrained model ($\chi^2=83.1$, $df=19$) was 84.6. This clearly exceeds the critical value of 8.26 ($p=0.01$ level, $df=1$), and so it can be concluded that there is a strong evidence for discriminant validity.

### 5. Analysis and results

#### 5.1. Model evaluation

Structural Equation Modelling using LISREL was used to evaluate the model. The error variance corresponding to the single item measures was set to the minimum of 0.04 corresponding to the smallest value found for another construct in this study. In order to examine the model fit, sample size dependent rather than sample size independent measures of goodness of fit were used (Bollen & Long, 1993). In this way, emphasis was placed on fit indices that were not based on assumption of normality or sample size. The analysis indicates a very good fit with the IFI=0.99 and the CFI=0.99, being well above 0.9 threshold. The other goodness-of-fit statistics, including the normed chi-squared=1.77 (chi-squared 1454.98 divided by 820 degrees of freedom), and RMSEA=0.045 also indicate a very good fit.

The variance extracted was used to assess the model reliability and the analysis indicated that the latent constructs were explained well. The construct of “perceived customer value” was predicted adequately by the three constructs “company reputation”, “perceived product and service quality” and “prices and costs” with the squared multiple correlation of the measure of the variance extracted by predictors equal to 0.71. The constructs “corporate reputation” and “perceived customer value” also predicted “customer loyalty” adequately with the squared multiple correlation of the measure of the variance extracted by predictors equal to 0.71.

#### 5.2. Results of hypothesis tests

Details about the parameter estimates for the model are provided in Fig. 2 and results of the hypothesis tests are provided in Table 4. The results provide support for the primary hypothesis that brand’s image has a more specific influence on the customers’ perceptions of the quality while the company’s reputation has a broader influence on the customers’ perceptions of customer value and customer loyalty. While the results did not provide sufficient evidence to support the secondary hypotheses, the correlation of 0.62 between brand image and company reputation suggests that there is a mediating influence between the two variables and so there are indirect effects.

The results support the hypothesis (H1a) that brand image has a positive impact on perceived quality but the impact of brand image is not particularly strong (i.e. $b=0.10$, $p<0.10$). For the other hypotheses (H1b, H1c) that brand image had an impact on perceived customer value and customer loyalty, while standard estimates were positive (i.e. $b$’s=0.02 and 0.04), they were not statistically significant so H1b and H1c were not supported.

The hypothesis (H2b) that company reputation has a positive influence on perceived customer value was strongly supported (i.e. $b=0.22$, $p<0.01$) as was the hypothesis (H2c) that company reputation has a positive influence on customer loyalty (i.e. $b=0.58$, $p<0.01$). However for the hypothesis (H2a) that company reputation influences perceived quality, while standard estimate was positive, it was small in magnitude (i.e. $b=0.10$), was not statistically significant so H2a was not supported.

The results also support the hypotheses about core service quality customer value process. However, the impact of service quality on perceived customer value was not as strong as the impact of prices and costs (i.e. H3, with $b=0.10$, $p<0.10$ compared with H4, with $b=0.58$, $p<0.01$). Finally, there was a strong support for the hypothesis of the influence of perceived customer value on customer loyalty (H5, $b=0.32$, $p<0.01$).

### 6. Discussion

#### 6.1. Implications

This study was motivated by the need for research that leads to a better understanding of the influences of branding

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*The model given in Fig. 1 allows brand image and company reputation to be correlated.*
Table 4
Summary of the hypotheses tests

<table>
<thead>
<tr>
<th>Relationships</th>
<th>Hypotheses</th>
<th>Std estimates</th>
<th>t-values</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand image—perceived product and service quality</td>
<td>1a</td>
<td>0.10</td>
<td>1.68*</td>
<td>Accepted</td>
</tr>
<tr>
<td>Brand image—customer value</td>
<td>1b</td>
<td>0.04</td>
<td>0.79</td>
<td>Failed to accept</td>
</tr>
<tr>
<td>Brand image—customer loyalty</td>
<td>1c</td>
<td>0.02</td>
<td>0.36</td>
<td>Failed to accept</td>
</tr>
<tr>
<td>Company reputation—perceived product and service quality</td>
<td>2a</td>
<td>0.10</td>
<td>1.09</td>
<td>Failed to accept</td>
</tr>
<tr>
<td>Company reputation—customer value</td>
<td>2b</td>
<td>0.22</td>
<td>2.83**</td>
<td>Accepted</td>
</tr>
<tr>
<td>Company reputation—customer loyalty</td>
<td>2c</td>
<td>0.57</td>
<td>6.40**</td>
<td>Accepted</td>
</tr>
<tr>
<td>Perceived quality—customer value</td>
<td>3</td>
<td>0.10</td>
<td>1.83*</td>
<td>Accepted</td>
</tr>
<tr>
<td>Prices and costs—customer value</td>
<td>4</td>
<td>0.58</td>
<td>12.30**</td>
<td>Accepted</td>
</tr>
<tr>
<td>Customer value—customer loyalty</td>
<td>5</td>
<td>0.32</td>
<td>4.69**</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

n.s. Not significant.
* Significant at $p < 0.10$.
** Significant at $p < 0.01$.

and company reputation in business markets. It also responded to the broader need for research that provides a better understanding about how to create, measure, and deliver customer value in business markets. We have shown that the customer value and customer loyalty approach is a useful way to quantify and distinguish between the influences of the brand image and company reputation. By using this approach, we were able to extend the previous research by Mudambi (2002) and clearly distinguish between the different influences of these two factors. The research confirmed that the brand’s image has a more specific influence on the customers’ perceptions of the quality while the company’s reputation has a broader influence on perceptions of customer value and customer loyalty.

This study extends the customer value research by Gale (1994) and Rust et al. (1995) to include the influence of branding. What is particularly valuable is that the framework allows managers to distinguish between the different influences of brand image and company reputation. Thus the framework can be used to explore the financial implications and tradeoffs of investing in product and service quality, brand image and company reputation versus price discounting. However, the nature of these tradeoffs will differ from market to market, so the results from this study do not automatically carry over to other markets. In this study both prices and costs (i.e. $\beta = 0.58$) and company reputation (i.e. $\beta = 0.22$) had strong influences on perceptions of perceived customer value. Company reputation also had a direct influence on customer loyalty (i.e. $\beta = 0.32$). In contrast, brand image did not have such a strong impact (i.e. $\beta = 0.10$) but this does not necessarily mean the companies should not invest in building brand image because the financial analysis might show that at the margin the effect of brand image may be important.

6.2. Future research

While our research did not support the secondary hypotheses we recognize that in other circumstances there may be support for them. Our study was for an established market and things may be different for markets with new products. For example Brown and Dacin (1997) demonstrated that the knowledge consumers have about a company may influence their beliefs about and attitudes toward new products manufactured by the company. Under these circumstances the extrinsic cues, such as company’s name and reputation as well as brand image, may have a stronger influence on perceptions of quality. The conceptual discussions by Zeithaml (1988) and Monroe (1990) provide a basis for investigating other circumstances where it is more difficult for a consumer or business customer to judge the quality based on objective attributes.

We recognize that perceived product quality might also drive brand image and that future research is needed to address this issue. For example, research by Mittal (1999) about business services examined how the determinants of value perceptions and loyalty differ between first time purchases and repeat purchases. Their research suggests the possibility that the perceived product quality might drive brand image perceptions once the product has been tried.

Further research is also needed to investigate the appropriateness of the conceptual model used in this study. One particular area is the role of personal selling. For example, does the salesperson act as a surrogate for company reputation? If a personal relationship grows between a salesperson and a beauty salon manager this might account for brand choices. In other circumstances buyer may collude and dictate what brands are supplied.

Recent research by Eggert and Ulga (2002) presented results that question whether perceived customer value is a substitute for customer satisfaction in business market or whether customer satisfaction has a mediating influence on purchase intentions. This work serves as useful basis for extending our research.

In this study we examined an established business market where there are three manufacturers marketing their brands directly to a large number of small firms. Further quantitative research is needed to examine how the results generalise across other business markets. The study was limited to only one market and therefore the results should be interpreted accordingly. It has been suggested that the drivers of perceived customer value and loyalty play a differential role, depending
on the industry and the context of buying decision (Rust et al., 2001). For example, the product quality might be more important for markets where there are clear tangible differences between competing products, or where the decision involved in the buying process is very complex. Another area for refinement would be to examine whether there are distinctive segments within a market. For example, Mudambi’s (2002) study found only a third of the market were influenced by branding and company reputation.

Further research is needed to determine the best way to develop a scale to measure customer loyalty. While previous research has shown that the two-item scale had good reliability this was not the case in this study. One explanation for the low reliability in this study might be due to the sensitive nature of asking about the likelihood to increase the amount spent. Another explanation for the low reliability is that the indicators are formative and not reflective as has been assumed in this study (Diamantopoulos & Winklhofer, 2001).

This study used the salon manager’s perceptions and did not include the hairdressers who may also influence the buying process. Hence further research could examine whether it would be better to use multiple respondents.

Additional research is needed to develop a dynamic model. For example attention needs to be given to the carryover effects resulting from these alternative investments. Company reputation is considered to be an “enduring belief” (Balmer, 2001; Bromley, 2001; Gray & Balmer, 1998), so the current influence of company reputation will be a result of previous investments.

Customer value creation is a dynamic process, so the magnitude and importance of the drivers are likely to change over time (Parasuraman, 1997). Although this study captures the impact of brand image and corporate reputation in the customer value–loyalty chain, this is a static view. Therefore future research could use multiple time periods, in order to examine the evolutionary process. In addition, research needs to fully understand the processes that determine customers’ perceptions and knowledge of company reputation and brand image.

The framework developed in this study could be applied to other markets such as those in service industries where there is a greater emphasis on the value obtained from the intangible service attributes (Zins, 2001). Additional insights could also be gained by investigating the new channels that are developing in the virtual and computer mediated environments. Finally, another area for research would be to explicitly examine how company reputation lowers the level of risk perceived by customers (Flint, Woodruff & Gardial, 2002; Gürhan-Canli & Batra, 2004).

Acknowledgments

The authors thank their colleagues in the Department of Marketing at the University of Auckland, the editor and the reviewers for IMM for the valuable suggestions for improving the paper.

Appendix A. Questionnaire used to measure constructs

We’ll use the 10-point scale where 1 means “poor” and 10 means “excellent”.

**Image**

When you think of the overall impression you have of a supplier’s products and brands, how do you rate them on:

a) Being fashionable and trendy  
b) Having a reputation for quality  
c) Being elegant  
d) Being sophisticated  
e) Being well known and prestigious  
f) Being useful  
g) Being natural

**Company reputation**

When you think of the overall impression you have of a supplier how do you rate them on:

a) Being well managed  
b) Having customer focus  
c) Keeping you informed about what’s happening with the company  
d) Being a good corporate citizen  
e) Being product driven  
f) Being successful  
g) Being innovative

**Prices and costs**

Now thinking about everything you have rated so far for suppliers, their products, the training that they offer you, their marketing support, the ways in which they work with you to improve your business, their order handling and delivery, their sales representation, their incentives and loyalty programmes

a) What rating would you give “…”

**Products and services**

Now, thinking about everything you have rated so far for suppliers about their prices, rebates, discounts, returns and other costs...

a) What rating would you give “…” overall on their prices and costs?

**Overall worth what paid for**

I would like you to think about what you get for what you pay overall. Using the same 10-point scale where 1 equals “poor” and 10 equals “excellent”, thinking about all of suppliers’ products and services, and the prices and costs to you,

a) How would you rate your purchases from suppliers OVERALL as being worth what paid for?

**Intentions**

Not long to go now. We’ll use a different scale for the next questions. It is still a 10-point scale but now 1 means “Definitely Would Not” and 10 means “Definitely Would”.

a) Based on your experiences with “…”, how likely are you to recommend “…” to others in the trade?

b) Based on your experiences with “…” how likely are you to increase the amount you spend on products from this supplier?

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4 The questionnaire also included further questions about the sub-drivers for “perceived product and service quality” as well as “prices and costs”. For example perceived product and service quality sub-drivers included were: “training provided by supplier”, “product quality”, “marketing support”, “business support”, “customer service”, “sales representative”, and “special recognition programmes”. “Overall prices and costs” sub-drivers considered in this survey were “prices”, “rebates” and “other non-monetary costs”. The respondents were asked the questions about the sub-drivers before they were asked for their overall ratings so they served as primers for the “overall” assessments.


