EXPLORING HOW RETAILER-BASED STOCKIST BRAND EQUITY IS FORMED IN THE ABSENCE OF ANY BRAND BUILDING ACTIVITIES

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Abstract

This study contributes to our understanding about brand equity in the B2B context by introducing a new concept called retailer-based stockist brand equity. This study also focuses on the under-explored *unorganized b2b sector* from a branding perspective. This study highlights that strong brand equity evolves and exists even in the absence of any proactive brand building activities by firms. Using the Pharma retailer-stockist (b2b) relationship in the unorganized sector of the Indian pharmaceutical market as the empirical setting, the findings from a qualitative analysis show that despite the absence of proactive brand building activities by stockists, they created strong brand equity. The findings show that in the absence of any brand building activities, stockists' sales representatives play an important role in creating stockist brand awareness. Rational and emotional brand associations are created 1) ***directly*** by the services provided by stockists which includes product availability, deliverability, accuracy in billing and batch numbers, credit facilities and discounts, handling issues such as product expiry, etc., and, 2) ***indirectly*** by the services provided by stockists' sales representatives which includes their frequency of visits, proactive customer orientation than sales orientation, fulfilling commitments, relationship with the retailers, etc.

Keywords. B2B relationship, brand image, brand equity, retailer-supplier relationship, brand associations

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1 Introduction and Theoretical background

Several studies have clearly established that brands are relevant not only for business to consumer markets but also in the business to business markets. However, academic research especially about the brand relevance in the B to B setting is not as well established as in the B to C setting. Should firms invest in B to B branding as much as they do so in B to C branding? To answer this question, Backhaus et al., (2011) first tried to understand whether or not brand relevance varied across different product categories and what drives their brand relevance. Branding literature shows that strong brands help to reduce perceived purchase risk, reduce information costs and evoke specific image effects. Brand relevance differs in the B to B context compared to B to C context because brand relevance depends on customer and purchase characteristics.

Recently, there has been an increase in the number of studies related to b2b branding addressing various elements including B to B brand equity, brand value and performance, internal B to B brand equity, etc. (Abdul Rahman et al., 2014; Bruhn et al., 2014; Kalafatis et al., 2014; Keranen et al., 2012; Mukherjee and Goyal, 2012). However, marketers have traditionally been very sceptical about investing in branding in the B to B sector since there is no place for introduction of emotional qualities in the B to B context which is otherwise used all the time in the B to C context. One of the main difference is that, in the B2B context there is a high degree of importance given to personal interactions which is why the value of the b2b relationships have been widely researched. Similarly, the value of buyer-seller relationships have been extensively investigated in the B to B marketing literature.

According to Aaker (1991), brand equity is defined as a set of assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or that firm's customers. Based on this definition, brand equity can be studied from different perspective such as the firm perspective and customer perspective. The firm based brand equity literature focused mainly on placing a financial value of the assets while customer-based brand equity focused on customers' perceptions of the brand. According to Keller there are six building blocks of brand equity such as brand salience, performance, imagery, customer judgements and feelings and brand resonance. These blocks needs to be achieved one after another in a hierarchy of stages starting with brand salience in order to establish customer-based brand equity. Kuhn and his co-authors (2008) tested this brand equity pyramid in the B to B context and found that it is important to make a number of adjustments to Keller's framework to make it appropriate for B to B markets. For example, imagery was replaced by supplier reputation in Kuhn et al.'s revised model.

In the current study the focus is on the brand relationship between suppliers and retailers (B2B) especially in the context of the BRIC nations by focusing on the unorganized Indian pharmaceutical industry. In this industry, it is important to note that there is strong stockist loyalty existing among retailers (pharmacies) who form ***strong, positive and unique brand associations*** about stockist even though there is a lack of any proactive brand building activities by stockists companies. Hence, it is unclear how retailers form such strong image about stockist in the absence of any form of advertising and promotions. This study therefore *explores how such retailer-based stockist brand equity is formed in the absence of any brand building activities*. Based on Aaker's (1991) definition of brand equity which posits that the brand creates value for all members of the channel, we define *retailer-based stockist brand equity as a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a stockist*. This study also focuses on the under-explored unorganized b2b sector from a branding perspective. This study highlights that strong brand equity evolves and exists even in the absence of any proactive brand building activities by firms.

2 Indian retail industry

According to a report by Ernest and Young titled the great Indian retail story[1], there are about 12 million retail outlets spread across India out of which 80% are run by small family businesses which use only household labour. The organized sector constitutes only 3% of the $ 230 billion Indian retail market (year 2006). India has one of the highest retail densities in the world at 6% that is, 12 million retail shops for about 209 million households. According to the same report retailers are among the fastest growing sectors in India and India ranks first ahead of Russia in terms of emerging markets potential in retail and hence India is being a priority number one market for international retail. Retail growth is driven by consumer demand in which in turn is driven by India's economic growth (meant greater disposable incomes for the booming Indian middle class which represents 22% of total population), demo graphics (more than 50% of population is less than 25 years old), urbanisation (urban population projected to increase from 28% to 40% by 2020) and credit availability (retail loans have doubled in last three years until 2005).

[1] Source: the great Indian retail story, a report by Ernest and Young. Retrieved from: http://www.forcesofindia.com/resources/presentations/TheGreat_Indian_Retail_Story%20E&Y.pdf

3 The Indian Pharma retailing industry

There are more than 700,000 chemists spread across India which is actually more than the total number of chemists in the US, UK and China. There are more than 60,000 wholesalers and sub wholesalers of pharmaceutical products. The Pharma retailers are unorganized and unionised and they get lucrative margins unlike FMCG retailers who are not unionised. Organised retail pharmacies (e.g., Subiksha Retail Services Private Limited, health and Glow, Med Plus, Apollo pharmacies, etc.) are still in a nascent stage in India and organized retail faces strong resistance from various traders lobby groups at all layers thereby preventing significant reforms. There are some prevailing perceptions that Pharma retailers are not willing to upgrade their knowledge or infrastructure and all that matters to them they are profit margin. The average annual turnover of an Indian chemist is 400,000 Indian rupees (or 5981 USD), and 500,000 Indian rupees (or 7477 USD) for chain pharmacies.

Prior to 1990 Indian pharmaceutical companies have established and used their own depots and warehouses which are now (post 1990) replaced by clearing and forwarding agents (CFAs), who are primarily responsible for maintaining storage of company's products and then forwarding stock keeping units (SKUs) to the stockist on request. According to a report by BioPharma International[2], most companies keep 1 to 3 CFAs in each Indian state and on average a company may work with a total of 25-35 CFAs. CFA handles stock of only one company. Stockists on the other hand can simultaneously handle more than one company (5 to 50 different manufacturers or even more). A manufactured product passes through the company owned central warehouse from where it is supplied to the CFA or super stockist, who then supply the stocks to the stockist, sub stockist, or hospitals. The retail pharmacies or chemists by products from the stockist or sub stockist eventually selling to consumers. Distribution costs as a percentage of sales this more costly in India (4-6%) than in the US or EU (2%) and one of the main reasons is that the cost of drugs is very low in India compared to developed markets.

4 Methodology

A qualitative research design was used in order to get deeper insights and understanding of the research situation and also to uncover the underlying ideas of the research problem. Moreover

[2] Source: BioPharma International, September 2008 (www.bioforinternational.com). Retrieved from: http://www.bioplanassociates.com/publications/articles/BPIBioPlanDISTRIBIndiaTodayOct08.pdf

qualitative research methods are considered to be the most appropriate approach for exploring initial discoveries in situations where there is little is known about the subject and especially be to be marketing researchers recommend the use of qualitative methods to study business activities (Nyadzayo et al., 2011). Hence in this study, a deductive approach was used in order to extract the implied and logically conclusive premises on the brand relationships between retailers and stockist in order to understand how retailers form their brand image about stockist in the absence of any promotional activities (Krippendorff, 2004).

Key informant interviews were conducted with retail owners, stockist managers and their salesmen. The key informant technique involves the use of in-depth interviews with people who are very knowledgeable of the subject matter which is being investigated. Data were collected using semi structured interviews with retail owners, stockist managers and their salesmen. The salesman belonging to the stockist companies form a vital link between the retailers and stockist and hence these salesmen form the eyes and ears of the company (stockist). Semi structured interviews were used because they allow the participants the chance to be experts and thus share information that is required for the research and therefore face-to-face interviews were conducted. In total there were 26 interviews conducted (six stockists, eight retailers and 12 salesmen) and the interviews lasted between 45 minutes to 75 minutes and they were recorded. A separate and detailed interview guide was prepared for the interview with the retail owners, stockist managers and salesmen, and a review of literature and preliminary interviews were held with two salesmen, retail owners and stockist, all of which helped in the development of the semi structured interview protocol.

5 Findings

5.1 Retailer-based stockist of brand equity

Based on Aaker's (2011) definition of brand equity which he posits that the brand creates value for all members of the channel, we define *retailer-based stockist brand equity as a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a stockist*. During their interviews, both retailers and stockists mentioned that advertising or any brand building activities are irrelevant and not important. They mentioned that brand equity is not important in their purchase decisions.

However, when probed further, it was becoming evident that retailers had very strong attitude and preferences towards specific stockists. Questions were adapted and framed based on Kevin Keller's definition of brand equity in order to understand stockist brand equity. Questions related to the following concepts such as brand recall, brand associations (rational and emotional associations) were asked to the retailers. Each of the retailers who were interviewed could easily recall 10 to 20 stockists from memory without any difficulty or prompt, out of more than 200 stockists (suppliers) in the city where the retailers are located. Each retailer purchased their stocks from at least 5 to 15 stockists. One reason for trading with so many stockists is because a single stockist do not stock all the drugs which are sold at the retailer shop (each retailer sells at least 15,000 stock keeping units (SKUs), and hence retailers have to buy their stocks from different stockists.

When asked about what comes to their mind when they hear the name of their favorite stockist, retailers could easily list a variety of (brand) associations and the retailers could also easily explain the list of associations attributed to a competitor. Retailers could easily point out the difference (point of difference or POD on branding terms) between their favorite stockists compared to competitor stockist. Thus company brand name and brand equity appears to play a major role in retailers' purchase decisions as well as staying loyal to them. A further analysis of the brand associations clearly differentiates between rational or functional associations and emotional associations. Hence this study provides evidence that emotional associations in addition to rational associations are important in purchase decisions in the context of b2b transactions. Retailers mentioned that they are less likely to buy stocks from a new stockist who are unfamiliar or unknown (low brand awareness).

The analysis shows that the strength of relationship between the retailer and stockist is determined by *five major antecedents* such as 1) ***Stockist driven factors*** (such as product availability, product range, credit policy and discounts, payment terms, after sales service, stockist reputation, billing or batch accuracy, the different purchasing channels such as salesmen, telephone and online options, the experience of stockist, and their locations), 2) ***salesmen driven factors*** (such as their customer orientation, experience, reliability, reputation in terms of meeting commitments, timing of their visits, helpfulness, honesty, face value), 3) ***product driven factors*** (such as brand strength, profit margins and discounts, generic or over-the-counter products or branded products), 4) ***retailer driven factors*** (such as daily order value, salesmen orientation, perception about stockist and retailer, service quality perception, fulfilling payment obligations, retailer satisfaction), and 5) ***external factors*** (such as government policies like FDI in multibrand retail, economic situation, entry of organized retailers, technological factors like online purchasing option which reduces salesmen work load).

During the interviews, the retailers described the nature of the relationship between them and their suppliers (stockist) which clearly established that the strength of their b2b relationship is a precursor for establishing retailer based brand equity. Figure 1 below summarizes the key findings from the study showing the nature of the relationships between the antecedents of the b2b relationship and retailer-based brand equity.

-Insert Figure 1 here-

The interviews and the subsequent analyses also helped to understand the consequences of strong ***retailer-based stockist brand equity*** such as their effect on retailers, salesmen, stockist and on pharmaceutical companies. Strong retailer-based stockist brand equity means there is high stockist awareness, and **strong and positive** rational and emotional brand associations. The consequence of strong retailer-based stockist brand equity (figure 1) are summarized as follows: 1) ***effect on retailers*** are stockist loyalty, brand relevance during purchase decisions, recommendation behaviour, value relationship, repeat purchase, trusting salesmen, 2) ***effect on salesmen*** are increased motivation, well-received by retailers, addresses customer concerns proactively, spends more time with retailers, higher share of retailer order compared to competitors, repeat orders, better performance, 3) ***effect on stockists*** are higher sales share from each retailer, committed salesmen, recognition from Pharma companies from whom stockist purchases, increased market share, higher switching costs for retailers and Pharma companies and market reputation, 4) ***effect on Pharma companies*** are increased sales, enhancement of image due to availability and accessibility, increased trust on stockists

6 Conclusions Implications limitations and future research

This study introduces a new construct called ***retailer-based stockist brand equity***. Based on Aaker's (2011) definition of brand equity which posits that the brand creates value for all members of the channel, we define *retailer-based stockist brand equity as a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a stockist*. This study explores *how such retailer-based stockist brand equity is formed in* *the absence of any brand building activities*. This study focused on one of the BRIC nations India and more specifically into the unorganised Indian pharmaceutical retail industry. In this industry there is evidence of presence of strong stockist loyalty exhibited by retailers (strong B2B relationship) in the absence of any proactive and formal advertising or promotional activities by the stockist.

This study highlights that strong brand equity evolves and exists even in the absence of any proactive brand building activities by firms. Using the Pharma retailer-stockist (b2b) relationship in the unorganized sector of the Indian pharmaceutical market as the empirical setting, the findings from a qualitative analysis show that despite the absence of proactive brand building activities (by stockists) such as advertising, communication, marketing, etc., some stockists are found to have created strong (stockist) brand equity among retailers compared to other stockistsThe findings of the study are relevant to developing nations and in the unorganised retail industry in the context of the b2b relationships and especially when there is a shortage of adequate funds for advertising. Managers in distribution companies must give priority to salesmen training for providing better service to retailers and at the same time ensure product availability and credit policies and payment terms for retailers. Retailers also contribute to the B to B relationship by fulfilling payment obligations, salesmen orientation, etc. timely adoption of new technologies such as online purchasing options for retailers and enhances retailers image of the stockist positively as a less help to reduce salesmen workload so that they can utilize their time for providing better customer service.

The findings of the study are related to the unorganised Indian pharmaceutical retail industry and hence the findings are limited to this context and further research is required to generalise the findings across other industries. Future research can collect quantitative data to test the conceptual framework developed in this study.

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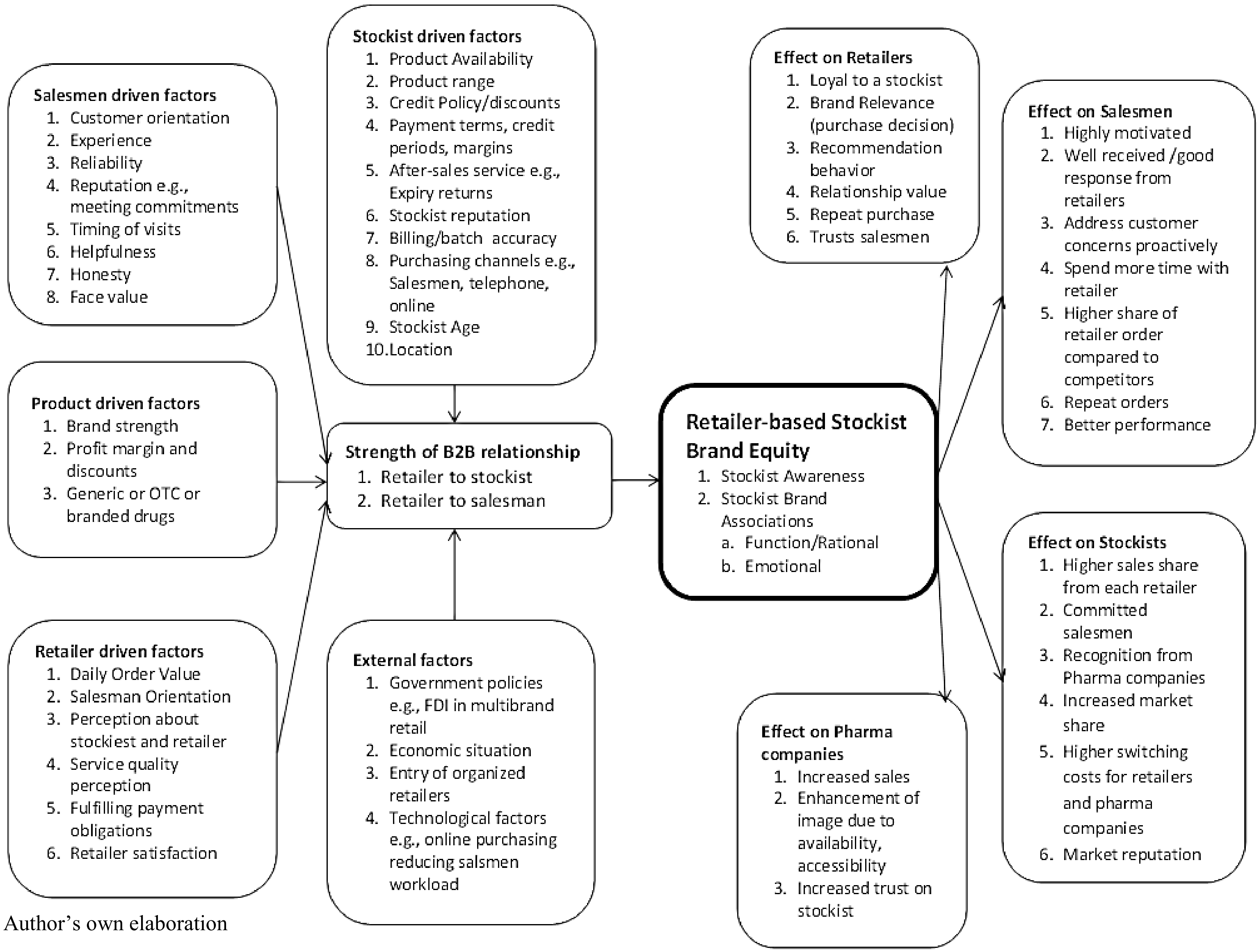
Fig. 1: A conceptual framework for *retailer-based stockist brand equity* showing their antecedents and consequences



Source: Author's own elaboration