



**Strathmore**  
UNIVERSITY

**A FRAMEWORK TO MODEL THE MONETARY VALUE OF BRANDS FOR  
INSURANCE COMPANIES IN KENYA**

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## **Abstract**

The purpose of this study was to come up with a framework for measuring brand equity for insurance companies in Kenya. The concept of brand is widely gaining popularity and plays a role in consumer decision making. Managers are putting in hours of work to create a favorable brand name for their company with no precise way of measuring whether their efforts bear fruits. This study provides a means to measure those efforts for insurance companies in Kenya.

In the efforts to meet the stated objective, I used the revenue premium approach and also investigated the role that brand plays in decision making.

The study carried out investigations through the use of choice experiments and an analysis of financial statements belonging to 4 insurance companies.

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## CHAPTER 1: INTRODUCTION

### 1.1 BACKGROUND TO THE STUDY

For many years now, the concept of branding has been of huge debate among managers of firms, yet the concept is not a new one. From the stone age eras, differentiating one thing from another was already happening. Various researches into this concept have been carried out but still, they have yielded no fruit in coming up with one definition of what a brand is. Aaker (1991) defined a brand as the image that consumers have in mind. Murphy (1999) described it as the various characteristics that have been developed over time to differentiate actual products from competitor's products.

The American Association defines a brand as "a name, term, sign, symbol or design, or a combination of them intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. From the above, Aakers' definition of what a brand is leads to the conclusion that a brand is as a result of perception. According to Kottler and Lane (2006) brand perception is the ability of the customer to identify the brand under different conditions, reflected by their brand recognition or ability to recall. Murphy's definition stresses on the aspect of brand that is concerned with differentiating goods of one company from those of another. From the various definitions of what a brand is, it then follows that a brand can be anything ranging from the company's packaging, logo, trademark etc.

It is of importance to differentiate between brands owned by companies and a brand which is the company name. This study will focus on brands that is also the company name for example, jubilee insurance, Madison insurance etc. In this view, the two are one and the same and it follows that one cannot be sold without the other. For many years, brand has been treated as a component of goodwill. However, this practice is slowly changing and brand is being recognized as an asset in balance sheets. Goodwill is an aggregate of intangible assets such as workforce, copyrights and special company procedures. The monetary value of a brand as will be recorded in the balance sheets of a company is what is known as brand equity.

Aaker (1991) defined brand equity as the added value endowed on products and services. There are two aspects of brand equity, consumer based and financial. The first approach supports that the power of brand equity lies in the minds of customers, both existing and potential. This study will focus financial aspect of brand equity. According to Farquhar et al (1991) brand equity assesses the asset value that a brand creates for a business. Atilgan et al (2005) defined brand equity as the total value of a brand as a separate asset when it is sold or recorded in the balance sheet. There are various reasons for coming up with the monetary value of a brand. It gives an objective measure that is useful to managers in times when the company is being sold, during mergers and acquisitions (Wood, 2000).

## 1.2 PROBLEM STATEMENT

The great importance that is being attached to how the public views a company is amazing. Large corporations will spend millions of cash in coming up with the best advertisements to beat the competitors' advertisements. Small details such as the colour used in the advertisement material is of crucial matter. This idea has led to the birth of new departments in organizations knowns as "communications department" or "corporate affairs". This department is quick to rectify any negative information about the company to the public and ensure the company enjoys good reputation. This is an overview into what branding entails. It is no wonder that corporates are placing such importance on branding as studies have shown that companies with a strong image attract more customers, retain more customers, attract better employees etc. Studies have also revealed that around 5% of a company's stock value is derived directly from the company image.

Despite the tremendous efforts that companies make to create a positive brand image with the public, there seems to be no precise way of measuring brand equity, especially in monetary terms. As a result, the companies lack a way of knowing whether their efforts in branding are paying off or not.

This study seeks to fill in the gap that exists as a result of having no way to quantify brand equity by coming up with a framework for measuring brand equity. The study will establish whether or not it is possible to measure the value directly or will have to use proxies.

### 1.3 RESEARCH OBJECTIVES

- i. To develop a model that can be used to determine the value of a brand for insurance companies in Kenya.
- ii. To determine whether brand perception plays a role for policyholders during decision making.

### 1.4 RESEARCH QUESTIONS

- i. What model can be used to price the value of a brand for insurance companies in Kenya?
- ii. Does brand play a role to consumers during decision making?

### 1.5 SIGNIFICANCE OF THE STUDY

The results from this research study are going to be useful in a number of ways and to many people.

Having established a framework for measuring brand equity, managers will have a deeper understanding of the factors that go into play in creating a favorable brand image. Using these factors, the management can build or strengthen the brand image of the company. The company will then enjoy the advantages of having a good brand image which range from attracting qualified personnel, retaining customers and attracting new ones and a high bargaining power.

Managers will know how to value the worth of their company's brand when recording financial statements. This will not only be useful in the balancing of the balance sheet but also in times of acquisition, mergers or sale of the company, management will know exactly how much to sell their brand for.

## CHAPTER 2: LITERATURE REVIEW

### 2.1 THEORETICAL FRAMEWORK

#### **Exploring brand personality**

Brand personality refers to the human attributes that are associated with the brand.

Brand personality stems from three sources:

- The association consumers have with a brand.
- The image a company tries hard to create.

Aaker (1997) defines brand personality as “a set of human characteristics associated to a brand.” Hence, brand personality offers the functions of self-symbolization and self-expression (Keller, 1993).

Levy (1959) indicates that brand personality contains demographic features, such as gender, age and social class, and they may be directly influenced by the image of the brand users, personnel and product spokespersons, and indirectly affected by product attributes as well.

The brand personality is influenced by direct or indirect contact that consumers have with the brand (Aaker, 1997; Plummer, 1985). Indirectly, the personality traits of the brand can be associated with attributes and product category, such as name, symbol, logo, style distribution channels (Aaker, 1997) advertising, price.

Gilmore (1919) argues that consumers often imbue brands with human traits.

#### **Measuring brand equity**

The idea of brand equity first emerged in the 1990s. At the time however, the definition was not clear but it gave a general idea that brand equity was a financial asset to a company and should be recognized as such by the top management. Over the years, various attempts have been made to try and measure brand equity. There have been two major reasons behind this. One reason is for financial purposes in order to arrive at a value that can be recorded in financial statements while the other reason is from a strategy-based motivation in order to find ways of strengthening customer ties and improve marketing.

There have been several definitions of brand equity provided by scholars. It is the incremental price a customer is willing to pay for a brand versus the price for a comparable product or service without a brand name on it (Keegan – Moriarty –

Duncan 1995,) According to (Keegan – Moriarty – Duncan 1995) it is the long-term relationship that arises with those people who loyally buy the brand over and over again. It has also been defined as the differential effect that brand knowledge has on consumer response to the marketing of that brand (Keller 1998). However, a common idea can be drawn from all those definitions, that, brand equity focuses on the incremental effect that the brand creates compared to some concept of what the customer's response would be if the product was unbranded.

### **Consumer-based brand equity approach**

In the above literature, we have seen that there are two reasons behind measuring brand equity. Looking at the second reason in more detail gives rise to the consumer-based brand equity. The underlying foundation behind the consumer-based approach is that the power of a brand lies in the hands of the customers. This approach looks at a brand from the perspective of it being a matter of perception based on what the customers have experienced and heard about the brand. Consumer-based brand equity is created by creating a favorable response pricing, distribution etc. activities of the brand.

The advantage of looking at brand equity from the consumer perspective is that it allows managers to know how their marketing strategy affects the brand.

Consumer-based brand equity can be defined as the manner in which customers response to the marketing strategy of the brand (Keller,1991). The customer's respond to the marketing strategy based on their knowledge about the brand. Brand knowledge is at the center of creating consumer-based brand equity and it comprises of 1.) brand awareness, which refers to the ability of a customer to identify a brand and 2.) brand image, which refers to brand associations such as logos, trade-marks etc. that a customer retains in their memory.

### **Brand Awareness**

As stated earlier, this is the first step in brand knowledge. According to (Rossiter and Percy 1987), it is the strength with which customer's recall a brand as reflected by their ability to identify the brand under different conditions. (Keller 2003) later went on to divide brand awareness into two, brand recognition and brand recallability. Brand recognition refers to the consumer of the brand being able to confirm of prior

exposure to the whereas brand recallability refers to the consumer picking out the brand when given the product category.

There must be a consideration of brand while making a decision to purchase a product or service, if there is no consideration, then the probability is that there will be nothing chosen (Baker W, J, & Nedungadi, 1986). Brand awareness plays a key role when consumers are deciding what products to purchase. This is because a good brand awareness implies that a firm's products have a good reputation and are easily accepted in the market (Gustafson & Chabot, 2007).

### **David Aaker's model**

David Aaker's conceptual consumer-based approach (1991) is regarded as the founding theory of measuring brand equity. According to (Aaker,1991), measuring brand equity is a five-asset model: brand awareness, brand loyalty, perceived quality, brand associations and other brand associations.

### **Brand Loyalty**

Jacoby and Olson (1970) defined brand loyalty as the result from non-random, long existence behavior response, and it was a mental purchase process formed by some certain decision units who considered more than one brands.

Jacoby and Chestnut (1978) defined the concept of brand loyalty as: "The biased, behavioral response, expressed over time, by some decision-making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (decision-making, evaluation) processes". This definition points put six key components of brand loyalty.

According to the study conducted by (Oliver 1999), the brand loyalty was classified into four parts: cognitive loyalty, affective loyalty, conation loyalty and action loyalty. (Day 1996) added two indicators, action and affection for brand loyalty and divided brand loyalty into true brand loyalty and spurious brand loyalty.

Dick and Basu (1994) classified loyalty into:

- True loyalty.
- Spurious loyalty.
- Latent loyalty.
- No loyalty.

According to the study done by Jagdish N. Sheth (1974), brand loyalty has three dimensions: emotive tendency, evaluative tendency and behavioral tendency. The emotive tendency refers to the respect or “power” that is given to a brand in favor of it compared to other similar brands in the market. On the other hand, the evaluative tendency refers to the positive evaluation of the brand’s ability to meet the customer’s utility based on a certain set of criteria that define customer utility. Finally, the behavioral tendency refers to the positive response of the brand from consumers. This response is usually measured in terms of procurement, purchase and consumption activities.

Theories on brand loyalty imply that it is a result of several factors that include affective, behavioral and attitudinal dimensions.

### **Perceived Quality**

This generally refers to the way consumers hold the quality of a firm’s product. Consumers arrive at this standard by evaluating factors such as reliability, durability, performance and serviceability of the product. Based on their level of satisfaction having evaluated all of those factors, the consumer then “grades” the quality of the product.

### **Brand Associations**

Brand associations refer to any mental linkage of something else to the brand. According to (Aaker, 1992) Even when the associations are not important to brand choices, they can reassure, reducing the incentive to try other brands.

Brand associations can occur in three forms. One way of distinguishing one brand association from the next is by examining their level of abstraction. (Alba and Hutchinson 1987). That refers to how much information is summarized in an association.

Brand attributes, which are the descriptive features that distinguish a product from the next. Brand benefits. These are the personal benefits and value that a customer attaches to a product after consuming it. Benefits arise when a consumer evaluates what a product will do for them. It creates the bond between the customer and the product such that when the product is not there, the consumer cannot buy any other.

Brand attitudes which refer to the consumer's overall rating and evaluation of the brand.

By measuring brand equity at the individual consumer-level, managers can generalize the individual-level measures to quantify both the mean and the standard deviation for brand equity at any level.

### **Keller's model**

Keller's 1991 model for measuring the consumer-based brand equity was a buildup on what David Aaker had done. According to Keller, consumer-based brand equity can be measured in two ways: Direct and indirect approach.

The indirect approach requires measuring brand knowledge. Measuring brand knowledge consequently results in measuring brand awareness and the characteristics and relationships between brand associations. Multiple measures must be used in order to capture the holistic nature of brand knowledge because one measure only captures one aspect of brand knowledge. Keller argued that Brand awareness can be measured using aided memory measures whose results can then be generalized to brand recognition and recallability. Characteristics of brand associations can be measured by using a variety of techniques. Qualitative approaches using who, what, where and how questions about the brand. Projective approaches may also be used.

The direct approach as suggested by (Keller 1991) measures the effect of brand knowledge on consumer's behavioral response to the marketing strategy of the brand. It involves carrying out experiments where one group of respondents responds to one aspect of the marketing program when it attributed to the brand whereas another group responds to the same marketing feature but when it is attributed to another un-named version of the product. The results of the two groups are compared giving estimates about the response level.

### **Financial approach**

The consumer-based approach for measuring brand equity was an appropriate way for the company to know how to improve its marketing strategy. However, that approach does not provide an accurate value for the worth of the brand on its own as an asset to the firm.

This is what led to the need of the financial approach of measuring brand equity. This approach measures the monetary value of a firm's brand through the various parameters of market share, price premium a brand commands, revenue generation capabilities of a brand, the transaction value, the lifetime value of a brand and the rate at which brands sustains growth. These measures allow a company to estimate an accurate financial value of brand equity that can be recorded in the company's accounts.

Price premium: The financial advantage of a strong brand is its ability to command a price premium in the market. Measuring the differential price points between the brand and competing brands indicates the level of value-creation, and the premium adds to the overall brand equity.

Transaction value: The average transaction value per customer divided into segments, product segments and geographical markets. The trend of this metric shows how well the brand develops its customers in the form of cross-selling and/or up-selling to other products and brands.

Lifetime value: The average lifetime value of customers divided into segments, product segments and geographical markets. The trend illustrates whether the brand extracts more value from customers through their life cycle with the brand.

Growth rate: The level of brand strength and its equity in the market along with the level of customer loyalty and the pipeline of prospective customers determines the growth opportunity of the brand.

There are two approaches to measuring brand equity from the financial approach. One is the micro approach that separates individual brand equity by measuring the response of brand equity to major marketing decisions.

The macro approach measure brand equity at the firm's level. It also involves assigning an objective value to the brand and relating this value to the factors influencing brand equity.

The financial approach method will be used for purposes of this research because the objective is to develop a framework that will allow insurance companies in Kenya to calcite the monetary value of their brands.

## 2.2 EMPIRICAL EVIDENCE

### Revenue premium approach

According to Kusum, Scott and Donald (2003) the simple and objective measure of brand equity is the revenue that the brand raises for the company relative to a private label product. From their work, the developed the following formula as a way to calculate the exact value of brand equity:

$$\text{Revenue Premium}_x = (\text{Volumex})(\text{Pricex}) - (\text{Volumey})(\text{Pricey})$$

The theory behind the above formula as argued by Kusum, Scott and Donald is that the volume of sales that a company makes is influenced by the company's and the competitors marketing mix. Consequently, the shareholder's equity is created by the brand's own and competitors marketing mix. The firm's existing strengths from other years such as corporate image and brand line and other characteristics such as market size and perceived risk also play a role. The incremental value that consumers are likely to place on a well-respected branded product relative to an equivalent unbranded one is greater if the perceived risk in buying or consuming the category is high (Batra and Sinha 2000; Erdem and Swait 1998; Sethuraman and Cole 1997).

Consider a competitive market scenario where two brands, C and L are sold.

$$S_c = f_c (M_c, P_c, M_L, P_L, M_c E_c, P_c E_c, M_L E_c, P_L E_c, E_c) \quad (1)$$

$$E_c = g_c (M_c, P_c, F_c, C_c, M_L, P_L) \quad (2)$$

where

S = Unit sales

M = Marketing mix

P = Price

E = Equity

F = Pre-existing firm strength

C = Category characteristics

C, l = Indices of brands c and l

As seen in the above competitive marketplace equations (1) and (2), brands c and l decide on their marketing mix and price to maximize profits. This yields a balanced set of marketing mix, price, and brand equities,  $M_c, P_c, M_l, P_l, E_c, E_l$ . This results in the following balanced revenues for brand c:

$$R_c = S_c P_c = f_c (M_c, P_c, M_l, P_l, M_c E_c, P_c E_c, M_l E_c, P_l E_c, E_c) P_c$$

Assuming that brand c did not have a brand name, the resulting equilibrium would be  $M_c, P_c, M_l, P_l, E_c=0, E_l$ .

This would yield the following revenues for brand j:  $R_c^* = S_c P_c = f_c (M_c, P_c, M_k, P_l P_c)$

Therefore, the result of the brand's equity is its revenue premium,  $R_c - R_c^*$ , i.e., the revenue it

achieves in the market minus the revenue it would achieve if it had no brand name.

The above theory or approach highlights two aspects of measuring brand equity, that revenue income is achieved in a competitive balance where brands adjust their marketing mix and prices in order to maximize on profit. Outcome measures do not control for marketing activities when measuring brand equity.

Secondly, to obtain an exact value of equity would need estimates of the demand and equity functions for each brand, which are commonly not available. Equations 1 and 2 can be combined to give one "reduced form" equation, however, this reduced form would still have interactions and quadratic terms even in its simplest form.

Assuming that these functions are available, one can calculate equilibrium marketing mix, prices and revenues by firms using the equity function for brand c, and then setting it equal to zero. The difference would be the revenue premium measure of brand equity. This is hard to implement in practice as it requires knowledge of the demand and equity functions, and it would still not yield closed form equilibrium.

The above approach uses two assumptions:

- Brand revenues  $R_c$ - The assumption when computing this is that brands chase rational balanced strategies. In practice however, this would not hold for too long.

- Private label revenue  $R_c^*$ - The underlying assumption here is that the private label imitates how the brand would perform had it no brand name.

#### **Advantages of revenue premium measure**

The external validity and objectivity of the measure are obvious because revenue premium is computed with actual market data, not responses to hypothetical scenarios or subjective judgments. Revenue premium is logical, intuitive, and linked to a key performance measure that marketers and the investment community care about revenue. Revenue premium is easy to calculate because it does not require consumer surveys, estimates of demand elasticities, or assumptions about consumer choice. The data required for calculating revenue premium are readily available in existing internal and secondary data.

#### **Erdem and Swait framework**

Erdem and Swait (1998) developed a framework for measuring brand equity based on the signaling theory by Spence (1974). The signaling theory is derived from the information's economics literature given that the market is characterized by imperfect and asymmetric information. Asymmetric information exists when companies have more knowledge about their product than consumers do (Erdem and Swait, 1998). Imperfect information refers to consumers having incomplete information when evaluating product attributes (Nelson, 1970).

According to Erdem and Swait (1998), the clarity and credibility of brands as indicators of product positions increase perceived quality, decrease consumer perceived risk and information costs, and hence increase consumer expected utility. Erdem's and Swait's framework suggested that the source of brand equity is based on the credibility that the brand leaves on the consumer based on the information that the company gives the consumer. If the information is credible, then the consumer creates value for the company in 2 ways: reduced perceived risks for consumption levels and reducing decision making costs.

#### **Park's and Srinivasan's modelling framework**

According to Park and Srinivasan (1994) brand equity can be defined as the incremental contribution (\$) per year obtained by the brand in comparison to the underlying product (or service) with no brand-building efforts. The incremental

contribution is driven by the individual customer's incremental choice probability for the brand in comparison to his or her choice probability for the underlying product with no brand-building efforts.

The company obtains this incremental contribution because the consumer's probability of picking the company's brand is higher than the consumer's probability of picking another brand. Their measurement of brand equity was from the perspective of a firm's volume of sales. Numerous factors can lead to the firm making large number of sales. However, only the increase in sales as a result of the firm enjoying a favorable brand awareness and brand image were of interest in their study.

The incremental contribution due to the brand at the individual customer level is expressed as follows

$$e_{ij} = q_i \Delta p_{ij} g_j,$$

where

$e_{ij}$  = brand  $j$ 's equity from customer  $i$  (\$/year),

$q_i$  = customer  $i$ 's total category-level purchase quantity (units/year),

$\Delta p_{ij}$  = customer  $i$ 's incremental choice probability for brand  $j$  compared to the base product,

and

$g_j$  = brand  $j$ 's contribution margin (\$/unit) (= unit price – unit variable cost).

Extending the individual measures of brand equity over  $M$  respondents in a representative sample and scaling it to the overall market (or market segment) gives an aggregate-level (or segment level) brand equity measure  $e_j$ :

$$e_j = (T/Q) g_j$$

$$\sum_{i=1}^M q_i = 1$$

$$q_i \Delta p_{ij},$$

where  $T$  denotes the total product category purchase quantity per year for the entire market (in

units) and  $Q$  denotes the total quantity per year summed over the sample of respondents (i.e.,  $Q = \sum_{i=1}^M q_i$ ).

Let  $p_{ij}$  denote individual  $i$ 's probability of choosing brand  $j$  after taking into account brand availability, brand awareness as well as overall brand preference. We can obtain the brand's probability choice using the following logit model:

$$P_{ij} = (A_j/100) \gamma \exp(U_{ij}) / \sum_{k \in C_i} (A_k/100) \gamma \exp(\alpha U_{ik})$$

if  $j \in C_i$ ,

0 if  $j \notin C_i$ .

where

$C_i$  = set of brands individual  $i$  is aware of,

$u_{ij}$  = individual  $i$ 's preference for brand  $j \in C_i$ ,

$A_j$  = availability factor (in the range 0-100) for brand  $j \in C_i$ .

### **Perpetuity approach**

According to Justin Anderson (2011) to be able to place a monetary value to the brand of a company, it is assumed that a brand is a perpetual firm asset, that is, an asset that has the potential of an infinite life. From this perspective, he describes brand equity as the financial value that a company derives from customer's response to the marketing of a brand.

Anderson developed the theory of the perpetual perspective to coming up with a monetary value of brands having looked at the contributions of pioneer perspective theories developed before him. These are the portfolio perspective, the perception portfolio and the premium portfolio. He studied each of the pioneering perspective theories and added to the limitations of each. He argued that these measures did not generate a financial value of a brand to the company.

Lee et al (1997) developed a formula for calculating the perpetual brand value as follows:

$$\text{Brand Perpetual Value} = (\text{Total Revenue} - \text{Total Marketing Costs}) / \text{Weighted Average Cost of Capital}$$

The first term (total revenue) in the above formula is the total cash inflow that the company generates from the brand in a specific period. It captures customer response by measuring customers' behavioral response to marketing by purchasing the brand.

The second part of the equation is the total marketing costs. This refers to the total cash outflow the firm spends to market the brand in a specific period, ideally the same

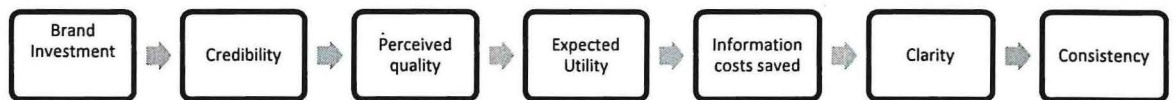
period used when calculating the total revenue. Marketing costs include costs such as manufacturing costs of the product or service offered by the brand, storage costs, distribution costs etc.

The final term of the formula is the weighted average cost of capital. Although brand image resides in consumers' minds, brand equity is a value to a firm. It is the profit that a firm makes from owning the brand, and this requires the firm to invest money into marketing the brand. To invest in marketing, the firm must raise capital. There are two ways through which firms raise capital, that is, through equity or debt. The weighted return that the firm pays to its investors is its weighted average cost of capital (WACC). Although this has little direct impact on consumers' image of the brand, it greatly impacts the firm's ability to market the brand. Therefore, while WACC is not often a concern of marketing managers, it becomes an important part of the calculation of brand perpetual value.

### 2.3 CONCEPTUAL FRAMEWORK

Below is the conceptual framework for the Erdem and Swait modelling framework.

The variables in his theory relate as follows:



## 2.4 RESEARCH GAP

The above theories on how to calculate the brand equity of a company all lead to one destination, a monetary value that can be plugged into the balance sheet to make it balance or for other purposes by the company such as merging or acquisition.

All of the above theories however do not recognize that brand equity arises from the effects of the brand on the consumer, they all look at brand equity from the financial perspective. They look at the revenues and sales of the company without little attention to how the customer becomes informed of that brand. This study seeks to fill in this gap by including the customer-based perspective of brand in the calculations of brand equity. The study will incorporate brand awareness, brand perception, brand differentiation and consumer behavior in coming up with the model while still arrive at a value that can be used to measure brand equity.

This study therefore seeks to create a bridge that will integrate the consumer-based approach to the financial approach of measuring brand equity.

## 2.5 CONCLUSION

Having provided detailed theories on how to come up with a model to calculate the monetary value of brands, this study shall expound on the Park's and Srinivasan's (1994) modelling framework to come up with a framework that can be used by Insurance Companies in Kenya. Just as in their model, I shall calculate the probability of a consumer getting an insurance policy from one insurance company as opposed to the next by assessing what factors influence such behavior. The consumer's probability will then influence the sales that the insurance company makes arriving at brand equity using the Park's and Srinivasan's framework.

By assessing the factors that influence consumer probability, I will have merged the consumer-based approach of measuring brand equity to the financial approach.

## CHAPTER 3: RESEARCH METHODOLOGY

This chapter highlights the general plan of how I will go about answering the research questions.

### 3.1 RESEARCH DESIGN

The research design for this study is correlational design. This is because the study seeks to establish a relationship between two variables, brand perception and revenue. The study shall explain how having a strong brand name proves worthwhile for a company as it translates into more revenues for that company.

### 3.2 POPULATION

This study will focus on 4 insurance companies in Kenya and how they can calculate the monetary value of their brands.

The insurance companies used in this study will be those that serve the same market, in terms of geographic coverage and the products offered.

According to the revenue premium framework, the brand equity of a company is the revenue the branded product generates as opposed to the revenue it would generate if it had no brand name. Therefore, I will use their financial statements to obtain the revenues they generated and compare those figures to the revenues generated by a company offering the same products but with less publicity.

In attempting to answer the second objective, I will get responses from people above the age of 18. The target is to get responses from at least 60 people. This shall be done through the use of a questionnaire that shall be sent out to the general public to fill.

### 3.3 SAMPLING

For my study, I will use the simple random sampling method to select at most 5 insurance companies that operate within the Kenyan market.

However, I will make sure that these companies offer similar products and serve the same market. The products offered by the insurance companies must be similar because under the revenue premium approach, everything else is held constant but the product is taken to the market without a brand name. If the two products are not similar, then the product from the less known company will not be a good surrogate for the private label.

In addition, these insurance companies must have been in the industry for the past 10 years. This is because, having been in the industry for such a long time, these companies will be having been able to create, or not, a brand name for themselves. In addition, their long existence in the industry will show some sort of relationship between the brand name and the revenues generated.

Having a brand will make my study much easier to analyze.

In addition to the above sampling, I will randomly select individuals above the age of 18 to fill in the questionnaire. The respondents will be selected at random to reflect the true nature of the overall population.

### 3.4 DATA COLLECTION

For my research, I am going to use secondary sources of data.

I shall rely on the financial statement figures of the companies of interest to determine the revenues generated by the companies under each year.

Using these figures, I can then calculate the revenue premium which equates to the brand equity measure.

However, I shall use primary data in an effort to answer the second objective of this study. This will be the case because the responses acquired will be those given directly by the respondents themselves. I shall use choice experiments to come up with a questionnaire that shall provide two scenarios under each question. For each question, the respondent will be required to choose one of the two products presented. Some of the attributes of a company used shall be held constant with only one attribute varying between the two products. As a result, the product the respondent chooses will reflect which attribute of the company he or she considers the most before picking which insurance company to take cover with.

### 3.5 DATA ANALYSIS

The revenue approach method of measuring brand equity shall be used for this study. The major inputs into this approach are volume of sales made by a company and the price for each unit.

The inputs for that approach are the easiest to quantify compared to the inputs in other approaches and the method is quite straight forward after obtaining those inputs. The

approach is also easy to understand and therefore can be easily implemented by managers.

Consider a competitive market scenario where two brands, C and L are sold.

$$S_C = f_C (M_c, P_c, M_L, P_L, M_{cEc}, P_{cEc}, M_{LEc}, P_{L,EC}, E_c) \quad (1)$$

$$E_c = g_c (M_c, P_c, F_c, C_c, M_L, P_L) \quad (2)$$

where

S = Unit sales

M = Marketing mix

P = Price

E = Equity

F = Pre-existing firm strength

C = Category characteristics

C, l = Indices of brands c and l

As seen in the above competitive marketplace equations (1) and (2), brands c and l decide on their marketing mix and price to maximize profits. This yields a balanced set of marketing mix, price, and brand equities,  $M_c, P_c, M_l, P_l, E_c, E_l$ . This results in the following balanced revenues for brand c:

$$R_c = S_c P_c = f_c (M_c, P_c, M_l, P_l, M_{cEc}, P_{cEc}, M_{lEc}, P_{lEc}, E_c) P_c$$

Assuming that brand c did not have a brand name, the resulting equilibrium would be  $M_c, P_c, M_l, P_l, E_c=0, E_l$ .

This would yield the following revenues for brand j:  $R_c^* = S_c P_c = f_c (M_c, P_c, M_k, P_k)$

Therefore, the result of the brand's equity is its revenue premium,  $R_c - R_c^*$ , i.e., the revenue it

achieves in the market minus the revenue it would achieve if it had no brand name.

I shall also use a software known as jmp sas to analyze the responses obtained from the questionnaire. The software shall use conditional logit model that allows comparison for behavioral choice experiments.

## DATA ANALYSIS AND RESEARCH FINDINGS

### 4.1 INTRODUCTION

In this chapter, the results of the data analysis are presented. The data were collected and then processed in response to the problems posed in chapter 1 of this dissertation. Two fundamental goals drove the collection of the data and the subsequent data analysis. Those goals were to develop a framework that insurance companies can use when measuring their brand equity and to determine whether brand plays a role for potential policyholders during decision making.

The set objectives were accomplished.

### 4.2 RESPONSE RATE

The questions were designed in a choice experiment form that was sent out to the respondents via a link using the social media platform of WhatsApp, between 22<sup>nd</sup>-23<sup>rd</sup> October 2017. The data obtained from the study was used to analyze the factors that policyholder consider when deciding upon an insurer provider to take up cover with.

Data was obtained from a sample size (n) of 58 people between the ages of 18-35. 90.2% of the respondents were of between the ages 18-24 while the remaining 8.2% were of the ages 25-35. 54% of the respondents were male while 46% of them were female. Out of the total 58 respondents, 86.9% of them had studied until the undergraduate level, 8.2% had studied till high school level while 3.3% had studied a postgraduate program and 1.6% had done a PHD. The number of choice sets was  $58 \times 8 = 464$ .

### 4.3 DATA ANALYSIS

#### **Jubilee insurance revenue premium**

Jubilee Insurance company within the time period of 2011-2015 has a very high revenue premium figure with the least being 6,923,029. These figures represent the amount that the Jubilee Insurance brand is worth. In the event of sale, acquisition or merger, the company would sell its brand for kshs. 6,923,029 in 2011. The figures are also what would be recorded in the balance sheets of Jubilee Insurance for brand as an asset.

It is easily observed that over the years, the revenue premium of Jubilee Insurance company has steadily increased.

### **Jubilee's revenue premium**

Year	Amount
2016	
2015	14,038,739
2014	15,599,158
2013	10,143,070
2012	8,744,185
2011	6,923,029

The increase in the company's revenue premium had a directly proportional relationship with the company's revenue figures within the 5 years. This can be attributed to the management of Jubilee Insurance being more aware of the effects of its brand on the company's sales. Consequently, the management may have taken more vigorous measures to market itself via media such a television or the internet, improved its claim settlement process or even engaged in activities that build its reputation among the public.

One key attribute about Jubilee Insurance company that allowed it to have a much more favorable reputation compared to its peers in the industry when it comes to health insurance was the fact that at the AgaKhan Hospital, Jubilee insurance had its own sit in doctors. As a result, policyholders under Jubilee Cover do not have to wait in line.

### **Britam's revenue premium**

Britam's revenue premium was also seen to be relatively high ranging between 3,000,000 in 2010 to 15,000,000 in 2016. There was a tremendous growth in the company's revenue premium within the given time period. This positive growth can be interpreted as the customer's positive response to the company's products. Such response can be attributed to more brand knowledge, brand awareness and brand loyalty created by the brand directly through advertising or indirectly by taking part in promotions, maintaining public land such as round about etc.



### **Britam's Insurance revenue premium**

Year	Amount
2016	
2015	15,536,304
2014	
2013	7,120,884
2012	5,327,894
2011	4,517,740
2010	3,316,676

### **Pacis' revenue premium**

Pacis Insurance was used as the private label product in this study. This is because, in most markets, there cannot be a zero-equity brand to act as a good surrogate for the private label product. In such instances, a weak brand or new entrant into the market may be needed to be used as a benchmark.

Pacis Insurance was a good fit to be used as a benchmark for the other 3 insurance companies as they offer the same types of cover and serve the same market.

The insurance company has little publicity compared to its peers.

### **Pacis Insurance**

Year	Amount
2016	
2015	837,418
2014	732,063
2013	630,315
2012	628,797
2011	418,967
2010	342,080

Looking at its revenue figures, the company does not enjoy such a favorable brand. This conclusion can be deduced from its little revenues which act as an indication of how the customers respond to the brand.

Its lack of brand publicity can be due to the little efforts the company puts into marketing the product. There is barely an advertisement of the company on TV, newspapers, social media platforms or any other form of advertisement. As a result, most people do not know about the existence of the company. In turn, when choosing where to take up cover from, very little people consider Pacis Insurance to be on of their choices yet it offers the same cover products as its peers. Having no brand within the public eyes is bad for a company. In addition to translating into low sales as reflected by the revenue figures, the company cannot attract a good workforce and may experience some problems in acquiring investors.

However, it is worth noting that despite having low revenue figures, the company's revenue has been increasing over the years. The management of the company may have realized the value that a brand name creates for a company and taken efforts to advertise the company. Also, the economic cycle of the country may play a role. In Kenya for example, having third party motor insurance for your vehicle is compulsory. In times when the economic cycle is at a recession, consumers tend to become more price sensitive. This may lead them to look for cheaper alternatives. As a result, a certain percentage of the customers of the likes of Jubilee and Britam may have shifted to Pacis Insurance to meet the hard-economic times.

#### **Factors that play a role in decision making**

The findings from the study indicated that the most prominent attributes that a potential policyholder looks at before settling on an insurance company were reputation of the company and the payment method used. The options under payment method given in the questionnaire were Cash, Mpesa, and EFT methods.

Nominal Logistic Fit for Response

Effect Summary

Source	LogWorth	PValue
Reputation	23.441	0.00000
Payment Method	8.228	0.00000
Price	2.060	0.00872
Rewards	0.790	0.16227

Remove Add Edit  FDR

Converged in Gradient, 5 iterations

Iterations

Whole Model Test

Model	-LogLikelihood	DF	ChiSquare	Prob>ChiSq
Difference	104.50869	7	209.0174	<.0001*
Full	538.73189			
Reduced	643.24058			

RSquare (U)	0.1625
AICc	1095.66
BIC	1138.96
Observations (or Sum Wgts)	928

Fit Details

Parameter Estimates

Term		Estimate	Std Error	ChiSquare	Prob>ChiSq
Intercept		-1.1113658	0.134993	67.78	<.0001*
Price[5700]		0.66449138	0.227285	8.55	0.0035*
Price[10000]	Biased	-0.407969	0.1480295	7.60	0.0059*
Reputation[Low-Medium]	Biased	3.28369652	0.4108726	63.87	<.0001*
Reputation[High-Low]	Biased	-2.0436749	0.3922965	27.14	<.0001*
Payment Method[Mpesa]	Biased	-0.7929473	0.168812	22.06	<.0001*
Payment Method[Cash]	Biased	0.48752938	0.2327552	4.39	0.0362*
Rewards[50 points for having no claims in a given year]	Biased	-0.2425024	0.1746713	1.93	0.1650



Females who were aged between 18-24 expressed the most sensitivity when it comes to the reputation of the insurance company. This implies that for them, they would probably take cover with a prominent insurance company. An insurance company may be deemed to be of good reputation due to things such as, fast settlement of claims, having own doctors in their provider hospitals as is the case with Jubilee Insurance Company, excellent customer services, good reward benefits etc. Males of the same age group were not so sensitive to the reputation of the company. Moreover, females beyond the age of 24 also seemed not to care so much as to what the reputation of the insurer was.

The targeted age group also expressed to find high utility against high to medium reputation of the insurance company.

With regards to the payment methods, females between the ages of 18-24 were indifferent to paying via MPESA and paying using cash. However, their utility with

either methods of payment was higher than when they have to pay using EFT methods. As the female gender gets older, they find more utility in the EFT payment method. As for their counterparts, the male gender, those aged between 18-24 prefer paying via MPESA as opposed to making payments using cash or EFT methods. Similar to the females, males found more utility in EFT methods as they also got older.

Our findings indicated that the reputation of the insurance company and the payment method used have a predominant effect on decision making. When compared to similar studies done in other counties, attributes that played a key role in decision making were as follows:

UK- Reputation, cost

China- Costs, Points awarded

USA- Costs.

#### 4.4 DISCUSSION OF FINDINGS

From the above results, it was seen that marketing efforts such as advertising result in a positive impact on the targeted customers. Companies such as Jubilee Insurance, Britam Insurance and Madison Insurance put in a lot of resources into ensuring that their brand is known. There have been numerous commercial advertisements on Television from the 3 companies that have made them gain massive popularity within the market. The companies have also put up billboards at strategic positions along major roads in the major cities around the country. They have also taken up other marketing strategies such as radio advertisement, event sponsorship, social media marketing and newspaper adds.

These efforts subconsciously create brand image and awareness within the minds of potential clients. Therefore, when thinking of taking out insurance cover, Jubilee, Britam or Madison quickly pop into ones' mind before Pacis even has a chance. Britam's "with you every step of the way" marketing slogan has become a household phrase. All these efforts as can be clearly seen translate into more revenue for a company

For the age group aged 18-24, insurance companies should focus their marketing strategies and branding efforts on attracting and appealing to the parents. This is

because the final decision rests upon the parents as they are the ones who are pay the premiums.

The strategies that can appeal to the parents should aim at creating the following feel for the parents;

- Trustworthiness- protect your reputation e.g. claim settlement is efficient, ensure that any exclusions are made explicit.
  
- Build popularity; e.g. sponsor events, scholarships, active social media e.g. have a review section

## CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS FOR FURTHER STUDIES

### 5.1 SUMMARY

This study has proposed revenue premium as a measure of brand equity, discussed its theoretical underpinnings, and validated it. It is conceptually grounded in the fundamental definition of brand equity, and theoretically grounded as the equilibrium outcome of a competitive marketplace. It is stable over time as the calculations of revenue premium were done over a long period of time.

### 5.2 LIMITATIONS OF THE STUDY

- Revenue premium as a measure of brand equity does not provide insights into the consumer-based sources of brand equity and it does not quantify the future extendibility and potential of a brand. Customer mindset measures are crucial for diagnosing the underlying reasons for changes in equity that may be signaled by revenue premium, and financial market measures are crucial for examining long-term potential, even if that assessment is subjective.
- Difficulty may be experienced in identification of the benchmark brand – the product that mimics what the subject brand would achieve if it had no equity. We have used private label as the surrogate, but arguably some private labels have brand equity, and in some categories, they do not exist.

### 5.3 IMPLICATION FOR MANAGERS

- Managers can use the measure to monitor the impact of marketing decisions on the long-run value of their brands.
- The most challenging aspect of calculating revenue premium is the identification of a benchmark brand, the private label brand – the product that imitates what the subject brand would achieve if it had no equity. We have used private label as the surrogate, but arguably some private labels have brand equity, and in some categories, they do not exist. This gives the management team of a company to identify a suitable private label product.
- Managerially, the biggest limitation of revenue premium as a measure of brand equity is that it does not provide insights into the consumer-based sources of brand equity and it does not quantify the future extendibility and potential of a brand

#### 5.4 RECOMMENDATIONS FOR RESEARCH

The contribution of this paper lies not only in proposing the revenue premium measure of brand equity but in providing a framework within which the reliability and validity of various measures of brand equity can be evaluated, and in starting that validation process with the revenue premium measure. I hope that my work will encourage others to conduct such validation of the measures they develop.

This study also suggests some specific avenues for future research. An important future research project would be to estimate these structural relationships and understand the process by which firms develop high equity brands. A second research gap is for an outcome measure of brand equity that is explicitly linked to the different consumer based sources of brand equity. More work is needed to combine some of the diagnostic of customer mind-set measures with the financial valuation ability of market outcome measures. Third, a significant portion of the benefit of a brand name lies in its future potential.

Future work should also quantify the long-term financial value of a brand.

The first key observation in this section is the fact that the insurance industry is different compared to other industries where measurement of their brand equity has been done. This is because unlike most industries, the insurance industry does not sell packaged goods that are sitting in stores. This makes it difficult to calculate the volume of unit sales made by the company. For packaged goods, the revenue obtained from a particular product is simply the volume of unit sales of the product multiplied by the price of one product. This led me to make the assumption that the revenue figure printed in the financial statements is entirely received from the premiums that they receive when a policyholder pays premiums for cover. This assumption roughly equates it to the volume\*price methodology used in other industries

Moreover, more research should be done to come up with a measure that allows for the insurance industry. For example, the revenue figures in the companies' balance sheet could be from other sources other than just premiums. Also, insurance products

are not packaged goods that are found sitting in store shelves. A measure that allows for the volume sold for insurance products should also be researched on.

#### 5.5 OTHER RECOMMENDATIONS

- Product design should be focused on perceived perception of the insured.
- Additional features such as product gamification may affect the choosing of the product.
- Insurance companies should keep focus on coming up with convenient methods to make out benefit payments to the members.

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