MASTER'S THESIS

Critical factors of brand equity in HVAC industry in Iran

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Abstract

The situations of business in global market are changing rapidly and companies strive

to differentiate themselves from their competitors. To achieve this goal, one of the most

effective ways is differentiation through branding. While the brand and its management have

dominated the consumer markets, business to business branding is in the infancy phase.

On the other hand, the amount of money being spent in HVAC (Heating, Ventilation

and Air-Conditioning) industry is enormous in recent years in Iran. Furthermore, lots of

foreign and local companies are performing in Iran HVAC market. Seeing that the purchasing

these heavy industry equipments are intricate, brand plays a critical role in decision making

process among buyers. However, the parameters which directly affect on HVAC branding

were ambiguous.

Consequently, by discovering and extracting the essential factors of B2B branding,

companies can invest on these parameters and bolster their brands. Inasmuch as the

parameters are vague and this study is going to discover and rank them, the best research

strategy was the Delphi method. It is noteworthy that two panels, Academians and

Practitioners, have participated in conducting the Delphi method (totally 37 professionals).

Then, the factors should be essayed in order to authenticate. Hence, I have selected six

companies (3 local companies and 3 foreign companies) which performing in Iran HVAC

market. Next, I asked 6 connoisseurs to rank the companies' brand according their perception.

On the other hand, 2 other experts rank the companies according to the extracted factors from

conducting Delphi method in previous stage. Seeing that the rankings of different methods

were similar, it can be said that the extracted factors are acceptable.

Keywords: HVAC, Brand, B2B, Delphi, Factor, Experts

2

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3

Table of content

Abstract	2
Acknowledgement	3
Chapter One: Introduction	8
1.1 Preface	9
1.2 Problem Definition	9
1.3 Background and Research Motivation	12
1.4 The Importance of Branding	13
1.5 Summary	
2 Chapter two: Literature Review	18
2.1 The Exigency of Brand	19
2.2 Brand Equity	20
2.3 Misconception of Brand	24
2.4 Advantages of Branding	24
2.5 Differences between B2B and B2C Branding	26
2.6 Branding Issues	28
2.6.1 Country of Origin	28
2.6.2 Quality	29
2.6.3 Price	30
2.6.4 Technical Services	30
2.6.5 Ordering and Delivery Service	30
2.6.6 Customer Experience Management (CEM)	31
2.6.7 The Presence of Internet and Its Impact on Branding	32
2.7 Summary	35
3 Chapter Three: Research Methodology	36
3.1 Research Purpose	36
3.1.1 Exploratory Research	37
3.1.2 Conclusive Research	
3.1.2.1 Descriptive Research	39
3.1.2.1.1 Cross-Sectional Design	
3.1.2.1.2 Longitudinal Design	

3.1.2.2 Casual Research	40
3.2 Research Approach	40
3.3 Research Strategy	41
3.4 Summary	45
4 Chapter 4: Data Collection, Analysis	46
4.1 Procedure for selecting experts	46
4.1.1 Step 1. Prepare a knowledge resource nomination worksheet (KRNW)	47
4.1.2 Step 2. Populating the KRNW with names	48
4.1.3 Step 3. Inviting experts to the study	48
4.2 Mechanism for administering the questionnaires	49
4.2.1 Phase 1: Brainstorming	49
4.2.1.1 Questionnaire 1: Initial collection of factors.	49
4.2.1.2 Questionnaire 2: Validation of solicited parameters	52
4.2.2 Phase 2: Narrowing down factors	
4.2.2.1 Questionnaire 3: Choosing most important factors	
4.2.3 Phase 3: Ranking relevant factors	
4.2.3.1 Questionnaire 4: Ranking the chosen factors	
4.3 Validation of Results	
4.4 Summary	
5 Chapter Five: Conclusion	73
5.1 Contribution	73
5.1.1 Theoretical Contribution	74
5.2 RQ1: What are the critical parameters that affect on brand equity in HVAC industry in Ir	an?. 75
5.3 RQ2: What is the most important factor that directly affect on brand equity in this indust	try?. 75
5.4 RQ3: What is the ranking of these critical factors in HVAC branding in order to invest by	y the
managers?	
5.5 Managerial Implications	
5.6 Limitation	
5.7 Further Research	77
References:	79

List of figures

Figure 2. 1 Brand Equity Model	23
Figure 2. 2 One-to-Many Communication Model for Mass Media	33
Figure 2. 3 A Model for Marketing Communication in a Hypermedia Environment	34
Figure 3. 1 Categorization of Research Design	37
Figure 4. 1 Ranking the Companies with regard to Quality	67
Figure 4. 2 Ranking the Companies with regard to Country of Origin	68
Figure 4. 3 Ranking the Companies with regard to Technical Service	69
Figure 4. 4 Ranking the Companies with regard to Former Resume	69
Figure 4. 5 Ranking the Companies with regard to International Certification	70
Figure 4. 6 Ranking the Companies with regard to Ordering & Delivery Service	70
Figure 4. 7 Ranking the Companies with regard to Participating in Exhibitions	71
Figure 4. 8 Ranking the Companies according to Extracted Factors	71
Figure 5. 1 Propounded Model	74

List of Tables

Table 1. 1 Important Researches in B2B Branding	10
Table 2. 1 Differences between B2C & B2B Branding	27
Table 3. 1 Disquisitions using Delphi	42
Table 4. 1 List of Organizations and Pannels	47
Table 4. 2 Responses to the First Questionnaire (Academian)	50
Table 4. 3 Responses to the First Questionnaire (Practitioner)	51
Table 4. 4 Most Important Factors (Academian)	53
Table 4. 5 Most Important Factors (Practitioner)	54
Table 4. 6 Interpretation of Kendall's W	55
Table 4. 7 Academics' First Round Ranking	56
Table 4. 8 Academics' Second Round Ranking	57
Table 4. 9 Practitioners' First Round Ranking	60
Table 4. 10 Practitioners' Second Round Ranking	62
Table 4. 11 Practitioners' Third Round Ranking	64
Table 4. 12 Companies' Ranking according to Experts' Perception	66
Table 4. 13 Comparision of Companies Ranking	72
Table 5. 1 Ranking the Extracted Factors from Academians' & Practitioners' Point of View	75

Chapter One

Introduction

Chapter One: Introduction

This chapter will embark upon a preface about some specifications of HVAC industry, after that this section will present the problem definition of this thesis with a pithy theoretical background. In the last two sections of this chapter the research motivation and the importance of branding in every business will be illuminated.

1.1 Preface

HVAC means Heating, Ventilation and Air Conditioning. HVAC systems contains some mechanical equipments like pumps, chillers, boilers, condensers, cooling towers, valves, fan coils, splits, elevators, exhaust fans, tanks and exchangers. These equipments are being used in order to heat and cool different places. Also, freezers and chillers are supplied by the use of these tools. These equipments have been utilized in mechanical room of every building. Consequently, these items have a direct relationship with construction industry. By considering the fact that the amount of money being spent on construction industry in Iran is huge in recent years and the decision making process of purchasing these machines are carried out in a convoluted network; companies strive to differentiate themselves.

With the growth of electronic commerce and global competition, business-to-business (B2B) marketers want improve their competitive position in the new economy through the branding (Mudambi, 2002).

There are many companies producing, importing and selling mechanical equipments in Iran. Carrier, KONE, EBARA, SAMSUNG, GRANDFOSS, MITSUBISHI, BITZER, HITACHI and SPIRAX-SARCO and are international companies and PACKMAN, TEHRAN MOBADDEL, SARMA AFARIN, PUMPIRAN, ZAHESH, PARTO ABGARDAN and IRAN HAVASAZAN are well-known Iranian companies that trade in Iran HVAC market. It is noteworthy that most of foreign companies have an exclusive representative in Iran in order to supply Iran market. These representatives like Iranian manufacturers participate in exhibitions, sell the products, install and establish them, consult to the customers and support guarantee and warrantee.

1.2 Problem Definition

According to Kuhn et al. (2008) although the significance of industrial branding has increased, yet a comprehensive model of business to business branding does not exist. Also, Bendixen et al. (2004) said that brands have been built up by consumer firms but have been slow to develop in business-to-business area. While brands and their management have mastered the business to consumer market, the notion has been slow to take hold in business-to-business area (Bendixen et al., 2004).

Branding research has largely emphasized 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 (Cretu and Brodie, 2007).

According to Cretu and Brodie (2007) the reputation of the company can have a major influence on buying process and consumption experience.

Business-to-Business (B2B) firms with a balanced corporate brand strategy commonly yield a return to their shareholders that is 5%-7% higher. It is therefore essential that key executives, including the board of directors, scientifically assess and monitor the strategic branding situation of their company and how their branding investments are performing against key competitors (Ohnemus, 2008).

Business-to-Consumer (B2C) activities have been the concentration of research, while industrial branding has been treated as the "intellectual step-child" and been somehow neglected (Ohnemus, 2008).

Table 1.1 shows some of important researches in B2B branding:

Table 1. 1 Important Researches in B2B Branding

Study	Product	Focus of study	Findings
Saunders and Watt (1979)	Man-made fiber products	Consumers perception of brands	Brand-naming strategies have mixed effectiveness
Sinclair and Seward (1988)	Wood products	Brand-naming strategies and the effect on the differentiation	Brand-naming strategies have mixed effectiveness
Vyas and Woodside (1984)	Textile fibers, railway equipment, Electric tools, chemical substances	Decision making process about the acquisition of materials	Buyers are willing to pay a premium price for an offering that is superior to its competitors
Gordon, Calantone and di Benedetto (1993)	Electrical products	Organizational- buying	Brands have an important influence on buying decisions and loyalty to supplier is also important
Mudambi et al. (1997)	Precision bearings	Sources of industrial brand value and	Brands differentiate the firm's offering from its competitors,

Hutton (1997)	Computers, copiers, fax	decision-making process in Organizational buying	brands comprise both tangible and intangible attributes Branding influences buyers' willingness to pay a premium
	machines and floppy disks		price, and to recommend and to buy other products with the same brand name
Michell, King and Reast (2001)	Industrial products	Brand values in industrial markets	Brand value is associated with perceived quality, image, market leadership, company reputation and credibility
Mudambi (2002)	Precision bearings	Importance of branding and company reputation with different loyalty segments	Company reputation has different influences in the loyal and non loyal market segments
Bendixen et al. (2004)	Medium voltage electrical equipment	Understanding the relative importance of the "the brand" versus "delivery", "price", "technology" and "availability of spare parts"	The brand has a role to play but price and delivery were more important

Source: (Cretu and Brodie, 2007)

Through the B2B branding literature, some essayists discuss about the parameters that affect branding; but in this thesis is going to decipher exact factors which have an effect on HVAC brands in Iran. As a case in point, this research wants to understand that "X", "Y" AND "Z" has a direct relationship on HVAC brands in Iran.

These factors are vital for executive managers in order to allocate their organization's budget. The outcome of the meeting which I had with one of the professional managers was that they do not know how much they should invest on after sales services and how much should allocate to improve the quality. When these factors will be extracted, it can be so applicable for HAVC companies since they discern their priorities and according to them, they invest in different sections. On this base, the research questions of this thesis are:

- 1. What are the critical parameters that affect the brand equity in HVAC industry in Iran?
- 2. What is the most important factor that directly affect on brand equity in this industry?

3. What is the ranking of these critical factors in HVAC branding in order to invest by the managers?

1.3 Background and Research Motivation

Over the history of marketing, branding has been almost synonymous with consumer products, mainly the type of products which appear in supermarkets, such as toothpaste or coffee. A small number of recent papers have examined business-to-business brands. Since the literature is embryonic, so much remains to be done (Roberts and Merrilees, 2007).

During the last decade branding has expanded to be one of the main concentrated areas in consumer marketing; while in the industrial marketing area there has only been limited attention to this phenomenon (Bengtsson and Servais, 2005).

Astonishingly, the majority of research in branding has some focuses on companies which serving consumer markets while it is revealed that brands play a critical role in industrial markets (Martinez and de Chernatony, 2004).

Despite the fact that the concept of consumer brands has been broadly admitted, industrial or B2B brands have the need for acceptation(PFOERTSCH et al., 2007).

Even though the power of branding is broadly accepted in B2C markets, the nature and significance of branding in B2B markets is opaque and under researched (Mudambi et al., 2002).

In business-to-business (B2B), things are different – branding is not meant to be relevant. Many managers rest on the belief that it is a phenomenon restricted only to B2C markets. They justify that they are in a unique market and their customers are very professional and know a great deal about their products as well as their competitors' products. These managers should know that without great products, services and an organized company that can sustain them, they will be failed (Kotler and Pfoertsch, 2007).

It has been mentioned that B2B organizations do not have a tendency to utilize marketing directors and departments. In contradictory, B2C firms have a high level of marketing, and higher-ranking managers with a responsibility for marketing strategy. Many

experts hold on the opinion that B2B companies have not employ the concept of marketing as well as B2C firms (Fletcher and Hart, 1990).

Since my bachelor degree is in mechanical engineering and also with respect to my job position (Supervisor of Mechanical Department in GHADARKAR which is Grade 1 Construction and Mechanical Installation Company) I found that experts, engineers and contractor companies tend to provide their mechanical equipments from branded companies. By considering the decision making process, I found that although there exist many suppliers in HVAC industry in Iran; astoundingly, professional engineers emphasize on a number of unique brands.

According to the aforementioned points I found that currently there is a gap in B2B branding in literature which provided the actuation for me to research in this field.

1.4 The Importance of Branding

In a world where more or less all corporations have access to the similar technologies and by that are less and less capable of competing on product attributes, the brand has came into focus and is designated a strategic role in many companies (Bengtsson and Servais, 2005).

Brand drives nearly two-thirds of customer purchases and influences almost every function area of the business (Davis and Halligan, 2002).

In short term and long term, strong brands will result in higher revenue. Thus, the final target of strategic brand management is to build brands that last for decades and can be penetrated in multifarious product categories and markets (Aaker, 1996a).

Mudumbi et al. (2002) believe that branding has crucial role in B2B decision making than has commonly been corroborated.

One of the reasons for the increasingly significant function of industrial branding is the commoditization of many industrial products (Riel et al., 2005). Well-built brands could be considered a key source of sustainable competitive advantage in business to business environments (Kumar et al., 2003). In a study published in 1993, the authors emphasize that industrial companies discover benefit from using brand names (Shipley and Howard, 1993).

Besides, Michell et al. (2001) revealed that B2B branding has a very significant role and provided competitive advantages for industrial companies.

Company's general reputation is more influential than technical experts and sales presentation in high risk conditions; in other words, buyers relied more heavily on company's brand than other factors (Levitt, 1995; cited by Bendixen et al., 2004).

One of the most significant facets of B2B branding is that brands do not just attain the mind of customers but all stakeholders, investors, staffs, partners, suppliers, competitors, regulators, or members of the firm's community. In today's global economy, B2B service and product suppliers struggle to preserve sustainable competitive advantages through the enlargement and strategic use of band equity (Bendixen et al., 2004).

Nowadays, building strong brands has become a marketing priority for many organizations since it yields a number of pros (Aaker, 1996a) such as less weakness to competitive actions, larger margins, greater intermediary co-operation and support and brand extension opportunities (Delgado-Ballester and Munuera-Aleman, 2005).

If customers are loyal to a brand even in the face of competitor's brands with superior features, it means that the brand has a substantial value to the customers (Yasin et al., 2007).

Brands simplify the identification of products, services and businesses as well as separate them from the rivalry (Kotler and Pfoertsch 2007). They are a guarantee of quality, origin and performance, thereby increasing the perceived value to the customer and assuaging the risk and intricacy involved in the decision making process (Kotler and Pfoertsch 2007).

Like to consumer marketing, effective branding strategies for commodity-like products result in yielding substantial benefits (Bendixen et al., 2004). As an illustration, DuPont, an industrial manufacturer which brands almost all the products and ingredients it manufactures, has had considerable success with brands such as Teflon, Kevlar, and Lycra (Riel et al., 2005).

A brand is emotional, has a personality, and jails the minds and heart of its customers. Great brands continue to exist from competitors' attacks and market trends because of the well-built relationships they create with their customers (Kotler and Pfoertsch, 2007).

It could be said that industrial purchasers do not solely buy a product from a manufacturer but builds up a relationship with the company. This implies that branding plays a more critical role in the industrial decision making than has generally been recognized (Bengtsson and Servais, 2005). Mudambi (2002) identifies two prototypes among industrial buyers: either to focus on the tangible aspects (best quality/best price) or to deliberate on the more intangible facets such as service quality and the image or the brand of the company. Oftentimes parameters like reputation and image outweighs tangible product attributes. Branding conditions must emphasize points of difference in service and other intangibles, such as company reliability and technical expertise, as the basis for separation and a superior value offering when the purchasing decision is taken (Mudumbi 2002).

If the customers have positive perception of what the company stands for, they will have confidence in it as a supplier (in its reliability, quality, integrity and ethics) and this will be a fundamental parameter in their choice of supplier. On the other hands, the employees feel they are working for a well respected, ethical, innovative dynamic company; this will improve their levels of motivation. In other words, corporate branding can be an important component for sustaining a positive corporate image and this image reflects what the firm stands for and delivers (Bengtsson and Servais, 2005).

Studies reveal that consumers who recognize a brand name are more likely to purchase that brand since familiar products are usually preferred to those that are less familiar (Hoyer, 1990, Macdonald and Sharp, 2000).

Meanwhile customers have a positive feeling of potential suppliers. Such an impression rests on the firm's reputation which in turn rests on the ability to communicate through corporate branding, public relations, and word-of-mouth communication (also from employees) (Butler, 2001). Besides, it can be said that those firms who have worked most intensively with corporate branding also are those who has the highest perceived quality by their customers (Stuart, 1998).

In order to reduce the uncertainty in purchasing situations with high perceived importance and complication, an industrial purchaser will have a tendency to opt a supplier that is already known. Therefore, a well-repudiated manufacturer on the market is regularly favored over a coincidental offer from an unknown actor (Michell et al., 2001, Mudambi, 2002, Mudambi et al., 1997).

Keep in mind that under high risk conditions, industrial personnel relied more heavily on manufacturer character than on the presentation (Mudambi et al., 1997).

Bendixen et al., (2004) rest on a belief that intangible attributes such as supplier's character and perceived product reliability are more important than a tangible attribute such as price.

In order to protect their products from converting to commodities, manufacturers want to differentiate themselves with company brand and services. Previous researches demonstrated that intangible features are momentous in business purchase decisions (Mudambi, 2002).

Buyers do not place equal emphasis on all attributes in decision making processes. Studies on business market showed that intangible aspects such as image and reputation can be of equal or greater than tangible and physical facets (Shaw et al., 1989).

Researchers have revealed that strong brand build meaningful image in the minds of customers (Shocker AD. et al., 1994, Keller, 1993). In other words, companies invest in branding since image and fame bolster differentiation and can influence on buying behavior positively (deChernatony and McEnally, 1992).

Companies distinguish the worth of using components produced by outstanding suppliers to gain authenticity and approval for their own goods. In other words buyers can show off by purchasing from prominent providers (Mudambi, 2002).

A strong brand image and reputation boosts discrimination and has a positive impact on buying behavior (McEnally and de Chernatony, 1999).

Although the power of branding is extensively acknowledged in consumer markets, the nature and importance of branding in industrial markets remains under-researched (Kuhn et al., 2008).

sdsasdEssayists discuss that branding and the concept of brand equity are increasingly critical in industrial markets, since it has been shown that what a brand means to a buyer can be a determining parameter in deciding between industrial purchase alternatives (Aaker, 1991 cited by Kuhnet al., 2008).

1.5 Abbreviation

ACCA Air Conditioning Contractor of America

AMCA Air Movement and Control Association

ASHRAE American Society of Heating, Refrigerating, and Air-Conditioning Engineers

AHP Analytical Hierarchy Process

B2B Business to Business

B2C Business to Customer

COO Country of Origin

CEM Customer Experience Management

CRM Customer Relationship Management

HVAC Heating, Ventilation and Air Conditioning

IS Information System

IT Information Technology

SMACNA Sheet Metal and Air Conditioning Contractors' National Association

WWW World Wide Web

1.6 Summary

In the most and the first chapter of thesis (chapter one), we have discussed about Heating, Ventilation and Air Conditioning systems. A table included some of important researches in Business to Business section has been showed in the problem definition section.

In the background and research motivation part, about the lack of research in B2B branding area has been discussed. The last section of chapter one talked about the effect of branding on every facet of business and the role of it as a competitive advantage for firms.

Chapter two

Literature

2 Chapter two: Literature Review

This chapter has been divided into six parts. First part explains about the necessity of brand. The second subdivision talks about the concept of brand equity and illustrates Aaker's brand equity model. In this chapter, one of the most rampant problems about branding has been interpreted. Indeed, this section gives some details about the branding in B2B environment. After that, some branding benefits have been mentioned. In the fifth division, some differences between B2B and B2C branding have been illustrated.

At the end of this chapter, we explained the branding issues which is the foundation of this research. In other words, we reviewed the papers about the industrial branding and extracted the substantial parameters. This section includes multifarious factors with absolute interpretation.

2.1 The Exigency of Brand

There exists a positive correlation between brand equity and a firm's performance (Park and Srinivasan, 1994, Aaker, 1996b). As Aaker (1996b) mentioned strong brands stand the test of time, are leveraged for decades and provide increases in revenue streams for the products sold under those brands.

A brand becomes the centre point in the whole planning process. In finding a competitive advantage in the marketing planning stage, the attitude towards the brand orientation plays a critical role as to whether a brand is to be utilized (Wong and Merrilees, 2008). Brand orientation was defined as "an approach in which the processes of the organization revolve around the creation, development and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands."(Urde, 1999) By using brands as a starting point in the formulation of company strategy, brand orientation should be created as a precondition, with unshakable brands able to enrich the ability of companies to compete as well as generating growth and profitability (Urde, 1994, Wong and Merrilees, 2005). Brand orientation is a choice of strategy that would determine firms' competitive edge with consequence of their future survival in the long term (Wong and Merrilees, 2008).

Brands become a substantial part of a firm's value and an important strategic asset. It could even be the driver of the whole marketing planning process. Going beyond a tactical level in the marketing planning process, a brand could become a competitive advantage for firms (Wong and Merrilees, 2005). Strategic decisions should be driven by the brand, which is a central focus of a firm. In fact, it is argued that senior management should be responsible as the custodian of brands (Capon et al., 2001).

In highly competitive markets with increasing volatility and decreasing product differentiation, brand loyalty is a central element of marketing strategies and tactics (Fournier and Yao, 1997). Brand loyalty generates benefits such as substantial entry impediments to