Strategic brand factors that moderate the impact of business cycles on brand equity

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Researchers from Georgia Institute of Technology, George Mason University, and University of North Carolina—Chapel Hill published a new paper in the *Journal of Marketing* that examines how six brand attributes affect how well a brand performs during economic expansions and contractions.

The study is authored by Koushyar Rajavi, Tarun Kushwaha, and Jan-Benedict E.M. Steenkamp.

How are some brands able to ride the wave of macroeconomic expansions while others are better able to successfully weather contractions?

During economic contractions, characterized by lower disposable incomes and tighter budgets, consumers are more price sensitive, less brand loyal, and more inclined to shift their purchases to (cheaper) private labels. This is also a time when consumers prioritize functional attributes over emotional ones. In economic expansions, on the other hand, with fewer budgetary restrictions, consumers focus more on emotional attributes and their higher disposable incomes allow them to change their buying behaviors. Good brand managers can grow their brands during economic highs and insulate them from harm when the economy stalls.

This new study finds that strategic brand factors play an important role in moderating the impact of business cycles on brand equity. The researchers examine six brand factors that strategically position the brand against its competitors: price positioning (value vs. premium), advertising spending (low vs. high), line length (short vs. long), distribution breadth (selective vs. extensive), brand architecture (single-category vs. umbrella-category branding strategy), and market position (follower vs. leader). To understand how brands are affected by the business cycles, they focus on brand equity, which is a key performance metric of a brand.

Why do different brands fare differently during expansions and contractions? Rajavi says that they "argue that the relative importance of price, functional and emotional attributes, as well as functional and emotional risks, vary across the business cycles. Brands are different with respect to price, functional and emotional benefits, and attendant risks. Such differences affect consumers' preferences for brands with different strategic factors over the business cycles."

The study utilizes data on 325 consumer packaged goods (CPG) national brands in 35 categories across 17 years in the U.K. "Our results show that a premium price position and market leadership build brand equity in expansions while advertising, using an umbrella brand architecture, and market leadership contribute to brand equity in contractions," says Kushwaha.

The two brand factors that dominate are distribution and assortment. Steenkamp explains that "During contractions, distribution is by far the largest contributor to brand equity. Distribution also has a large effect in expansions. In both good times and bad times, extensively distributed brands have an advantage. In expansions, a wide assortment is also a strong contributor to brand equity, while it does not destroy brand equity in contractions."

The study offers the following recommendations for brand managers:

1. Managers of brands with selective distribution need to consider whether this is a strategic choice or the result of bad implementation of strategies to expand distribution. If it is a strategic choice, this research points to the negative consequences. If it is an unwanted outcome, managers may need to increase investments in channel incentives or, if the firm already spends a lot on trade marketing, examine why channel incentives do not result in expanded distribution.

2. Expanding assortment should be a priority for brand management, unless there are other overriding considerations (e.g., lack of resources). It is possible to change the brand's competitive positioning from a limited variety brand to a broad assortment brand, if brand management so decides. However, this will take time. With the elevated risks of a recession in 2023-24, managers planning for the long term might want to go against the general practice of cutting R&D expenditures during recessions and instead invest more. Given the time it takes to develop new products, they might be ready to launch just when the economy bounces back, reaping full benefits.
3. A premium price position and market leadership build brand equity in expansions. Advertising, using an umbrella brand architecture, and market leadership contribute to brand equity in contractions. However, the effect of management decisions with respect to these factors has only a modest effect on brand equity. Thus, these factors are of secondary importance when it comes to growing brand equity.

More information: Koushyar Rajavi et al, EXPRESS: Brand Equity in Good and Bad Times: What Distinguishes Winners from Losers in CPG Industries?, *Journal of Marketing* (2022). DOI: 10.1177/00222429221122698

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