Better or different? How brand differentiation affects pay and profits

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New research finds brands that leverage a reputation for quality to pay employees less risk eroding profits.

The paper, published online June 12 in the *Journal of Marketing Research* and authored by researchers from Duke University, London Business School and Texas A&M University, shows that vertical brand differentiation (being perceived as better) is associated with lower pay, whereas horizontal brand differentiation (being perceived as different) is associated with higher pay.

High-quality brands taking advantage of brand cachet to pay employees less erodes profits due to negative effects on employee productivity and retention. More unique brands that tend to pay more, on the other hand, yield a net positive effect on profits due to positive effects on the same employee behaviors.

"High-end brands, which are known for their quality and heritage of excellence, find it easier to attract employees who want the résumé boost of working for a well-known brand," said Christine Moorman, Professor of Business Administration at Duke's Fuqua School of Business. "Experiments undertaken during our study show that Human Resource managers believe, and employees agree that on average, they will accept lower pay for such benefits."

"More unique, lesser-known brands don't have the same résumé cachet," Moorman said. "Managers believe, and job candidates agree, that they require higher pay to work for these unique brands as such employment does not convey the same résumé power in securing future jobs."

Critically, these differential brand-pay relationships have important downstream effects on employee behavior, and consequently, on firms' profits.

Nader Tavassoli, Professor of Marking at London Business School, explained, "Taking advantage of high-quality brand cachet to lower pay represents a false economy because profits are diminished by negative

effects on employee productivity and retention. Pay dissatisfaction can lead to people working less hard or leaving, ultimately costing companies money. Managers should, therefore, rely on brand reputation to attract talent, but not leverage it to suppress pay."

"Higher pay can be motivating as employees exert extra effort, thereby driving up productivity and profits," added Alina Sorescu, Professor of Marketing at Mays Business School, Texas A&M University.

"As Henry Ford once said, 'Paying good wages is not charity at all, it is the best kind of business,'" Sorescu said. "This is borne out by our findings, which show that when managers at more unique firms pay more, profits increase."

Given these dynamics, the researchers recommend that managers should consider brand differentiation in their pay benchmarking:

- Consider your brand in setting pay, as your brand's perceived quality and uniqueness have opposing pressures on employee pay.
- Leverage your brand's perceived quality to attract talent but not to pay less, as this results in a net profit loss due to negative effects on employee productivity and retention.
- Take a benign view of paying employees more based on your brand's perceived uniqueness, as this results in a net profit gain due to positive effects on employee productivity and retention.
- Adjust your competitive pay benchmarking based on relative levels of both vertical and horizontal brand differentiation.
- Have marketing and HR work together to compete effectively in the war for the "right" talent.

More information: Christine Moorman et al, EXPRESS: Brands in the Labor Market: How Vertical and Horizontal Brand Differentiation

Impact Pay and Profits Through Employee-Brand Matching, *Journal of Marketing Research* (2023). DOI: 10.1177/00222437231184429

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