



BRAND EQUITY AND ITS RELATIONSHIP WITH FINANCIAL PERFORMANCE: A STUDY WITH REFERENCE TO TWO-WHEELER BRANDS INDIA.

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Abstract

Two-Wheeler industry in India started its journey in 1947 before the independence from British Rule. Until the 1991, production was very limited and customer had any choice to select. Industrial revolution and liberalization adopted by India in 1991 resulted in mass production of two-wheeler. This increased sever competition among two-wheeler brands. As a result two-wheeler brands adopted the branding strategies as need of hour. The practice of branding has two side of coin. It leads to positive consumer responses on one hand but demands significant monetary allocations. The importance of branding is already recognized in marketing literature, but its contribution in criticised in finance literature as it curbs significant part of shareholders wealth on account of huge spending on TV Advertisement, Brand Endorsement and Promotion, Research, and Product Development etc. This study tried to examine the relationship between brand equity as a result of branding practices and financial performance of the two wheeler brands in India.

Keywords: *Brand Equity, Branding, Customer Based Brand Equity, Two-wheeler Brands etc.*

1.1 Introduction

The contemporary literature in corporate finance management has confirmed that the ultimate goal of any business firm is to maximize the share holders' wealth ^{[1] [2]}. After the industrial revolution and technological advancement, products are being manufactured in mass quantity. Such mass production has resulted in excessive competition in market place. As the competition in market place increased significantly, firms are required to focus more on marketing aspect of business. In such increased competition, it became very difficult for business firms to ensure the creation of higher wealth to share holders. To solve this issue, business firms adopted "Branding" as a marketing strategy. The importance of branding is already confirmed in the literature of marketing. But, there is big debate in finance literature on contribution of branding to create additional wealth for share holders ^[3].

The practice of branding has two side of coin. One, it involves market oriented strategies of business firms and on the other hand it require huge monetary allocation for spending on various organizational resources and functions like highly expert human resources, promotion and publicity expenditure, huge Research and Development expenditure etc. Since increase in share holders' return is the primary concern of any business firm such huge spending is criticized for curbing share holders wealth. Hence, financial burden of branding needs to be justified for the sake of increased share holders' wealth.

Increase in share holders' wealth is the sole objective of any business firm. This objective is served only when firm ensure higher financial performance in terms of higher profit. Higher profit is the function of higher sales turnover and higher profit margin. Profit of the firm includes revenue from operational as well as non-operational business activities. Operating Profit of the firm denotes earnings of the firm from core business activities, whereas net profit of the firm includes both operating as well as non operating surpluses. Naturally, one needs to focus on the operating profit of the business firm which is directly linked with core business activities and subsequently linked with marketing and branding practices of business firm.

The huge spending on branding may result in positive set of consumer beliefs and behavior denoted in terms of various brand equity components i.e. Positive Brand Awareness, Positive Brand Association, Positive Brand



Attitude and Positive Brand Loyalty. This positive brand equity may lead to increased market performance, subsequently higher financial performance and higher return to share holder ^[4].

Branding plays an important role in core business activities. It increases the sales of the business firm through repeated purchase of product as branded products are more likely demanded by customers for many reasons. Sales of the business firm are also boosted as loyal customers recommend the products to their friends and relatives. Profit margin of the firm also increases when customer feels satisfied and he becomes less sensitive towards price increase. As well as quality perception of the product by means of brand entails the producer to charge higher price for the product. This leads to improve the profit margin of the business firm. Similarly, Branding leads to optimize the marketing practices of the firm and lowers the operating cost, which eventually results in higher profit margin ^[5].

1.2 Two-Wheeler Industry in India

The history of Two-Wheeler industry in India is around 60 years old and its' journey was started before the independence of India from British Rule. Since its inception, the marketing perspective of two-wheeler industry in India is changed significantly, reflecting the shift from product, production, sales to customer focused marketing. Until 1960, Motorcycles were imported from Europe. Latter, the production was started in the decade of 1960's, boosted in the decade of 1980's, achieved record break production & sales in the decade of 1990's and in 2004, India became second largest producer of motorcycle in the world.

Such increase in production resulted in increased competition among motorcycle firms in India and they are required to take extra efforts to boost the sales. Eventually, motorcycle firms are required to adopt the branding strategies in order to achieve their organizational goals.

Firms started to attract customer through expanding dealer network, brand endorsement, TV Advertisement, more categories in each segment, more varieties of models within category with add-on features & attributes, sales promotion in terms of free offer of motorcycle servicing, exchange bonus, season or festival discounts, free insurance or free accessories etc.

Product innovation is also an important part of branding strategies of the motorcycle firms in India. Varieties of models with trendy and sporty look, improved exteriors and colour combinations, smart accessories and attached gadgets are being introduced by firms. Technology as well plays an important role in product branding. For that purpose companies are spending huge money to upgrade their technology. This is evident from number of patents granted and applied by selected motorcycle firms. Until 2011, Bajaj Auto Ltd was granted 38 patents and filed for 55, Hero Motocorp Ltd filed only one application for patent and TVS Motor Company Ltd was granted 75 and filed application for 104 patents ^[6]. Bajaj Auto Ltd positioned its motorcycles with DTS-I Technology ^[7], Hero Motocorp Ltd positioned its motorcycle with i3s Technology ^[8] and TVS Motorcycles are known for TVS Automatic Transmission Technology (TVS-ATT) ^[9].

1.3 Statement of the Problem & Research Questions

Brand equity a passive concept which is the outcome of communication, marketing and branding practices adopted by business firm. Brand equity offers many advantages to the business firm in market place. The importance of branding and brand equity is already confirmed in the literature of marketing. But, there is big debate in finance literature on contribution of branding to increase financial performance and create additional wealth for share holders. Thus, it is a matter of research, whether brand equity leads to higher sales turnover as well as higher profit margin and results in higher wealth creation to equity share holder. Hence, researcher intends to ascertain the relationship of brand equity with financial performance of two-wheeler brands in India.

1.4 Two Wheeler Brands Selected for the Study

Currently, ten manufacturers are operating in Indian Two-Wheeler Industry. Out of which, Hero Motocorp Ltd (33.30 %), Honda Motorcycle & Scooter India (Pvt) Ltd (28.10 %), Bajaj Auto Ltd (16.40 %) and TVS Motor Company Ltd (14.50%) collectively occupied the 92.30 percent market share in financial year 2016. Equity shares of Hero Motocorp Ltd, Bajaj Auto Ltd and TVS Motor Company Ltd are listed in Bombay Stock Exchange of India and National Stock Exchange of India, whereas Honda Motorcycle & Scooter India Ltd is a subsidiary of Japan based Honda Motors Inc. Since, Hero Motocorp Ltd, Bajaj Auto Ltd and TVS Motor Company Ltd are listed firms, their statements of financial performance are available from official websites of respective firms through annual report as well as historical stock prices are available from official website of National Stock Exchange of India. On the other hand, Honda Motorcycle & Scooter India Ltd is not a listed firm in any stock exchange of India and its statements of financial performance are not publically available. Eventually, researcher has selected Hero Motocorp Ltd, Bajaj Auto Ltd and TVS Motor Company Ltd as samples to study the underlying questions of this research study. These three firms collectively enjoy 64.20 % market share in Indian Two-Wheeler Industry. The detail profiles of these firms are discussed below.

1.5 Review of Literature

David Aaker and Rober Jacobson (1994) have tested the correlations of EquiTrend's perceived quality rating as measure of brand equity with yearly stock return, current-term return on investment (ROI) for 34 companies for 1989 to 1992. Authors concluded that Changes in brand equity are positively related with return on investment and stock market return ^[10]. Similar was the findings of authors about technology business firms. Authors concluded that Changes in brand attitude are positively associated with stock return & accounting financial performance ^[11]. Benjamin Kartono & Vithala R. Rao (2005) has examined the relationship of customer based brand equity with brand's profit, profit premium, revenue and revenue premium with reference to Automobile brands in U.S. and concluded that there was strong structural link between consumer-based brand equity and the brand's market performance. Author finally suggested a consumer based brand equity comprising viz. physical characteristics of products, marketing mix variables, perceived quality and satisfaction of customers ^[12]. Tabasum Nazir (2006) in her Ph.D thesis has examined the relationship of customer satisfaction of Panjab National Bank and J & K Bank with their financial performance. Author finally concluded that the relationship between customer satisfaction and aforesaid financial indicators is significant and positive ^[13]. Lars Ohnemus and Per V. Jenster (2008) have examined the relationship of branding with Market to Book Ratio and Return on Assets as measure of financial performance with expenses incurred on branding. The authors concluded that there is significant correlation between branding activity and financial performance. The researcher also indicated that companies with balance brand trust generated 3% more return ^[14]. Pegah Rasti & Somaye Gharibvand (2013) investigated the effects of brand value on book value, profit after interest and tax and dividend yield. The study was based on primary data from Interbrand with reference 20 Malaysian companies for 2007 – 2010. Authors concluded that there exist positive relationship between brand value and book value as well as brand value and EBIT of the firms, whereas there is no relationship between brand value and dividend yield^[15].

1.6 Research Methodology

This research is diagnostic type in nature based on sample survey research method that examined the relationship of brand equity and its components with financial performances of Two-Wheeler Brands in India ^[16]. Research is based on financial results of Hero Motocorp Ltd, Bajaj Auto Ltd and TVS Motor Company Ltd during five years from 2012-13 to 2016-17. Primary data was collected through structured questionnaire containing 40 likert items as brand equity construct. The relationship of Brand equity as independent variable is tested with Sales (In Units), Operating Profit (OPBITDA), Operating Profit (OPBITDA) Margin, Return on Equity, Market Capitalization.

1.7 Hypotheses

1. The correlation between brand equity and Brand Sales (In Units) is significant in nature.
2. The correlation between brand equity and Brand Operating Profit (OPBITDA) Margin is significant in nature.
3. The correlation between brand equity and Brands' Return on Equity is significant in nature.
4. The correlation between brand equity and Brands' Market Capitalization is significant in nature.

1.8 Result & Discussion

Table 1: Correlations & Paired T-Test Statistics

Pair No.	Pairs of Correlation	N	Correlation (R)	t	df	Sig. (2-tailed)
Pair 01	Brand Equity - Sales 2016-17	35	0.284	-3.683	34	0.001
Pair 02	Brand Equity - Operating Profit Margin (%)	2	1.000	49.593	1	0.013
Pair 03	Brand Equity - Return on Equity (%)	2	1.000	89.908	1	0.007
Pair 04	Brand Equity - Market Capitalization	2	1.000	-1.42	1	0.391

(Source: Extract of SPSS Output)

Table 1 indicates correlations coefficient with t-test statistics and respective P-Values extracted from SPSS Output. Pearson's correlation coefficient and Paired Sample T-Test were used in SPSS to test the significance of the correlations.

Pair 01

Correlation in pair 01 was tested using values of brand equity and their corresponding Sales (In Units) for 35 two-wheeler models of selected brands. Correlation Coefficient is 0.284 with t-test statistics -3.683 and P-Value is 0.001. This indicates that correlation between brand equity and Sales in Units is positive but weak in nature. This indicates that correlation between brand equity and Sales in Unit is significant at 0.10 (90 %) level of significance as P-Value is less than 0.10.

Pair 02

Correlation in pair 02 was tested using values of brand equity and their corresponding Operating Profit Margin (%) of Hero Motocorp Ltd and TVS Motor Company Ltd. Correlation Coefficient is 1.000 with t-test statistics 49.593 and P-Value is 0.013. This indicates that correlation between brand equity and Operating Profit Margin (%) is positive and strong in nature. Correlation between brand equity and Operating Profit Margin (%) is significant at 0.10 (90 %) level of significance as P-Value is less than 0.10.

Pair 03

Correlation in pair 03 was tested using values of brand equity and their corresponding Return on Equity (%) of Hero Motocorp Ltd and TVS Motor Company Ltd. Correlation Coefficient is 1.000 with t-test statistics 89.908 and P-Value is 0.007. This indicates that correlation between brand equity and Return on Equity (%) is positive and strong in nature. Correlation between brand equity and Return on Equity (%) is significant at 0.10 (90 %) level of significance as P-Value is less than 0.10.

Pair 04

Correlation in pair 04 was tested using values of brand equity and their corresponding Market Capitalization of Hero Motocorp Ltd and TVS Motor Company Ltd. Correlation Coefficient is 1.000 with t-test statistics - 1.42 and P-Value is 0.391. This indicates that correlation between brand equity and Market Capitalization is positive and strong in nature. But, not significant at 0.10 (90 %) level of significance as P-Value is greater than 0.10.

1.9 Conclusion

This research was undertaken to examine the relationship of brand equity and financial performance of the two-wheeler brands in India. Basic objectives behind undertaking this research were to explain the link between financial perspective and marketing perspective of business firms. This study was based on Hero Motocorp Ltd and TVS Motor Company Ltd. Results indicates that brand equity as marketing outcome has significant correlations with Sales in Units, Operating Profit Margin (%) and Return on Equity (%). But its relationship with Market Capitalization is not significant in nature. Results are consistent with the previous literature and it helps to justify that brand equity and ultimately expenditure on branding practices are positively correlated with the financial performance of two-wheeler brands in India.



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