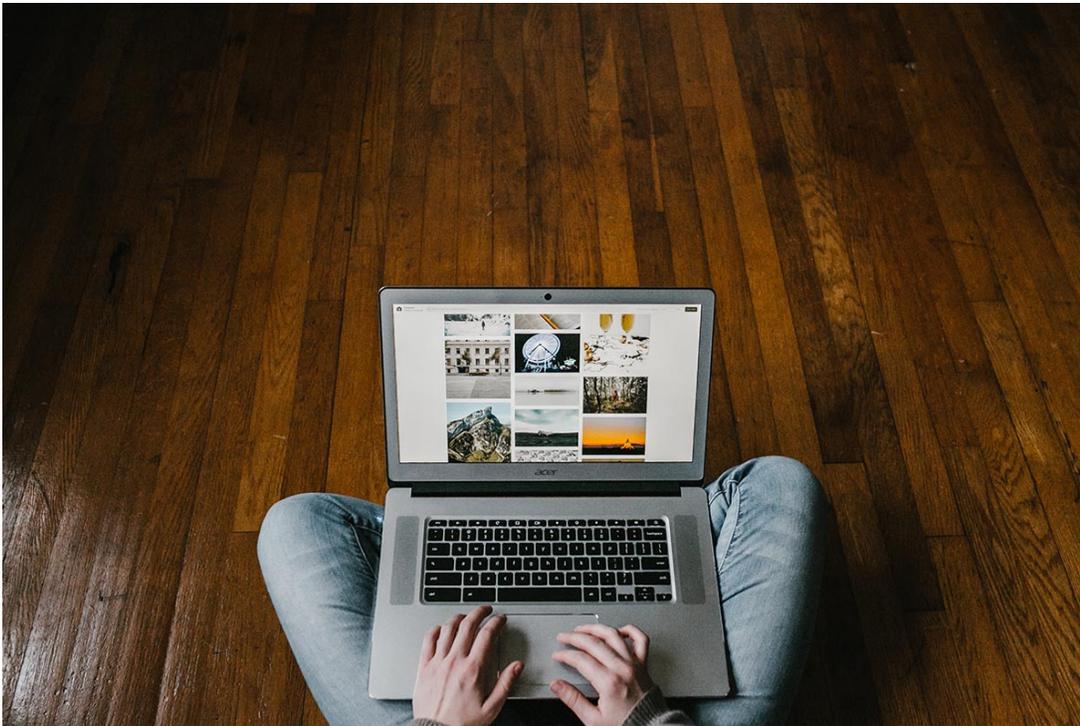


MARKETING

## Brand Owners, Be Careful to Manage Your Brand's E-Commerce Presence

by Jifeng Mu



*Price competition, market fragmentation, and word-of-mouth have dented brand loyalty in the digital era.*

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Brand reputation—how others view a brand—is often referred to as an essential source of the brand and product value. Brand reputation can provide awareness, perceived quality, specific mental associations, uncertainty reduction, and customer loyalty in the customer

purchase process. Marketers agree that brands can successfully generate demand for new goods and services and provide a true growth engine for companies. Consumers are emotionally attached to brands—brands to which they are loyal and have positive associations and trusts. Brands with higher reputation command higher prices, so the focal question is: Can stronger brands with their associated higher prices induce more favorable consumer behaviors on e-commerce platforms? Our research suggests otherwise.

### **Availability of Information**

On online platforms, customers face more noise, higher awareness of competitive offerings, other customers' comments, and more rapid expertise accumulation. These factors dampen the focused message from the brand and reduce customer reliance on brand reputation as a quality signal. This could occur due to the convergence of product features across different products on the platform and that online customer comments have produced an influx of detailed product quality information through reviews and opinions. Consumer information sharing at various online platforms has caused trust in recommendations from friends (and even from strangers) to rise at precisely the same time that trust in brands is falling. Nielsen reports that the number one most trusted source of recommendations (at 90%) is a **recommendation from somebody a customer knows personally**. Therefore, as more information becomes available, customers should rely less on brand reputation for quality signals. On the supply side, there is a growing tendency for companies to come up with the same market insights and launch products with similar attributes with similar messages. Firms' ability to leverage brand reputations in online platform settings is limited.

### **Lack of Direct Customer Relationships**

To provide a consistent customer experience, e-commerce platforms restrict product presentation customization, creating difficulties for branded products to build strong relationships with their customers. For example, the restriction limits customers' continued participation with the brands and the ability of brands to do brand marketing on e-commerce platforms. The changes associated with the restrictions in consumer behavior erode the relevance of brands. Brands thus have mostly become trademarked goods in the context of limited exposure to customers, and the roles of brands acting as an avenue for the excitement of consumption are diminishing. E-commerce platforms also facilitate the

search and comparison of products of similar functions from a diverse set of options. This drives consumption away from well-known branded products to a much larger number of lower-selling niche products.

### **Private Label Competition**

Sellers on e-commerce platforms are increasingly pushing their private labels and engaging in marketing activities designed to enhance their profits with little or no regard for the interests of brand owners. This misalignment of interests between sellers and brands may lead to a downward spiral of brand image and brand equity.

### **Market Fragmentation**

High product variety increases market fragmentation, which erodes brand loyalty. Consumers are inquisitive, and they like to experiment and express individuality. Consumers have a lot of choices, and most of those choices are pretty good. This occurs because consumers can use low prices as a reference point to judge the value of similar products and thus distort price perceptions of customers, potentially jeopardizing the value of premium brands in favor of economy brands and private labels. Price competition among sellers also erodes brand value. Unlike in offline settings where price discovery takes effort, and unlike with single-retailer sites that have coordination and consistency when it comes to price discounts, sellers on e-commerce are “every man for himself”—they are not coordinated and can compete fiercely on price because prices are readily observable. A tempting strategy to stand out from the competition is to race to the bottom in price. Although this strategy can benefit individual sellers, it can be detrimental to the perceived brand value.

Taken together, brands are helpful, but their roles are limited on e-commerce platforms. Although brand reputation can resolve some uncertainty and facilitate purchases, a strong brand can also set up high and sometimes unrealistic expectations, resulting in more post-purchase frustration stemming from the increased dissonance. For example, research suggests that while brands with reputation two standard deviations above the mean achieve 15% higher customer purchase likelihood than brands two standard deviations below the mean, the same comparison can increase post-purchase frustration by 44%.

*Sellers of premium brands should have a holistic view of brands that encompass both short-term (purchase phase) and long-term (post-purchase phase) effects*

Our research suggests that sellers of premium brands should have a holistic view of brands that encompass both short-term (purchase phase) and long-term (post-purchase phase) effects. For example, sellers should devote sufficient attention to setting the right expectations and addressing customer issues quickly to prevent post-purchase frustration. For brand owners, the results suggest that seller behaviors on e-commerce platforms can influence the relationship between brands and their end-users, potentially disrupting the value of brands and their perceptions by the consumers. Therefore, well-crafted, well-coordinated, and well-enforced channel partner policies are crucial in maintaining brand equity in the online platform environment. For brand owners, our findings suggest that sellers on e-commerce platforms may offer significant discounts for branded products or communicate in a manner inconsistent with the brands' positioning. These misalignments between sellers and brands' goals are detrimental to brand image and value. The results suggest that brand owners should select distributors and e-tailers based on shared long-term vision. Brand owners should also mandate enforceable channel contracts (e.g., retail price maintenance), and offer regular brand code training to maintain and improve brand equity. Otherwise, brand equity can quickly erode with various channel conflicts.

## ► References



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