To Brand or Not To Brand:

Effects of Brand Names on Uruguayan Consumers’ Perceptions of Product Quality

John Story
Assistant Professor
College of Business
Idaho State University
Campus Box 8020
Pocatello, ID 83209
storjohn@isu.edu
208-282-5650

Robert Hoover
Professor
College of Business
Idaho State University
Campus Box 8020
Pocatello, ID 83209
hoovrobe@isu.edu
208-282-4219

Hector E. Bajac
Director, MBA Program
Head, Marketing Department
Universidad ORT
Montevideo, Uruguay
hbajac@adinet.com.uy

Key words: brands, country, consumers
To Brand or Not To Brand: Effects of Brand Names on Uruguayan Consumers’ Perceptions of Product Quality

Abstract

Consumers are influenced by brand names, and even unknown brands have the power to influence consumer perceptions. Country associations also influence consumer perceptions of quality and value. The problem is that the vast majority of brand research has been performed in the United States market. Basing marketing strategy in other countries on these results may not have the desired effects on consumers’ perceptions. This study compares the responses of Uruguayan and U. S. consumers to branding strategies.

Introduction

Uruguayan firms face numerous difficulties when competing with foreign products in the Uruguayan market. Foreign products have the allure of being foreign and many of them are produced in more economically advanced countries. Even those produced in less developed markets may have lower labor costs and greater scale economies. Previous research has found that consumers’ product evaluations are strongly influenced by country associations (Bilkey and Nes 1982; Erickson, et al. 1984; Han 1988; Johansson 1989; Liefeld 1993; Papadopoulos and Heslop 1993; Tse and Gorn 1993). While consumers may tend to prefer domestic products, there is a strong bias toward products produced in more advanced countries (Kaynak et al., 2000). However, consumers will trade off country preferences for lower prices.

For domestic Uruguayan firms, competitiveness in their domestic market is enhanced by import controls, such as tariffs and quotas, but these may prove insufficient when facing cheaper products from countries such as China, or products with higher perceived quality and value from more developed countries in North America or the EU. One strategy that has been proposed for firms in less developed countries (LDCs) is to use brand names to differentiate their products and improve consumer perceptions (Brouthers and Xu 2002). While brands have been shown to positively influence consumers’ product evaluations, much of the research surrounding these effects has been conducted in advanced industrialized nations (AINs), particularly the United States market. At this point in time, it is unclear whether these same branding effects will occur in LDCs.

This paper provides a brief review of relevant research concerning country effects and brand effects. It proposes that consumers in LDC markets have different responses to brand strategies than consumers in the United States, where much of the brand research has been conducted. A series of hypotheses are developed and are tested with a sample of Uruguayan consumers. These results are compared to responses from a group of consumers in the U. S.

Conceptualization and Hypotheses

It is difficult to discuss the effects of branding strategies without also considering country effects. Both brands and countries act as image attributes, influencing consumers’ perceptions without directly affecting objective characteristics.
Brands are often closely associated with particular countries (e.g., Chevrolet and the U.S. or Perrier and France). Products and services are often associated with specific brands, or countries, or both

**Brand Effects**

“The point of brands is, and always has been, to provide information” (Economist 1994). According to David Aaker (1991) brands serve to identify the producer of a particular product or service and to differentiate it from others in the market. This may have been the original essence of brands, but their effects now extend far beyond simply identifying the source of a product or service. Brands reduce customer search costs and perceived risk (Aaker 1991). Brands form the basis of relationships between firms and customers, acting as repositories of trust and commitment (Hess and Story, 2005). They may also serve as a signal of product quality when consumers lack objective information (Aaker 1991).

By differentiating the producer of a product or service from other producers, brands allow consumers to transfer information from previous positive consumption experiences to new choice situations. For example, a consumer who has had a positive experience with brand of ice cream may use that information to reduce risk and uncertainty when purchasing other dessert items, by purchasing the same brand. This explains the success of brand extensions (Aaker and Keller 1990). Brands’ role in identifying the producer and differentiating that producer’s offerings from others in the market enables firms to build equity in the market (Aaker 1991) and provides a mechanism to reward investments in quality, service, and customer satisfaction.

There has been a recent trend in marketing away from transactional sales to relationship building (Gronroos 1997; Gummesson 2002). Firms have recognized that it is not only possible, but highly desirable, to establish lasting relationships with their customers. In some ways, this is a natural next step in the evolution of marketing. Moving beyond mere satisfaction, relationships embody trust and personal commitment by the customer to the relationship (Hess and Story 2005). The repository of trust and commitment is the brand. It provides a personification of the firm with which customers can bond. Customer-brand relationships provide mutual benefits, but for firms they open a new world of marketing opportunities.

Customer-brand relationships redefine many of the constructs that have been used, but not well defined in marketers’ pursuit of satisfaction and loyalty (Fournier 1998). Conventional loyalty models, focusing on overt market behaviors may fail to capture the true complexity of relationships between customers and brands. The true power of brands is only revealed in the context of complex, continuing relationships.

A third major contribution of brands to firms’ success is their potential value as signals of quality. Signaling theory originally emerged during World War II, and was adapted to marketing contexts in the early 1980’s (Singh and Churchill 1986). According to signaling theory, when consumers lack information concerning product quality, supplying a brand name acts as a signal of a firm’s commitment to satisfaction. There is an implied bonding component, the risk of losing the
investment in the brand name, that ensures that a firm is committed to providing high quality when products carry their brand.

However, one of the greatest limitations of brand research in general, and customer-brand relationship in particular, is that the bulk of the studies have involved consumers in AINs, particularly the United States. Given that marketing communications and consumers vary significantly across markets, it is not reasonable to assume the LDC consumers will respond to brand strategies in the same manner as AIN consumers.

In addition to responses to brands, brand strategies are often confounded with country effects. Many brands and products are implicitly associated with specific countries. For instance, Disney and the United States, wine and France, Tequila and Mexico. Many of these relationships are even formalized in multinational trade agreements (e.g., distinct product provisions in the NAFTA). Given these relationships, it is unrealistic to discuss brand effects in LDCs without including country associations.

**Country Effects**

Associations between products and countries influence consumer perceptions in many different ways. Certain products are inextricably linked to specific countries due to historical patterns of production and consumption. Some countries’ firms are particularly adept and successful at producing certain products. Leather goods from Italy, electronics from Japan, and wine from France are all examples of implicit or assumed country associations (Bonaccorsi 1994; Porter 1990). There are also non-product specific country stereotypes that typically correlate with level of development. For many products, perceived quality is positively correlated with the producing country’ level of economic development (Papadopoulos and Heslop 1993).

While there is some evidence that consumers prefer their own countries’ products, in general, products from more advanced countries are perceived as higher in quality and value (Papadopoulos and Heslop 1993). These country effects have been referred to by different names – country stereotyping, country of origin, and country image. It has also been proposed that there are multiple dimensions to these country effects. Chao (2001) proposed that country of manufacture, design, and assembly might all have different effects on consumer perceptions. Regardless of the specific wording used, or the dimension of association, consumers are influenced by country information when evaluating products.

There are many similarities between country effects and brand effects, but also many differences. Both country associations and brands act as “image attributes,” influencing consumer perceptions without altering product performance. Products typically have specific countries of preference, while brands are typically associated with certain products, or product classes. However, brands are typically assumed to have positive affect associated with them and brands can be selected, licensed, or developed, while countries of origin are often not elective.
Given the effects of brands and countries in isolation, it is highly likely that country association affects the impact of branding on consumer evaluations. There has been little research conducted that includes both brands and country information. Also, based on cultural, economic, and marketing differences, the impact of brands can be expected to be different in different country contexts. This research tests for differences in the effects of unknown and famous brands on consumers’ perceptions in Uruguay and the United States.

**Why might brand and country effects be different in Uruguay?**

Cateora and Graham (2004) state that, in terms of marketing, the single most important difference between countries is level of economic development. While the effects of consumers’ home country on branding and country effects have not been well researched, there are, almost certainly, significant differences. In general, consumers in less developed countries may be less responsive to brands than those in more developed countries. There are numerous factors that could explain these effects – advertising spending per capita, the number of competing brands, effects of import barriers, and the willingness of consumers to pay more for branded products. While this study does not attempt to identify specific effects, it does measure the differences.

Two differences between the United States and Uruguay may be of particular importance in determining consumers’ responses to brand strategies – level of economic development and advertising spending. Based on data from the CIA World Factbook (2006), for 2005 the per capita gross domestic product in Uruguay was approximately one-fourth of that in the United States, based on purchasing power parity ($10,000 versus $41,800). While there are myriad effects of economic development on consumer behavior, in general, brand names are expected to have less effect on perceived quality in countries with lower per capita incomes.

The second significant difference between the U. S. and Uruguay, that might influence the impact of brands, is advertising spending. If one considers how brand awareness and equity is built, paid communications are an integral part of the process (Aaker, 1991). While the power of an individual brand is influenced by advertising spending, the same may be true for brands in general. The impact of branding on consumer perceptions may be, at least in part, a function of total brand spending in the market.

Annual advertising spending per capita in Uruguay ($84) is less than 20% of the per capita amount spent in the United States ($454) (World Advertising Research Center 2006). While the data on the ratio of primary versus selective demand targeted by this spending is unavailable, it is reasonable to assume that the bulk of this spending is targeting demand for specific brands. In light of this difference, it is reasonable to assume that brands would have a much greater impact on U. S. consumers, targeted by $454 of spending each, than on the Uruguayan consumer, targeted by $84 each year.
Hypotheses
Based on previous findings concerning consumer preferences and on the differences in advertising spending between Uruguay and the U.S., three hypotheses are proposed.

H1: Uruguayan consumers generally perceive Uruguayan products as lower in quality than products from more developed countries, but higher in quality than products from other less developed countries.

H2: U.S. consumers respond more strongly to unknown brands than Uruguayan consumers.

H3: Providing famous brands improves product perceptions more for U.S. consumers than for Uruguayan consumers

Methods and Findings
Participants
Consumers were recruited in university environments in the United States and Uruguay. The majority of the participants were undergraduate students in colleges of business. In the United States, 184 respondents participated, and 142 complete responses were collected in Uruguay.

Procedure
The experiment was computer mediated, conducted over the Internet. Participants were told that they would see a series of products and asked to evaluate each product in response to a series of queries. Each respondent evaluated the same three products, a set of wine glasses, a wallet, and an umbrella. The products were presented in a catalog format with photos and brief descriptions. Each subject saw either no country information, or that the products were produced in Canada, China, or Uruguay. In addition, there was either no brand name, unknown brand names, or famous brand names. Each respondent saw the same country condition (none, Canada, China, or Uruguay) and the same brand condition (none, unknown, or famous) for all three products.

For the United States sample, Uruguay was deleted as a country condition. During pretesting of the stimuli, it was found that many U.S. consumers were either unaware of Uruguay, or had so little knowledge that they were uncomfortable responding to stimuli that included Uruguay as a country. Since the primary focus of the study was responses of Uruguayan consumers, Uruguay was eliminated and U.S. respondents saw Canada, China, or no country of origin.

Perceived product quality was evaluated using four items – how well made, how durable, how attractive, and how satisfied the respondent would expect to be if using the product. Responses used a 7-item semantic differential scale. As a measure of the efficacy of these four items as a measure of a single construct, reliability was analyzed for each of the three product classes, all Cronbach’s alpha were greater than .83 (glasses - .836, umbrella - .878, wallet - .948). For each
respondent, quality ratings were averaged for the three product categories to provide an overall quality rating for each country/brand condition.

**Analysis**

For Uruguayan respondents, perceived quality of products was regressed on country, brand, and their interaction. The overall model was significant (p < .001). The parameter estimate for country was significant (p < .001), but the parameter estimate for brand was not significant (p > .10), nor was the estimate for the interaction (p > .10). In other words, the only statistically significant effect in the model was country of origin.

This is in stark contrast to the data from respondents in the United States. For U. S. respondents, when quality was regressed on country, brand, and their interaction, the overall model, the main effects of brand and country, and the interaction were all statistically significant (p < .01 for all). While these results indicate differences in brand effects between U. S. and Uruguayan consumers, they do not clarify specific differences. In order to explicate the differences in brand effects and test the hypothesized relationships mean responses were compared across experimental groups.

H1: Uruguayan consumers generally perceive Uruguayan products as lower in quality than products from more developed countries, but higher in quality than other less developed countries.

In order to test the overall effects of country association on Uruguayan consumers perceptions of product quality, quality ratings were averaged across brand conditions and the mean responses were compared (Figure 1).

![Figure 1 – Effects of Country Information on Uruguayan Consumers](image)

As hypothesized, Uruguayan consumers rated the quality of Canadian products as higher than either Uruguayan (p < .05) or Chinese products (p < .01). In addition, Uruguayan products were rated as higher quality than Chinese products (p < .05). Within each brand condition (none, unknown, famous), the same pattern of results was found. Regardless of brand, when different countries’ products carried the same brand, Canadian products were rated as highest in quality, Uruguayan as second highest, and Chinese products were rated as lowest in quality.
H2: U.S. consumers respond more strongly to unknown brands than Uruguayan consumers.

The effects of unknown brands were tested first with no country information present. For U. S. consumers, branding was very important to quality. Products with no brand name were rated significantly lower than products with an unknown brand (4.31, 4.69, p < .05). This is the effect predicted by economic signaling theory. In the U. S., even an unknown brand has the power to signal quality to consumers.

However, for Uruguayan respondents, not only were products without brands rated as higher in quality than by U. S. respondents, adding an unknown brand had no significant effect on perceived product quality (Figure 2). Products without country or brand information received a mean quality rating of 5.03, while products with an unknown brand received a mean rating of only 4.96. This difference was not statistically significant (p > .5), nevertheless, unlike with U. S. consumers, adding an unknown brand name does not influence perceptions of Uruguayan consumers.

Figure 2 – Effects of Unknown Brands on Uruguayan versus U. S. Consumers

Effects of Unknown Brands

H3: Providing famous brands improves product perceptions more for U.S. consumers than for Uruguayan consumers

As predicted, the effect of famous brands on perceived product quality was greater for respondents in the U. S. than in Uruguay. For U. S. respondents, products with famous brands were rated as significantly higher in quality than products with no brand association (5.01, 4.34, p < .05). This effect persisted across country conditions (none, Canada, China). However, for Uruguayan respondents, the products with famous brand names were not perceived as significantly higher in quality than those with no brand (4.81, 4.63, p > .10).
While this null effect supports the hypothesis, for Uruguayan firms, the most significant question is, how do Uruguayan consumers respond when Uruguayan products carry a world-famous brand? In other words, if a firm, producing in Uruguay, licenses a famous brand, what effect will this have on Uruguayan consumers’ perceptions? In Figure 4, it is shown that for all country conditions other than Uruguay (none, Canada, China), famous branded products are perceived as higher in quality. However, for Uruguayan products, adding a famous brand actually resulted in consumers rating the product as lower in quality, though the difference is not significant.

**Discussion and Conclusion**

Uruguayan consumers perceive domestic products, at least those product categories used in this research, as lower in quality than products from more advanced nations. For Uruguayan firms, facing foreign competition in their home markets, there is a temptation to license foreign, well-known brands in order to improve consumer perceptions of product quality. However, this strategy may be ill-advised.

While branding differentiates one firm’s products from others in the market and identifies the producer, branding had little effect on perceived quality for Uruguayan consumers. Unlike in the United States, where even unknown brands can
significantly improve perceived quality, in Uruguay unknown brands had little effect on consumers’ perceptions. Even adding famous brands had little impact. For products identified as being produced in Uruguay, in fact, adding famous brand names had a negative impact on perceived quality.

**Limitations, Restrictions, and Further Research**

One of the significant limitations of this research is that it only exposed respondents to a limited subset of products. These results are not meant to indicate that these relationships will hold true for all product categories. In fact, it is almost certain that there are product categories for which brand effects in Uruguay would mirror those in the U.S. Another potential limitation is the use of a convenience sample. While respondents represented a fairly broad cross-section of ages and incomes, demographic information was not collected, and no effort was made to discriminate between groups.

In terms of further research, these results illuminated significant differences in the behaviors of U.S. and Uruguayan that lead to additional questions of interest. It would be interesting to test the impact of well-known Uruguayan brands on Uruguayan consumers’ perceptions, both for domestic products and for imports. It would also be appealing to test the effects of unknown and famous brands across a broader cross-section of product categories, in order to determine for which categories brands are more important.

**References**


