On the effect of oral advertising on brand equity

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A B S T R A C T

This research has been done with the goal of oral advertising effect on brand equity. For this purpose, eight hypotheses were discussed. The statistical population of this research contains all customers of Iran Khodro Company in Rasht city. To select samples, available sampling method is used and 400 questionnaires were distributed between customers contains 30 questions and 384 acceptable questionnaires were obtained. Analysis of data and research hypotheses test was conducted using structural equation modeling by PLS method and use of SPSS and Smart PLS software. Presented method is a descriptive-survey in terms of method and naturally it is practical in terms of the goal. Results of the research indicates that oral ads has a direct effect on brand awareness, brand association, perceived quality and brand loyalty and has an indirect effect on brand equity through these four variables. In addition, direct effect of brand awareness, brand association, perceived quality and brand loyalty was approved.

1. Introduction

Nowadays, markets have drastic competition and attracting customers and make a distinction in modern markets with the presence of other competitors is very difficult. So that it cannot be successful without a clear and strong marketing strategy (Karbasi et al., 2011). In recent years, one of the industry faced with serious challenges and fundamental changes, is automobile industry (Poursina and Sorush, 2010). Due to the many automobile companies, customers have many choices. In such circumstances, an extensive competition among the automobile companies in order to attract new customers, retain existing customers and making loyal customers has been formed that success in this competitive market requires increasing the quality of services, improving customer satisfaction and to attract and retain customers (Bamdad Soufi et al., 2010). Some ways in which automakers can distinguish themselves from others and attract new customers through it, is oral advertising management and promote their brand equity. In the last two decades, upgrade and expand the brand have been considered as one of the most important companies strategic methods. Brand**s** ownership with high equity especially from the customer's perspective means customer loyalty, lower vulnerability in the face of criticism, higher marginal profit, more customers support, and

increase the effectiveness of marketing communications. Furthermore, nowadays organizations and businesses have always looking for new and low-cost methods to gain competitive advantage and oral ads or word of mouth is a way that provides such an opportunity. Oral advertising has more impact on customer behaviors and attitudes. Oral ads can be a great tool to promote brand equity as a low-cost way of promotion (Samad Zadeh, 2011).

In recent years, research in field of brand equity and also oral ads have a great importance and have been considered by many domestic and foreign scholars. However despite the literature which emphasizes on importance and role of oral ads and brand equity in the context of attracting and retaining customers as well as attracting their satisfaction and loyalty, but less research is done to study the effect of oral advertising on brand equity especially in the automobile industry. Therefore, recent study is an attempt to fill the gap in this field and its goal is study the effect of oral advertising on brand equity from the perspective of Iran Khodro's customer in Rasht city. So in order to achieve the desired goal the following question has been proposed: "Does oral ads has impact on brand equity from the perspective of Iran Khodro's customer in Rasht city?"

2. Literature review

The oral ads expression was first time published in Fortune Magazine by "William Whit" about 40

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years ago through a classic marketing study (Ghaffari Ashtiani, 2005). Oral advertising refers to dialogues, ideas or opinions between two or more consumers that none of them are as a marketing source (Mowen and Minor, 2009). Actually, oral ads is used to describe the verbal and oral relationship (whether positive or negative) among groups such as product providers, independent experts, family, friends and real or potential customers (Ennew et al., 2000). Marketing through oral ads means release of information about one brand or one company among people without using Traditional and common media (Thomas et al., 2011). In many cases, oral ads is one of the strongest communication, especially when is done by someone he is familiar and reliable (Ennew et al., 2000). According to Cutler, no ads or seller can convince you about the advantage of a product compared to a friend, a relative, an old customer or an independent expert. In today's market three factors has increased the impact and the relative importance of oral advertising which include: increasing consumer distrust to traditional marketing communication, the number of available brands to choose from in many products categories / Services and finally increasing speed and widespread information through new communication technologies.

The importance of oral advertising is the important and vital information about an organization or product which is provided for consumers and in many cases assist them with deciding to be an organization sponsor and incentive or not. Therefore, oral ads assist the organization in attracting new consumers (Maxham III, 2001). Because, the oral ads has a very strong impact on behavior and consumer choice (Kim and Song, 2010), so this gives opportunity to the firms and organization to increase their market share by encouraging and develop positive oral ads among customers and enhance their brand equity (Casalo et al., 2008). One of the most famous and most important marketing concepts that is widely discussed by scholars and experts in marketing today, is brand equity that the important reasons for this fame is the strategic and important role of brand equity in management decisions and creating a competitive advantage for organizations and customers (Atilgan et al., 2005). From 1980 brand equity turned out to be an important concept in marketing, it is an added value that is created through brand name. Brand equity, enables organizations to claim more money for their brand in addition to maintain its market share (Lee and Back, 2010). Brand equity causes to increase the efficiency of marketing programs and customer loyalty, it reduces expenses and costs of promotional activities and it provides a platform for growth and development through brand extension. So, brand equity causes profitability and creates cash flow for organization (Buil et al., 2008). A strong brand can be considered as the most valuable asset of a business because it makes organization to gain more marginal profit, better cooperation channels and other benefits (Olson, 2008). In terms of behavior, brand equity is very important in creating distinction point that results in competitive advantage at non price competition (Aaker, 1991). Despite the great desire exists to research in the field of brand equity, but conceptual advances and little empirical research is done about the impact of oral advertising on brand equity.

3. The theoretical framework

Each research needs a theoretical framework. Theoretical framework is a basis that all the research is placed on it and there is a logical, developed and complete network between variables that will be provided through processes such as interview, observation and literature and issue review (Khaki, 2003). With these explanations, the conceptual model of this research that retrieved from conceptual model of Murtiasih et al. (2014) research is as follows. According to this model, oral ads have indirect impact on research dependent variable namely brand equity by four factors of brand awareness, brand association, perceived quality and also brand loyalty (Fig. 1).

4. Research hypotheses

H_1: Oral advertising has impact on brand awareness.
H_2: Oral advertising has impact on brand associations.
H_3: Oral advertising has impact on perceived quality.
H_4: Oral advertising has impact on brand loyalty.
H_5: Brand awareness has impact on brand equity.
H_6: Brand association has impact on brand equity.
H_7: Perceived quality has impact on brand equity.
H_8: Brand loyalty has impact on brand equity.

5. Research methodology

The current research is practical in terms of goal and it is survey research according to the method and because it deals with effect of oral advertising on brand equity in a multivariate model, in terms of method, it is correlation type. Statistical population of this study contains all customers of Iran Khodro in the Rasht city. Because of unlimited population size, sample size was calculated by the following formula (Eq. 1):

$$n = \frac{Z_{\frac{\alpha}{2}}^2 \times S^2}{d^2} \qquad (1)$$

For this purpose a preliminary study was conducted and 35 questionnaires were distributed among Iran Khodro customers in Rasht city. Due to the preliminary study variance and error level of 5 percent, the required sample size was estimated to be 310 (Eq. 2).

$$n = \frac{(1.96)^2 \times (0.2017)}{(0.05)^2} \cong 310 \qquad (2)$$

For more answers, questionnaires were distributed among 400 customers of Iran Khodro in Rasht city and out of this number, 384

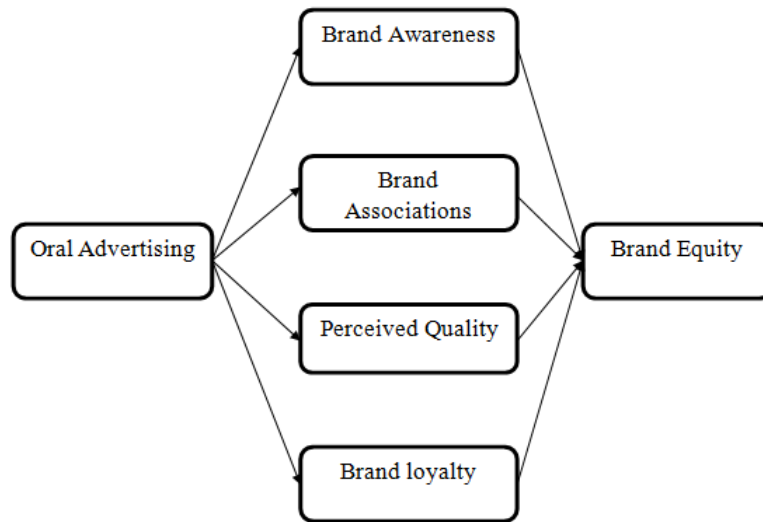questionnaires were extracted acceptable that were analyzed.

Fig. 1: Conceptual model research (Murtiasih et al 2014)

In this study standard questionnaire of Murtiasih et al. (2014) is used that contains two general and specialized questions. First part is about the demographic information of respondents and contains tree questions that are about their education, gender and age. The results of the questionnaires data shows that 68 percent are male respondents and 29 percent are female respondents and 3 percent are without answer. Also 26 percent of respondents are less than 30 years, 48 percent are between 30 to 39, 17 percent are between 40 to 49 and 7 percent of them are between 50 to 59 years and 2percent are more than 60. Furthermore, 22percent of respondents are under Diploma and Diploma, 21 percent have undergraduate, 39 percent have Bachelor and 18 percent have Master's degree or higher.

In second part, 30 specific questions related to the study variables were considered. To assess questions, range of five-item Lakert from "Totally disagree" (1) to "Totally agree" (5) is used. Although provided standard questionnaire of Murtiasih et al. (2014) is used in this study that is naturally confirmed and used by management and marketing experts at the international level, nevertheless, to ensure the validity, questionnaire has been given to experts such as guide Master and auto industry experts and questionnaire was also confirmed by their opinion. In order to determine the reliability of the questionnaire before its final distribution, a preliminary study has been done by distributing questionnaires among 35 Iran Khodro customers in Rasht city, and then Cronbach's alpha coefficient was calculated through SPSS software. Given that the minimum reliability coefficient for the research questionnaires is 0.70, it was observed that obtained Cronbach's alpha coefficient is higher than this value for all variables. So it can be argued that validity and reliability of study was desirable.

6. Findings and conclusions

Results of research testing hypotheses is presented in Table 1 based on structural equation modeling by PLS method through Smart PLS software in which all 8 research hypothesis have been accepted at a confidence level of 99%.

Table 1: Test results of research hypotheses

Hypotheses	Estimated Coefficient	t	Results
H_1: Oral advertising has impact on brand awareness.	0.37	10.90	Confirmed
H_2: Oral advertising has impact on brand associations.	0.76	32.64	Confirmed
H_3: Oral advertising has impact on perceived quality.	0.77	34.88	Confirmed
H_4: Oral advertising has impact on brand loyalty.	0.82	46.03	Confirmed
H_5: Brand awareness has impact on brand equity.	0.16	4.40	Confirmed
H_6: Brand association has impact on brand equity.	-0.13	2.11	Confirmed
H_7: Perceived quality has impact on brand equity.	0.21	3.50	Confirmed
H_8: Brand loyalty has impact on brand equity.	0.58	8.22	Confirmed

Also, explained brand equity variance as the dependent variable of the study is 54%. That's mean the independent variables altogether have been able to explain 54 percent of brand equity (Table 2).

7. Discussion and conclusion

Nowadays due to competitive situation of the automobile industry in Iran, attracting new customers is an issue that has engaged the managers' minds and its compliance is in the plan of successful managers in the automobile industry. One of the methods that automakers can distinguish

themselves from others and attract new customers through it, is oral advertising management and promoting their brand equity.

Table 2: Results of obtained variance

Variables	R²
Brand Equity	0.54
Brand Awareness	0.14
Perceived Quality	0.60
Oral Advertising	-
Brand Associations	0.58
Brand Loyalty	0.66

Considering the importance of issue, this research tried to survey the effect of oral advertising on brand equity from the perspective of Iran Khodro customers in Rasht city. In this study 8 variables was proposed to show the relationship between hypotheses. The results of research model test shows that oral ads have a direct impact on brand awareness, brand associations, perceived quality and brand loyalty and have an indirect effect on brand equity through these four variables. Also direct impact of brand awareness, brand associations, perceived quality and brand loyalty on brand equity was confirmed and these results are along with the results of previous research such as Murtiasih et al. (2014); Jara and Clicket (2012); Jia and Bchuatti (2008); Yasin et al. (2007); Sen and Lerman (2007); Atilgan et al. (2005); Yo et al. (2000); Acker (1996) and Cler (1993). Generally the results of this research shows that the model used in this study, will well forecasts the impact of oral ads on brand equity and according to the results the following recommendations were made:

Creating oral ads among customers to inform them about the company's products by strengthening public relations part and focus on customer-oriented, obtain their trust and having attention to customer needs.

Applying honesty in advertising and fulfill promises to promote a favorable image of the company.

Considering customer opinions at product design; quickly providing the information that are required by customers and also increase customer response time to provide them more welfare.

Staff training to earn skill in proper interaction with clients and meet their needs for their satisfaction and finally loyalty, giving bonuses to employees based on a better performance on customer satisfaction.

Improve the quality of communication and information systems and enhancing the skills and knowledge of employee to provide consultancy services before buy and after sale to customers.

Applying advanced technology in production and provide new features and distinctive from products of competitors to be associated at the minds of customers that they belong to the upper social class and company's product is unique and special.

Investing in processes that improve the company's quality products and services including such things as the increasing the speed and accuracy in responding to customers, updated facilities, improving company's equipment and physical facilities, establishing mobile teams, politeness and courtesy of the staff dealing with customers, customer segmentation and differentiation to providing services adequate with any customer segment.

Create customer loyalty through supplying customer satisfaction by maintaining privet the customer information, providing new and diverse services as well as services beyond their expected, after-sales commitment and also improving after-sales service.

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