THE EFFECT OF BRAND EQUITY ON PRICE PREMIUM OF APPLE IPHONE

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ABSTRACT

Consumers often judge the quality of a certain product with the basis of information. Some information providing a specific product characteristic while others are extrinsic to the product such as the buyer's perception of price, store and brand name. There are some examples of specific product characteristics, such as the volume, ingredients, and product origin. There are two main objectives in this research, including: To understand the effect of brand equity on price premium of Apple iPhone and to identify which variable of brand equity that has the most significant effect on price premium of Apple iPhone. Theories supporting this research are brand equity and price premium. The population is consumers of Apple iPhone with sample of 100 customers using Multiple Regression Analysis Model. Results and conclusions show that (1) all independent variables have strong and positive relationship with price premium, (2) perceived quality, brand awareness, brand association, and uniqueness influence price premium but brand loyalty has no significant influence on price premium (3) uniqueness is the most influence factors to price premium which can explain the differences of Apple iPhone. Based on this research, customers in Manado should rethink and consider more to purchase an Apple iPhone and Apple as company should increase the relationship with customers in Manado to enhance the brand loyalty.

Keywords: *brand equity, price premium*

INTRODUCTION

Research Background

Consumers often judge the quality of a certain product with the basis of information. Some information providing a specific product characteristic while others are extrinsic to the product such as the buyer's perception of price, store and brand name. There are some examples of specific product characteristics, such as the volume, ingredients, and product origin.   Brand equity means how the brand of a product or service has the value and strength into creating a well-known brand name in marketing industry. A brand comprises the name, logo, image and perceptions that can identify a product and service in the minds of customers, a well-known brand name is better than product with less-known names in terms of customer's perception.

A stronger focus on the brand, rather than only product quality and price itself, could offer a better understanding of why customers are willing to pay more money for a product or service. How customers perceive brand name and what motivates them to pay premium price is an important to research on brand equity. Two fundamental motives for studying brand equity exist: one financial motive, with the purpose of estimating the value of the brand for accounting purposes, and one motive derived from the strive for more efficient marketing efforts (Keller, 1993). Customer- based brand equity has often been defined as synonymous with price premium, consumer's willingness to pay for different brands (Sethuraman, 2003). Price premium reflects the brands ability to command a higher price than its competitors (De Chenatony and McDonald, 2003:25). In order to utilize the customer-based brand equity concept, it is important to understand the sources and outcomes of brand equity (Keller, 2006:546)

Apple sells premium products at price premium, for example iPod, iPhone, MacBook Pro, software and accessories, for the past three decades, Apple has expected the customer to interest their products and recognize the quality. For instance, it is widely recognized that Apple is a premium brand that demands and earns price premium. Apple has created a culture and a set of activities to differentiate from rivals in order to meet the

needs of their customers. When iPhone first came out, the product was vastly superior to other competitors. Therefore, when the people hear the word Apple brand behind a product's name, the customer know it can be trusted. Since the first iPhone came out, Apple has introduced their products as premium products with high quality.

Apple competitors such as Samsung, Sony, Nokia and Blackberry introduce their products as premium product with price premium to compete with Apple, in the past five years. Samsung Galaxy only passed iPhone one times. The event occurred in September 2012 when the public to refrain from buying an iPhone because of waiting for the release of the iPhone 5. The rest, the iPhone has always been a leader in the forefront of smartphone sales amount. Apple continues to improve the performance and appearance of its products in order to compete with smartphones and tablets with Android operating system are increasingly.

Table 1. Apple iPhone sales report

Year	Q1 [Oct-Dec]	Q2 [Jan-Mar]	Q3 [Apr-Jun]	Q4 [Jul-Sep]	Total sold
2007			270,000	1,119,000	1,389,000
2008	2,315,000	1,703,000	717,000	6,890,000	11,625,000
2009	4,363,000	3,793,000	5,208,000	7,367,000	20,731,000
2010	8,737,000	8,752,000	8,398,000	14,102,000	39,989,000
2011	16,240,000	18,650,000	20,340,000	17,070,000	72,300,000
2012	37,044,000	35,100,000	26,000,000	26,900,000	125,044,000
2013	47,800,000	37,400,000	31,200,000		116,400,000

Source: Apple website 2013

Apple has finally announced the increasing of iPhone sales in the first quarter of 2013. Based on Apple sales report (Table 1), Apple divides into 4 time periods in 1 year, which are: 1st Quarter (October-December), 2nd Quarter (January-March), 3rd Quarter (April-June) and 4th Quarter (July-September) same as The U.S. federal government's fiscal year. Apple's fiscal year starts on 1st October and ends on 30th September. This means that Quarter 1 includes the holiday season. The latest model of the iPhone has been traditionally released at the end of June (Original iPhone iPhone 3GS,iPhone 4) or July (iPhone 3G) each year. When Apple introduces their new products in Quarter 3, and there has been increasing number in Quarter 4 and then Apple sales increased more with same products in Quarter 1 for following year (holiday season). For example, quarter 1 in 2012 and 2013, there has been increasing selling drastically. This is because the holiday season, it has a discount price and customers buy the Apple iPhone as a present. So, the demand of Apple iPhone increases drastically in Quarter 1 (October-December).

Every time Apple introduces their product there have been increasing numbers of selling, starts in 2007 the total sold 1,389,000 units, in 2008 the total sold 11,625,000 units, in 2009 the total sold 20,731,000 units, in 2010 the total sold 39,989,000 units, in 2011 the total sold 72,300,000 units, in 2012 the total sold 125,044,000 units and in 2013 the total sold 116,400,000 units (still continues). The increasing of selling happens because the technology that Apple offers. Now Customers wait for the latest product that they are going to introduce, which is Apple iPhone 5S in late September or early October 2013. Customers still choosing Apple iPhone as their smartphone to use daily, even competitors introduce their new products with high quality or inexpensive price, based on Apple report. Customers have their own objectives that choosing Apple iPhone. Generally Apple sells their premium product with price premium and makes the customers to identify the brand equity of Apple brand.

Research Objective

There are two main objectives in this research, including:
1. To understand the effect of brand equity on price premium of Apple iPhone.
2. To identify which variable of brand equity that has the most significant effect on price premium of Apple iPhone.

THEORETICAL REVIEW

Price
　　　　Kotler et al (2012:320) defined price as the amount of money charged for a product or service. Klaming (2012: 4) stated that the pricing decision is part of the brand concept, determined by the corporate strategy, and finely tuned on the product/brand level.

Price Premium
　　　　Price premium is defined as the sum consumers are willing to pay for a brand, compared to other relevant brands, and can be either negative or positive (Aaker, 1996).

Brand Equity
　　　　Kotler and Keller (2009:278) defined brand equity as the added value endowed on products and service may be reflected in the way consumers think, feel, and act with respect to the brand. Keller (1993) also stated that brand equity represents a condition in which the consumer is familiar with the brand and recalls some favorable, strong and unique brand associations. Aaker (1996), brand equity is determined by four objectives or dimensions, which are perceived quality, associations, brand loyalty and brand awareness, as follows:
1) Perceived quality. A central aspect of the mentioned brand equity framework is the quality dimension (Lassar et al., 1995). Specific criteria of perceived quality based on Anselmsson et al. (2007) are: functions and performs as expected, packaging is attractive and functional, product color, durability in comparison to other products, and texture of the products.
2) Brand Awareness. Keller (1993), brand awareness is reflected the consumer's ability to identify the brand under different circumstances. Brand awareness is a key determinant identified in almost all brand equity models in relevant situations (Anselmsson et al., 2007) such as: the first-mentioned brand in a category, consumers know what brand and logotype and name look like, consumers know what the brand stands for, consumers recognize the brand among other brands in the shelf, and consumers recognize the brand/ product based on the advertisements.
3) Brand Loyalty. Aaker (1991:39) defined brand loyalty as the attachment that a customer has to a brand. Behavioral loyalty is linked to consumer behavior in the marketplace that can be indicated by number of repeated purchases or commitment to rebuy the brand as a primary choice (Oliver, 1999). Futher, Anselmsson et al. (2007) stated that brand loyalty is consumers' consumption over a long period of time as well as the frequency of using the product and share to others people, such as: the extent or frequency to which the consumer has bought the brand, consumers encourage others people to try the product, consumers' first choice in the category, consumers only use the product, not another product, and the relationship between company and their customer is good.
4) Brand Associations. The brand-as-organization perspective, which considers the organization (people, values, and programs) that lies behind the brand (Aaker, 1996). Brand associations consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on that become linked to the brand node (Kotler and Keller, 2009:205). Brand associations is the information in the consumer's mind linked to the brand (Anselmsson et al., 2007) through: origin in terms of continent, country; or region, social image: how other might perceived the buyer/user; company associations, innovative, successful; trustworthiness; and good impression.
5) Uniqueness. The psychological reason why uniqueness is so important which states that when consumers are facing a choice (between two or more brands) they tend to ignore attributes common to the alternatives, because these offer no preferential guiding, and instead the unique attributes becomes important (Tversky, 1972). Uniqueness happens in relevant situation (Anselmsson et al., 2007) through: brand has a different and unique name, the brand or its product have one or several unique features, the brand or its product has a unique combination of features, need for uniqueness is defined as a desire to be different relative to other, and people who high in need for uniqueness preferred innovative, unconventional and experiences objects

Previous Research
　　　　Anselmsso et al. (2007) found brand equity and price premium can be identified and proposed for future measurement scales and model validating research. Fussell (2011) found that the majority of consumers are willing to pay higher price premiums on living wage goods. Bondesson (2012) found the price premium as the

brand strength and will create brand equity or the price premium is the most important way in which brands create shareholder values.
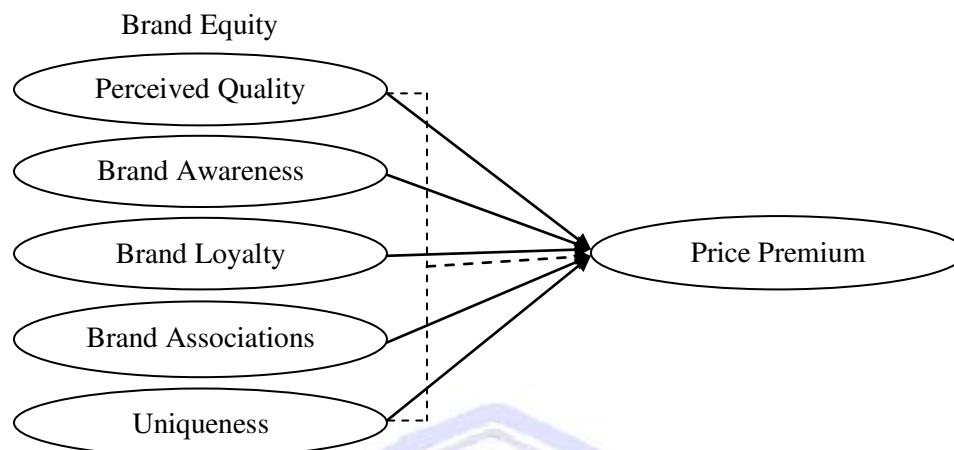
Brand Equity

Figure 1. Conceptual Framework

Research Hypothesis
H_1: Brand equity affect price premium of Apple iPhone simultaneously
H_2: Brand equity affect price premium of Apple iPhone partially.

RESEARCH METHOD

Type of research
  This research is a causal type of research using quantitative methods.

Place and Time of research
  This research is in Manado from June – Augustus 2013.

Population and Sample
  Population is the entire group of people; events of things of interest that the researcher wishes to investigate (Sekaran and Bougie, 2009:262). The population observed in this research is consumers of Apple iPhone in Manado.
  A sample is a subset of the population. It comprises some members selected from the population (Sekaran and Bougie, 2009:263). The sample of this research is consumers of Apple iPhone as many as 100 customers.

Data Collection Method
  Data information collected to support this research is taken from primary and secondary data. For the primary data, the researcher conducted questionnaires which were distributed to the users of iPhone smartphone. The secondary data is the data that collected through the existing sources to support the research. The secondary data involved from reference books, literature, store and the internet sources related to the topic of this research.
Operational definition of research variables are:
1. Brand Equity (Variable X) with the indicator as listed follow:
    - Perceived Quality (X1) means that product from the brand should not only be consistent and meet consumers' expectations, but also be of higher quality than other products and brands.
    - Brand Awareness (X2) means consumer recognition of the brand and its product.
    - Brand Loyalty (X3) means consumers' attitude and behavior, as well as their willingness to speak positively about the brand to others people.
    - Brand Associations means memories and information which come to the consumers' mind, when seeing or thinking about the brand

- Uniqueness is about what extent the brand and its products are different from competitors in the mind of the customer.
2. Price Premium (Variable Y) refers to how to sell a high end product or service when its price is higher than regular price or the competition price in order to make it appeal to more exclusive and wealthy to the customers.

Measurement of Research Variable

This research will use scaling method for the questionnaire which is Likert scale method for decision making. Category scale is using on information to ask the question need to be answer in various statement. Likert scale has been chosen by considering that the data from decision making is based on the respondent's experienced and attitude on information technology and decision making. By using Likert scale, respondents will understand and fulfill the questionnaire. By doing the Likert scale, it is easy for the researcher in measuring, and analyzing the data.

Data Analysis Method

Validity and Reliability Test

Validity is a test of how well an instrument that is developed measures the particular concept it is intended to measure. The validity of testing can use the Product-Moment Correlation Pearson techniques. Questionnaires were used as a measuring instrument should qualify the validity of the content.

Reliability analysis is used to measure the correlation between multiple measurements of a construct in order to quantify some underlying dimension. The purpose of testing reliability is to determine the level of measurement non error, it means showing the consistency of measurement. Reliability was measured by using Cronbach's Alpha coefficient, when the value of Cronbach's alpha increase the consistency also increases. If the coefficient value of Alpha less than 0.60 then the reliability is bad. Research instrument is acceptable if the test shows the alpha in the range of 0.70 and the reliability is good if above 0.80 (Sekaran and Bougie, 2009).

Multiple Regression Analysis Model

Black (2007), regression analysis is the process of constructing a mathematical model or functions that can be use predict or determine one variable by another variable or other variables. The equation is:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5$$

RESULT AND DISCUSSION

Result

All indicators of independent variables are stated as valid because the correlation value is above 0.3 as follows: Perceived Quality (0.642), Brand Awareness (0.706), Brand Loyalty (0.537), Brand Association (0.601), and Uniqueness (0.694). The Cronbach's Alpha Value is 0.913 that means this research indicates consistency and the data is reliable.

Table 2. Multiple Regression Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.410	.324		1.265	.209
	Perceived Quality	.756	.343	.655	2.207	.030
	Brand Awareness	.272	.105	.304	2.582	.011
	Brand Loyalty	.081	.087	.085	.935	.352
	Brand Associations	.197	.100	.183	1.986	.051
	Uniqueness	1.063	.357	.940	2.981	.004

a. Dependent Variable: Price Premium
Sources: SPSS 18

From the data analysis, it is found that:

Y = 0.410 + 0.756 X1 + 0.272X2 + 0.081 X3 + 0.197 X4 + 1.063 X5

The interpretations of the equation are:
1. The constant value (a) or intercept is 0.410 shows the influence of Perceived Quality (X1), Brand Awareness (X2), Brand Loyalty (X3), Brand Associations (X4) and Uniqueness (X5) to Price Premium (Y). If all independent variables are zero then Price Premium (Y) will be predicted to be as much as 0.410.
2. If the others are constant, an increase of Perceived Quality (X1) will result in an increase Price Premium (Y).
3. If the others are constant, an increase Brand Awareness (X2) will result in an increase of Price Premium (Y).
4. If the others are constant, an increase of Brand Loyalty (X3) will result in an increase of Price Premium (Y).
5. If the others are constant, an increase of Brand Associations (X4) will result in an increase of in Price Premium (Y).
6. If the others are constant, an increase of Uniqueness (X5) will result in an increase of Price Premium (Y).

Table 3 Result of R and R^2

Model	R	R Square	Adjusted R Square
1	.776[a]	.602	.581

a. Predictors: (Constant), Uniqueness, Brand Awareness, Perceived Quality, Brand Loyalty, Brand Associations
b. Dependent Variable: Price Premium
   Sources: SPSS 18

The value of R is 0.776 indicating a positive relationship between independent and dependent variable. The value of R^2 is 0.602 meaning Perceived Quality, Brand Awareness, Brand Loyalty, Brand Associations, and Uniqueness as independent variables are able to influence Price Premium as much as 60.2% while the rest 39.8% other factors are not included in this research.

Classical Assumption Test

The tolerance value of perceived quality is 0.048, brand awareness is 0.306, brand loyalty is 0.515, brand associations 0.496 and uniqueness is 0.043 which are more than 0.10 while the VIF value of perceived quality is 2.793, brand awareness is 1.269, brand loyalty is 1.940, brand associations is 1.017 and uniqueness is 2.460 and the total of VIF is 9.479 which are less than 10. The result of the tolerance and VIF value show that this research is free from multicollinearity. The pattern of the dots is spreading and do not create a clear pattern, so the dots is spreading around above and below 0 (zero) in the Y axis. This is proved the model is free from heteroscedasticity. The data is represented by the dots are spreading near the diagonal line, and the spreading following the direction of the diagonal line. This proves that the model is passing the normality test. The result of Durbin Watson value is 1.986 and the Durbin Watson table value is 1.780 thus, there is no autocorrelation in this regression.

Hypothesis Test

1. Hypothesis 1 is accepted because F_{count} is 28.410 and the F_{table} is 2.31 that means F_{count} (28.410) > F_{table} (2.31). Since F_{count} > F_{table} then Ho is rejected and the H_1 is accepted. In other words, perceived quality, brand awareness, brand loyalty, brand associations and uniqueness influence price premium simultaneously.
2. Hypothesis 2 is rejected because brand loyalty has no significant influence on price premium, as shown below:
   a) T_{count} of perceived quality (2.207) > T_{table} (1.985) or H0 is rejected and H_1 is accepted thus perceived quality has significant partial influence on price premium.
   b) T_{count} of brand awareness (2.582) > T_{table} (1.985) or or H0 is rejected and H_1 is accepted thus brand awareness has significant partial influence on price premium.
   c) T_{count} of brand loyalty (0.935) < T_{table} (1.985) or H0 is accepted and H_1 is rejected thus brand loyalty has no significant partial influence on price premium.

d) T_{count} of brand associations (1.986) > T_{table} (1.985) or H0 is rejected and H_1 is accepted thus brand association has significant partial influence on price premium.

e) T_{count} of uniqueness (2.981) > T_{table} (1.985) or H0 is rejected and H_1 is accepted thus uniqueness has significant partial influence on price premium.

Discussion

Brand equity is important for creating a value to the brand. People as a customer should recognize and understand the value of brand, which could stimulate the purchasing of a particular product. Brand equity have several dimensions such as perceived quality, brand awareness, brand loyalty, brand associations, and uniqueness are the measurements which are relevant to create price premium. Meanwhile, a price premium is about marketing practice of selling a high quality product with cost level above than competitors. Manufactures do not only put a high price to their product, however they should consider and design a proper brand equity dimensions.

Perceived quality has significant influence to price premium of Apple iPhone. The customers were understand and acknowledged the quality that Apple iPhone offers. They buy the product based on the particular quality measurements such as the function, technical performances, the packaging, the color, product shape, and product durability. Brand Awareness has a significant influence to Price Premium. Apple generates brand awareness in the consumers by promoting their product through various media. Brand Loyalty has no significant influence to Price Premium. Some problem based on Brand Loyalty aspects such as first, how often they purchase Apple iPhone, customers only buy one, they do not buy everytime Apple introduce their new smartphone. Second, customers do not only use Apple iPhone as their smartphone. Customer use any of smartphone either its cheap one or the one with a price premium. Also the third problem, the relationship between the company and customer, it is because Apple company does not have a retailer store and service centre in Manado City. Yet, the customers do not have a good relationship to Apple company directly. Brand Associations has a significant influence to Price Premium. Information that customer find on internet, magazine or any media that persuade to buy Apple iPhone. Customer think Apple company is innovative and successful because everytime Apple introduce their new product such as Apple iPhone has a great impact to customers. Also, customers have a trust and credibility as Apple iPhone users.

Uniqueness has a significant influence to Price Premium. Logo of Apple iPhone is different and unique. Apple iPhone has one or several unique features that customers like. Also, customers feel different and they think Apple iPhone is innovative, not conventional and experienced in smartphone industry. Based on this research, customers in Manado should rethink and consider more before purchase an Apple iPhone. Customers should examine what makes Apple iPhone is uniqueness, different from their competitors. Also, Apple as company should increase the relationship with customers in Manado to enhance the brand loyalty.

CONCLUSION AND RECOMMENDATION

Conclusion

The result shows that: (1) all independent variables have strong and positive relationship with price premium, (2) perceived quality, brand awareness, brand association, and uniqueness influence price premium but brand loyalty has no significant influence on price premium of Apple iPhone, (3) uniqueness is the most influence factors to price premium of Apple iPhone which can explain the differences of Apple iPhone has such as the brand, the features, and innovative of the product itself.

Recommendation

The recommendations are: (1) Apple company should maintain all aspects that create the value of Apple iPhone, such as keep improving the quality of product and keep innovative. Because this era, all the Apple competitors always develop new technology with price premium into their new product or in other words, the competitors have one step forward than Apple; and (2) brand loyalty (X3) has to be reviewed all the aspects related to this variable such as Apple company can make a retail store and service centre in Manado City, by doing that they can build a strong relationship to their customers. Thus, Apple company need to open a retail store and service centre in Manado City. Yet, the customers might feel closer and sensitive because every time

they get problems with the product they can go to the Apple store. Also, the problem that brand loyalty has no significant effect because the price itself. Since they sell their product with price premium, they should consider to make or create the Apple iPhone with cheaper price than they used to do, of course still have strong quality.

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