



Europe Economics



The Role of Consumer Trust in the Economics of Brands

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1 Introduction

This report was commissioned from Europe Economics by AIM — the European Brands Association — and national brand associations. It is one of a set of three studies AIM and the national brand associations have commissioned to consider the nature of consumer trust, how it is built by brands, and its implications for companies and the economy.

The two partner studies were:

- Brands & Consumer Trust Study — Phase I: Desk Research Report by Funder, Morgan, & Valizade-Funder of IIHD (2015). We refer to this hereafter as the “IIHD Study”.
 - This report presents a generic model, based upon extensive desk research, that explains the drivers and contributing factors of consumer trust in the FMCG¹ industry with the objective to understand the current thinking and impact of brand trust.
- Brands and Consumer Trust by Europanel (2015). We refer to this hereafter as the “Europanel Study”.
 - The report relies on data from 9 European countries - Denmark, France, Germany, Italy, Netherlands, Norway, Spain, Sweden and the UK to assess how brands gain and maintain consumer trust. The study also evaluates the implications of trust in brands for consumers, companies and the economy. Two sources of data are used; consumer purchasing behaviour from GfK and Kantar Worldpanel, and data on consumer attitudes from surveys.

The current report complements those above by considering the role and contribution of in the economics of brands. As part of that, it interprets and assesses the key findings of these other two papers in economic terms, considering how they reinforce, develop or contrast with the established theory and evidence.

This report is structured in the following way:

- Section 2 considers what consumer trust is and how it is created for and by brands.
- Section 3 sets out the role of consumer trust in the economics of brands.
- Section 4 sets out how society benefits from the building of and maintaining of consumer trust in brands.

¹ FMCG stands for Fast Moving Consumer Goods.

2 What Consumer Trust is and how it is Created for and by Brands

2.1 How economists understand “trust”

The IHD Study defines consumer trust for its purposes as follows:²

The willingness of the consumer to rely on the ability of the brand to perform its stated function while seeing the engagement with the brand as supportive and enforcing of personal values.

We can understand the significance of defining consumer trust in this way by comparing and contrasting this concept of trust with the various things economists mean by the term “trust”. Trust arises in many economic contexts, but in particular it is important when some agents are uncertain about what other economic agents know, what they have done or what they can and will control in the future.

We trust things in two key ways:

- If (and to the extent that) they behave or operate as expected.
- If, even though we aren’t sure how they will behave or operate, we expect that however they behave or operate will be in our interests.

Both of these ideas are in the IHD definition of consumer trust, but in a particular (strong) form. First, instead of us merely trusting that brands will behave as expected (a limited form of trust)³, under the IHD definition we trust brands in the stronger form that we expect and hence rely upon them to behave as they say they will. The trust that something will perform as stated entails some combination of the following two aspects:

- The product tends to perform as stated.
- The firm behind the brand acts so as to ensure that the product performs as stated, even when consumers cannot observe the firm’s behaviour.

Economists are especially interested in the second of these aspects of trust, which is termed “credibility” in the economic literature. The undertakings of a “credible” agent are not merely regarded as accurate forecasts. They are regarded as binding promises to guarantee that the result promised is delivered.

Let us make this idea more concrete. Suppose that an agent buys a branded product where the brand’s label is known and part of the brand’s central image is that its products are fashionable. We could imagine something like a brand of luxury handbags or sunglasses. If the firm behind the brand subsequently suddenly

² IHD Study p7.

³ We could, in some sense, say that we “trusted” a product, even if it did not perform its stated function, provided that deviations from that stated function were relatively consistent and predictable. For example, ballpoint pens are supposed to write. But sometimes they don’t, even when we can see clearly that there is ink in them (e.g. because the sides of the pen are transparent). Knowing this, and knowing that it is not particularly rare, many of us will carry two ballpoint pens if we want to be sure of being able to write if we need to. We would think it pretty unlucky if two ballpoint pens did not work. We could say that we trust that having two should be enough, because failures to perform the stated function are predictable. But we could equally say that we carry two pens precisely because failures to perform the stated function are regular enough that we do *not* trust ballpoint pens or at least ballpoint pens of the common brands.

changed its strategy so as to become retro instead of fashionable, those consumers that had bought its products when they expected it to remain fashionable might regard themselves as having been misled. For consumers to place value upon a brand's ongoing fashionableness, the idea that the firm behind the brand will continue to act in ways that keep it fashionable must be credible.

The second way in which we trust things is when we believe that they will act in our interests or according to our objectives, even when we cannot predict in advance what that would involve. We might say that the thing we trust either understands and pursues our goals or has, itself, goals and values that are aligned with ours. Under the IIHD definition consumers trust a brand when they see “engagement with the brand as supportive and enforcing of personal values” — i.e. the things the firm behind the brand and others associated with the brand do are things that the consumer believes in or wants done.

One should recognise, however, that we can and do trust brands whose values we do not share. As a simple example, we might trust an organic food brand to be of consistent quality even if we do not ourselves believe that having more organic food would be ethically or nutritionally better. Again, many people buy food from kosher delicatessens or halal-compliant takeaways without being Jewish or Muslim.

That means that we should see the IIHD definition of consumer trust as a maximal or “all and” definition. We can and do trust brands, to some extent, that do not share all of the features of the IIHD definition, but when all of the features of the IIHD definition are in place, we are likely to trust brands the most.

2.2 A rough definition of “brand”

By the term “brand”, in this report⁴, we shall mean a reputational asset embodying the set of values and attributes created by that brand's imagery and associations. A branded product is a type of product produced under a particular name or brand identity, typically including brand imagery and often also brand associations created through marketing, consumer experience of the product itself, consumer interaction with the producer or supplier (e.g. filling in consumer satisfaction questionnaires, using the company's website or seeking to make a complaint), consumer dissemination (e.g. by word of mouth), and through the producer's public relations (e.g. any discussions in the media, positive or negative, of the firm or its employees).

Brands differ from one another, and branding alters the economic nature of a product. This can be seen most clearly if we explore the distinction between branded and unbranded products.

Suppose that you purchased an unbranded set of batteries. Now compare that with batteries purchased from a well-known and recognised battery brand, such as Duracell. Typically the presence of the brand would provide you with reassurance that the batteries would actually power your electronic device, that the device would not be corrupted in any way by these batteries, and that the device would be powered for a reasonable amount of time. This in turn means, for example, that if your child wants to play a battery-powered hand-held game to pass a train journey and you purchase the branded batteries prior to that journey then you can have confidence that your child will indeed be entertained throughout the journey. Even if, as it turned out, the unbranded batteries were physically precisely the same as the branded batteries, made using the same materials and by the same production processes, it would still not have been the same thing that you bought — where a brand has a good reputation, your risk of the branded batteries being of lower quality than was intended is likely to be lower than for unbranded batteries.⁵

⁴ Here we use the term “brand” when we focus upon the underlying economic quality. The term “brand” is also often used to refer to more tangible features. For example, the American Marketing Association defines a brand as “a name, term, sign, symbol or a combination of them, intended to identify the goods and services of one seller or a group of sellers and to differentiate them from their competitors”.

The term “brand” has a further, albeit again closely related, meaning — namely a brand can be a particular subdivision of a product. We shall not explore that concept further here.

⁵ For the significance of quality and reliability in creating consumer trust, see pp23-24 of the IIHD Study.

Again, suppose, for example, that you were considering replacing an old Goodyear tyre on your car with an unbranded tyre. Now contrast that with a new Goodyear tyre. Even if, as it turned out, the tyres were physically precisely the same, made using the same materials in precisely the same way, it would clearly not be the case that the unbranded and the Goodyear tyres are the same product. With the branded (i.e. Goodyear) product you would probably, for example, be more certain that the tyre would actually have been made from appropriate rubber, instead of merely looking like a rubber tyre or being made from some inferior rubber that would wear down very quickly and need to be replaced. You would also be more confident that your tyre would have tread that meets the standard required for your car to be legal to drive — that it met the statutory requirements for legal tyres.

It is important to recognise that branding is not solely about purporting to possess higher quality than or superior features to rivals. A brand communicates the features that it communicates. That might be high quality. That might be consistent quality (even if not always as high). That might be “appropriate for someone like you”. That might be “cheap and cheerful”. The Europanel Study notes that dependability (specifically, being of “Consistently good quality”) is more associated with consumer trust than either being of superior quality or being regarded as value for money.⁶ Indeed, there is even sometimes a niche for consumers with the so-called “Millwall” outlook associated with the famous Millwall football supporters’ chant “No-one likes us / We don’t care.” A variant of this is where brands embrace the negative image of their products — e.g. as in the brand of tobacco sold in various countries in the 1990s that called itself “Death”, the brand imagery of which included a prominent skull and crossbones on black packaging.

The IIHD Study characterises a brand’s reputation as a form of “social capital”.⁷ It notes in particular that a brand allows consumers to anticipate what they call a brand’s “future behaviour” — i.e. what its products will be like, how reliable those products will be, and how it will behave as a company (e.g. will it stick to policies such as ethical sourcing or “fair trade”). That future behaviour is anticipated on the basis of the firm’s investment in its social capital through what the authors term its “heritage” — i.e. its true or marketing-asserted history.

Indeed, some analyses regard consumers as being in a socially significant relationship with brands (“commercial friendships”), including key interpersonal features such as:

- intimacy (as part of explaining one’s needs or providing feedback on how good one’s experience with a product was, one may tell purveyors of a product things about oneself that one would not normally share with others);
- reciprocity (if a firm has treated its customers well, they may feel inclined to treat it well in return⁸, and vice versa);
- loyalty (consumers may stick to brands and indeed firms may seek to be loyal to their customers in important ways — e.g. by continuing producing unprofitable consumables for a discontinued product until purchasers of the original product are likely to have moved on).

That a brand allows consumers to create and communicate the reputation of a product and its provider means a brand can also allow feedback from consumers to producers about their own preferences. That could be direct, in terms of consumer satisfaction surveys or verbal feedback. But in addition, as we shall explore in much more detail below, consumers can use their interaction with brands to place pressure on

⁶ Each additional 1 per cent of perception of the brand with “Consistently good quality” is associated with 0.66 per cent additional consumer trust, versus 0.23 per cent extra trust for 1 per cent extra “Superior quality” or 0.21 per cent extra trust for 1 per cent extra “Value for money”.

⁷ See p XI of the IIHD Study.

⁸ Obvious dimensions of consumer reciprocity include features such as telling other consumers about it. Less obvious, though also important, features of reciprocity might include refraining from violating a brand’s intellectual property even when that would be easy to do.

firms to treat their employees in certain ways or to meet high environmental standards, to participate in political campaigns (such as boycotts) and to pursue a range of other consumer activism.

2.3 How consumer trust is built

The key steps in the development of consumer trust are:

- The consumer perceiving a gap between how things are and how they could have been.
- The consumer obtaining information about how things are with the brand and its associated products.
- What the sources of information say about the brand.
- How consumers weight or interpret the information they obtain.

Let us consider these steps in turn.

2.3.1 Perceiving a gap between how things could be and how they are

The IIHD Study notes that the most fundamental step to building consumer trust in a brand is to make consumers see trusting that brand as potentially valuable.⁹ This will arise from some combination of consumers seeing trust as needed (e.g. understanding the risk that products might be counterfeit, that quality might be variable, that the consequences of products being substandard could be disastrous, that the potential for significant innovation is high but not automatic, or that the selection service provided bundled as part of the brand — e.g. being fashionable, being technologically cutting edge, being cool, being ethical, being respectful of tradition — is not delivered with every unbranded product) and as seeing the brand as able to deliver (products can be reliable, better innovation can be achieved, promised services can and will be provided).

Trust is built, then, when consumers perceive there as being a gap between how things could be and how they in fact are.

2.3.2 Sources of information about how things are with a brand and its products

Consumers obtain information about brands from a range of sources. The most important ones are:

- The imagery on the product itself.
- Marketing and advertising.¹⁰
- Consumer experience of the product itself.
- Consumer interaction with the producer (e.g. manufacturer) or supplier (e.g. retailer) of the product, including filling in consumer satisfaction questionnaires, using the company's website or seeking to make a complaint
- Consumer dissemination (e.g. by word of mouth, social media or reviews in consumer publications such as "Which?")
- The producer's more public relations — e.g. any discussions in the media, positive or negative, of the firm or its employees (not necessarily restricted to the product in question).

2.3.3 What the sources of information say about the brand

It is useful to distinguish between three main aspects of the information conveyed to consumers about a brand. They are:

⁹ IIHD Study p19.

¹⁰ The Europanel Study breaks Marketing activity down into innovation, advertising, promo activity and social media activity.

1. What the brand's products do or are — their abilities and functionality.
2. How consistent and reliable the brand's producers and suppliers are in getting products to consumers that either do what is intended or at least fail only with predictable regularity in predictable ways.
3. How aligned the brand's broader objectives are with the consumer's.

The IIHD Study collectively terms the first two aspects — abilities and functionality plus reliability — as “competence factors”.¹¹ Because it focuses upon positive forms of alignment of goals and values, the IIHD Study describes the third aspect as a brand's “benevolence”¹² but, partly because we want a more general term that includes “No one like us / we don't care” brand types (which would not normally be described as “benevolent”), we prefer to refer to this aspect as the brand's “alignment” — alluding more directly to the alignment of objectives and interests required for us to trust things even when we cannot predict in advance specifically what they will do. The Europanel study uses the term “Emotional resonance” for a closely related concept.¹³

Predictability or credibility may often require only a belief in technical competence — the machines firms use to create their products are sufficiently reliable that failure rates are predictable; or firms have the technical capability to keep their promises if they choose to. Alignment requires some combination of persuading consumers that consumer and brand values match to a sufficient degree or persuading consumers that firms are more generally benevolent. Benevolence might also make obtaining and maintaining credibility easier, though it is not strictly required for it — even bad guys might believe it is in their interests to keep promises.

One important factor in delivering consumer trust in a brand's general benevolence or specific alignment of goals with those of consumers will be to understand what forms of aligned objectives are credible and relevant. Consumers are unlikely to believe that brands share their objectives in all their idiosyncratic ways — your gardening gloves brand is unlikely to care how shy you feel when dancing whilst your dating website brand is unlikely to care how much you hate being stung by nettles. Certain generic forms of benevolence are regarded as attractive — so, being clear and transparent, being seen to behave justly, being consistent and predictable in behaviour, acting in concord with promises (explicit or implicit), avoiding short-termist exploitation of consumers and various similar general characteristics may serve to create a general sense of benevolence.¹⁴

But this may not be the end of the opportunity to create a sense of aligned objectives. Consumers with quirky tastes may trust a brand that seems quirky in the same ways — the brand “understands me”, “empathizes” with me,¹⁵ has an “emotional resonance” with me,¹⁶ and so its future products or its staff are more likely to understand me, also. Indeed, some aspects of emotional resonance almost automatically engender trust. In particular the Europanel Study finds that each additional 1 per cent of perceived prestige of a brand is associated with 0.8 per cent extra trust.¹⁷

On the other hand, an attempt by brands to become too intimate can alienate consumers. Consumers do not want to be contacted continuously with offers for things they do not need or asked for information at a level of intimacy they are not willing to provide. Indeed, one aspect of consumer trust is persuading consumers that a brand will not waste one's time, invade one's privacy or abuse one's confidence. It is only

¹¹ IIHD Study p 20. See also p22 of the IIHD Study, where six key drivers of trust in competence are identified: functionality; reliability; financial performance; size; quality; and innovation.

¹² See p26 of the IIHD Study where six key drivers of trust in benevolence are identified: ethical values; credibility; sincerity; caring relationship; heritage; and reputation.

¹³ It further breaks down “Emotional resonance” into “Prestigious”, “Fun” and “Exciting”.

¹⁴ This point is explored further on p 21 of the IIHD Study.

¹⁵ See p 28 of the IIHD Study for more on empathy.

¹⁶ Emotional resonance is explored in some detail in the Europanel Study.

¹⁷ By contrast, being an extra 1 per cent “Exciting” or “Fun” provide only 0.14 and 0.17 per cent extra trust, respectively.

if consumers trust that these things will not be done that they will share information (e.g. email addresses, social media contact details or text numbers) in the first place that allows for a more intimate two-way relationship. There is also a risk of over-promotion of products in other dimensions — e.g. by continuously increasing discounts. Indeed, the Europanel Study finds that additional promotion can even reduce trust.¹⁸ In a related vein, the IIHD Study notes that brands will be more effective if the brand is consistent in focusing upon some achievable ethical norms or product characteristics.¹⁹ Attempting to be “all things to all people” risks brand dilution.

Consumers will believe that brands are more trustworthy if the firms behind them have a greater stake in maintaining them. For example, brands that trade strongly upon and gain high sales and profits from a reputation for reliability may suffer if they let one consumer down, so may be more trusted. Indeed, even simple scale can be important — a brand that is widely used and is profitable is likely to be valued and protected by its owners, and so consumers may trust it more as a result. The Europanel Study finds that their “Top” tier of trusted brands have 39.5 per cent penetration in category whilst their “Lower” tier has only 20.4 per cent penetration. Similarly, firms will have more of a stake in a brand if it is likely to last a long time, so consumers will be more likely to trust brands they regard as long-lasting. The Europanel Study finds that each additional 1 per cent rise in perceptions of longevity in a brand is associated with a 0.3 per cent rise in trust. (One should take some care with reverse causality here, however — brands that are more trusted may be more likely to become bigger or stay bigger.²⁰)

Brands can convey to consumers that they are profitable and secure and that companies intend to maintain them for some time through advertising. In this sense, advertising can be seen as acting rather like a peacock’s tail — the firm can be seen as telling consumers that its brand is sufficiently profitable that resources can be spent on advertising.

Conversely, a brand associated with a firm known from the press to be about to go bankrupt or whose products are believed shortly to become technically obsolete may be perceived as unlikely to last long and hence not credible in making commitments through time or for which it would require time to achieve a return (e.g. promise-keeping).²¹ This is part of a more general economic point that brand trust will be built through repeated interaction.

In a number of sectors, being perceived as innovative is an important driver of trust — presumably related to the idea that more “modern” or “cutting” edge products will be of higher quality and superior functionality and mark the buyer as fashionable or tech-savvy²², but also perhaps with the notion that highly innovative firms will be around for some time and protective of their brands in other ways (e.g. offer good customer service). According to The Europanel Study each additional 1 per cent rise in a brand perception as innovative is associated with a 0.45 per cent rise in consumer trust of that brand. (By contrast, each additional 1 per cent of social media activity provides 0.18 per cent extra consumer trust and for additional advertising the corresponding figure is 0.12 per cent.) One interpretation of this in terms of past economics research would be the idea explored in Cabral (2000), where the author shows that for a given level of past performance,

¹⁸ This point is also discussed on p36 of the IIHD Study.

¹⁹ See p33 of the IIHD Study.

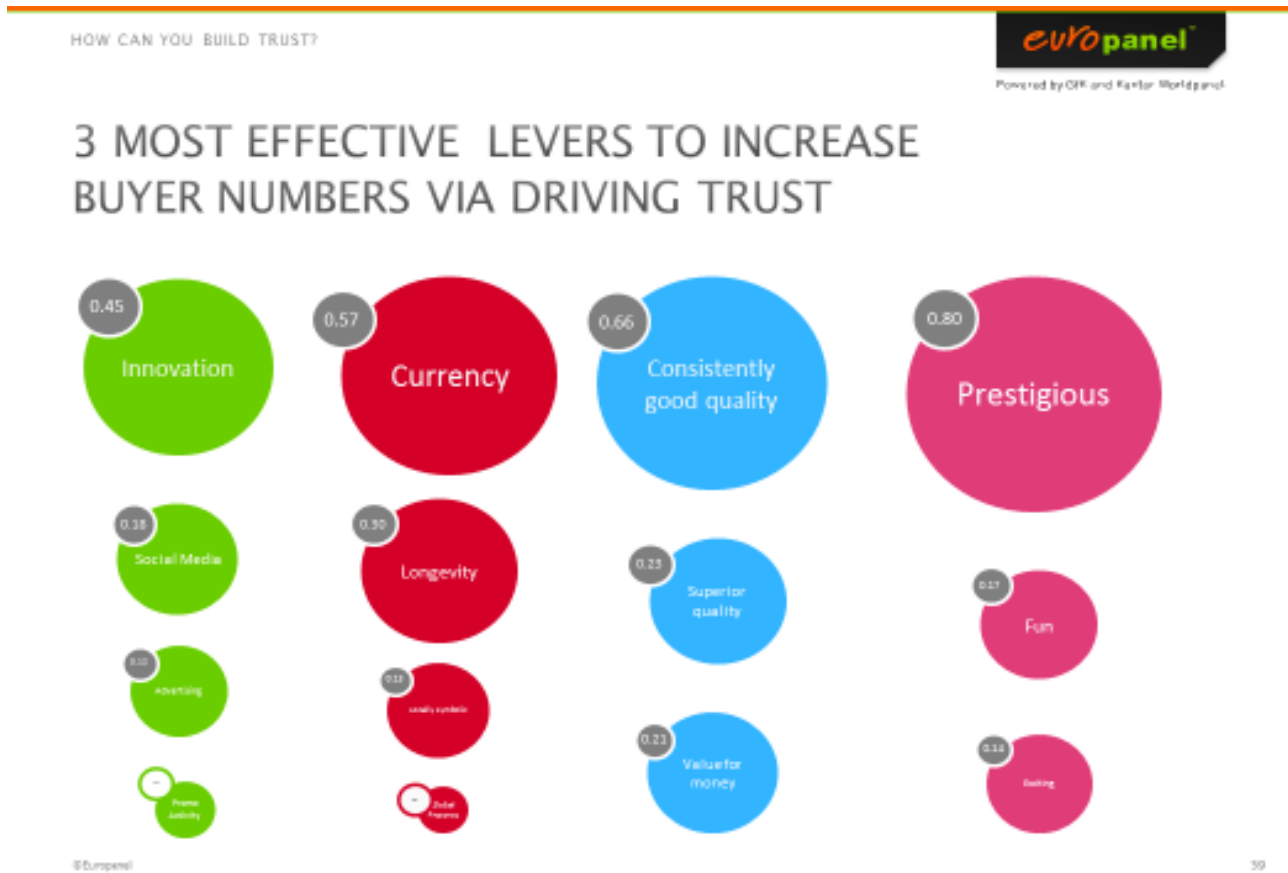
²⁰ The Europanel Study also notes that “There are many exceptions to the rule” that bigger brands tend to be more trusted, and the best-fit line for trust versus size has an R^2 of only 0.16.

²¹ The IIHD Study refers (p27) to “vulnerability” as a quality that enhances trust.

²² Being seen as “Current” is the most important driver of reputation according to the Europanel Study, with each additional 1 per cent rise in “Currency” being associated with a 0.57 per cent rise in trust. However, it is worth noting that many of the brands with high “Currency/Modernity” scores are actually rather old, with the underlying product having very little for many decades. Coca Cola is a particularly noteworthy example. This suggests that what consumers mean by “Currency/Modernity” is not necessarily novelty. And consumers are also aware of this point — Coca Cola also scored highly on the “Longevity” measure.

i.e. reputation, firms stretch (extend into new markets) if and only if quality is sufficiently high. If correct, that means that innovation that allows brands to extend into new markets is a signal of high quality.

Figure 2.1: How brands can build trust



Source: (Europanel, 2015).

2.3.4 How consumers weight or interpret the information they obtain

Consumers will differ both in how they interpret the information obtained from different sources and in how they weight the different perceived factors affecting a brand. For some consumers, the most important thing might be what a branded product can do; for others it might be that they trust the branded product to be reliable; whilst other consumers will be more interested in the brand associations (“What sort of person does consuming this brand make me?”). The same consumers might take very different views or interpret information in different ways in different contexts. For example, consumers more used to physical interaction might perceive more risk in online purchasing (e.g. online payment systems or sharing economy platforms), and vice versa. Different brands are likely to target different niches of consumers.

Research suggests that there may be systematic differences in consumer priorities between countries. That will arise from a complex host of:

- cultural norms — e.g. how promises are made and how likely they are to be kept; how willing people are to express complaints to strangers; or the relative trust people place in politicians vs priests vs businessmen vs scientists;
- consumer habits — e.g. how often consumers shop and how large their typical purchases are, thus affecting issues such as the regularity of repeated interactions;

- personal and economic security — affecting the risks consumers take in life in general and hence are willing to take in purchasing or the economic downside consumers experience in the event that a product does not work or makes them ill; and
- the relative importance of general publicity, political pressure and personal purchasing decisions as means of expressing commercial approbation or disapprobation.

The IIHD Study suggests,²³ for example, that within Europe brand reliability, relative to other brand characteristics, is more important to French consumers than to German or British consumers. On the other hand, confidence in the abilities and functionality of branded products are particularly important to British consumers as well as consumers in Italy. French consumers are also particularly keen on brands perceived as benevolent, and that is also true of Spanish consumers. More generally, that brands should be trustworthy is very important in France and Spain but less important in the UK.

Even in terms of functional dimensions there can be significant variation between countries. The Europanel Study observes that “Italy and Denmark place high trust in brands with local heritage; UK in indulgence”.²⁴

Such international variation in what characterizes a good brand creates challenges for international marketing. The Europanel Study observes: “The same brand...can be in the top and bottom [trust] tier in different countries.”

More generally, there is a suggestion that competence becomes more important when markets are more mature and more saturated. In mature markets the low-hanging fruit of me-too innovation is likely to have been harvested²⁵, whilst in saturated markets (where a wide range of preferences are serviced by existing products) the opportunity to obtain a different brand that does just what I need, even without any brand loyalty, is greater.

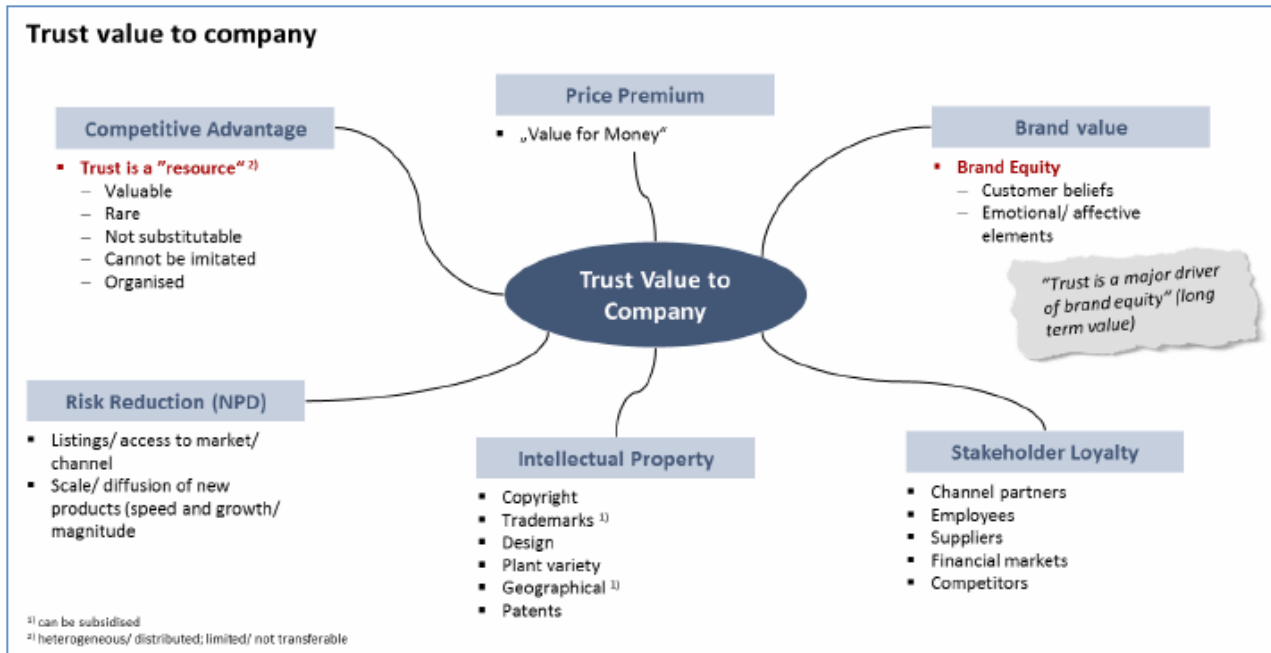
²³ See p37 of the IIHD Study.

²⁴ See also (Koll, 2015).

²⁵ Obviously this does not mean that there is no scope for innovation in such markets. Tennis rackets, home stereos, cigarettes and mayonnaise are all well-known examples of markets that were mature and yet subsequently revolutionised by innovations (carbon fibre, computers, e-cigarettes and non-salad uses, respectively). But it is important that the scope for such innovations was not so obvious to consumers in advance as it is in other markets.

2.4 The value of consumer trust to FMCG companies

Figure 2.2: The value of trust for FMCG companies



Source: (Funder, Morgan, & Valizade-Funder, 2015) Figure 14 p35.

The IIHD Study assess the following dimensions to the value of trust for FMCG companies. Trust creates:

- competitive advantage;
- a price premium, relative to less trusted brands or unbranded products;
- brand value for shareholders;
- stakeholder loyalty, including staff and investor loyalty, as well as consumer loyalty;
- intellectual property; and
- risk reduction, particularly mitigating the risks of poor consumer take-up of new innovations.

The Europanel Study considers the impacts different trust drivers have upon volume shares and penetration.

Figure 2.3: How different trust drivers affect market shares and penetration



More generally, the Europanel study notes that consumer trust promotes brand recommendation, which in turn promotes trust, which in turn promotes recommendation and this leads to growth. More trusted brands have twice as many buyers as less trusted ones and grow faster in terms of both volumes and numbers of buyers. This point is reinforced by the research in (UK Intellectual Property Office, 2011), which considers the relationship between trade marking and growth. Trade marks and brands are to some extent distinct concepts in that, for example, one parent brand might be associated with a number of trade marks (e.g. there are a number of trade marks associated with Sprite and Fanta, and Sprite and Fanta are both associated with the Coca Cola brand). However, there will be a significant overlap, at least.²⁶ (UK Intellectual Property Office, 2011) estimates the relationship between trade marks from 2000 to 2003 and firms' employment and turnover growth from 2003 to 2006. Controlling for firm age, industry levels of trade mark and patent intensity, exporter status and foreign ownership, the study finds the firms trade marking in 2000 to 2003 grew 6 per cent per annum faster from 2003 to 2006.

²⁶ It is worth noting that the American Marketing Association defines a brand as “a name, term, sign, symbol or a combination of them, intended to identify the goods and services of one seller or a group of sellers and to differentiate them from their competitors”, which is remarkably similar to the definition used by the United States Patent and Trade mark office of a trade mark, namely “a word, phrase, symbol, and/or design that identifies and distinguishes the source of the goods of one party from those of others”.

3 The Social Value of Consumer Trust in Brands

We shall discuss the societal benefits of consumer trust in brands under four categories. They are the benefits of:

- branded competition;
- more precise satisfaction of consumer preferences (including consumer activism);
- branded innovation and how it contributes to growth; and
- jobs and trade created or facilitated by brands.

3.1 Particular social benefits of branded competition

3.1.1 Reducing consumers' search and switching costs

Branding is crucial to the ability of consumers to identify the features of products. Most consumer products can come in a number of slightly different forms, and consumers differ in their preferences between these. Branding imagery is a key device by which the product communicates its nature to consumers, allowing them to discover that the product matches their (self-known) particular tastes. For example, for many products colour or shapes are used as key cues to allow consumers, quickly and conveniently, to know what they are buying. Similarly, there are conventions that indicate the kind of target market for products (e.g. that if a drink has a bottle shaped *thus* it will be an “old-fashioned” type product; if the imagery is like *this* the flavours will be targeted at children whilst if the imagery is like *that* then the flavours are targeted at adults). And, again, there are conventions regarding indicators of quality (e.g. a wine with a certain kind of label is more likely to be a premium product whilst a different label style indicates a value-for-money product).

As well as branding allowing products to communicate to consumers that their characteristics match preferences of which consumers are aware, branding is also important to consumers *discovering* their own preferences between products.²⁷ This reflects the Hayekian concept that a market is a preference discovery mechanism. Without branding, consumers would probably become more bound by what they had tried in the past, and more random if they trialled new products at all — with the trying out of new products often leading to disappointment, thereby reducing the tendency for consumers to try out new products at all.

Thus, branding allows consumers to identify and differentiate between the natures of products, assist consumers in discovering their own preferences between products, and facilitate consumer trialling, thereby considerably reducing search and switching costs.

However, in order for consumers to be able to depend upon the signals provided by brand names and imagery, they must trust that what those signals indicate is actually true. Branding imagery will tend to be more trusted if the associated brands are regarded as more trustworthy. We may, for example, be more likely to be willing to pay a premium for a wine with a label design signalling that it is a premium product if

²⁷ Note that this includes both discovering preferences between brands and discovering preferences between branded and unbranded product. For example, it may be only when I see a cup of branded Costa coffee that I realise how much more I am prepared to pay for it than for an unbranded coffee in the shop next door.

the brand of the wine is known to us or if we are buying it from a store with a well-known brand of its own to preserve. As we shall discuss in more detail in Section 3.1.2, this effect becomes particularly important for what are called “high involvement” products.

The consequence is that, to the extent they are trusted, brands create the social benefit of reducing consumers’ search and switching costs.

The broader social benefits of minority switching

In some branded markets, particularly those for FMCG goods, only a minority of consumers switch product regularly. Given the roles of brands — for example, the importance of repeat purchasing and brand loyalty — that is entirely unsurprising. But in all markets (including FMCG markets), competition is determined at the margin, typically with only a minority of consumers switching.

When the added value of brands means attracting even a small number of switchers is valuable to firms, all consumers benefit as a result of switching by that minority. Consider the following stylized narrative example. There was a town in which there was just one established shop in which to buy milk. The milk cost £1 per pint, it was only possible to buy it in pint cartons, and sometimes it went off very quickly after people took it home. People often complained, but the owners of the shop never did anything about it — after all, where else were their customers going to buy their milk?

One day a new shop opened, offering a new brand of cartons of milk at the same price but of more reliable quality. Some people that used to buy from the old shop started switching to buying the new brand of milk. Clearly these people were made better off by the extra available choice — they got better quality milk for the same price as before.

That evening the owners of the original shop reflected upon their day’s takings. They were upset to lose the revenue from their former customers, and were concerned about losing more custom. So when the shop opened the next day they cut their prices a little, so that they were lower than at the other shop. Furthermore, they started being more careful about how their milk was stored, so that it didn’t go off. Over time, they also started thinking about ways they might attract back customers of the other shop — they thought they might offer milk in different sized cartons, perhaps some in two-pint cartons, and some in six-pint cartons. So after a while, even those that stayed with the established shop were better off — their prices were lower; the quality was higher; and over time there were new innovations.

This is how competition works in the presence of product variety facilitated by brands. The availability of alternative choices creates competitive pressure on providers to reduce their prices and increase their quality, *even for those customers that do not switch*. Over the longer term it also stimulates innovation, so that those that do not switch will benefit from new product options from the same supplier. Thus, it is not required, for switching to be important to market functioning, that most consumers switch regularly.

3.1.2 Facilitating of markets where, if there were no brands, there would be market failure

Consumer trust allows brands to act as important devices markets can use to address what would otherwise be market failures. Let us consider two important situations in which such market failures might arise and which consumer trust in brands can (at least to some extent) address: asymmetric information; and two-sided markets.

Asymmetric information

The well-established economic situation called “asymmetric information” arises principally because firms are often better informed than consumers about certain detailed characteristics of products that consumers find difficult to observe directly. If I buy a second-hand car, for example, I will know less than the seller about

how likely the car is to break down. Again, in the case of the battery example discussed above, the person selling the battery knows much better than the purchaser how long it is likely to last. The issue can also arise in the other direction — consumers might be better informed about themselves than firms, which can be important in, for example, certain kinds of insurance markets (e.g. consumers that suspect they may become ill might be more likely to seek health insurance).

Insofar as consumers can trust that the signals branding (e.g. brand names and imagery) provides about the nature and quality of products, such branding allows products to communicate better their characteristics to consumers. This addresses the problem above directly, by reducing the asymmetry. But of course not all information asymmetry can be eliminated in this way. So the Market addresses these problems in two other key connected ways:

- by allowing individual consumers to enhance their understanding of products through repeated purchasing (gaining insight and trust from their own experience);
- by allowing even those that have not tried a particular product themselves to find out — e.g. by word of mouth — about its characteristics from other consumers (gaining insight and trust from the experience of others).

Brands are central to each of these. A market without brands where products are identical and have a common minimum-quality level is sometimes described as “commoditised” (in the way of commodities such as wheat or copper). If consumers perceive products as being commoditised, then each individual firm has limited incentives to achieve high quality (say — if that is the dimension of information asymmetry) because by doing so that will not make consumers more likely to buy that firm’s products again any more than those of other firms. Similarly, if no-one can identify a product with a good or bad wider reputation beyond its current consumers, firms will have blunted incentives to achieve high quality since doing so would make no difference to firms’ ability to attract new customers.

Brands allow reputation to be built up and stored (as a form of “social capital”) through repeated purchase of a specific product. The experience of repeated purchase allows consumers:

- to better learn their preference and increase their product awareness; and
- to be more credible and effective in communicating their purchasing experiences to other consumers — allowing consumers as a group to learn more fully about products and their suppliers than would typically be possible for any one consumer.

Brands are highly effective tools for both of these purposes. The Europanel Study finds that, once products are categorised into “Top”, “Middle” and “Lower” for degrees of trust, one in three consumers will recommend the “Top” trusted brands to others but only one in seven consumers would recommend the “Lower” trusted brands, with one in six consumers saying they are willing to pay more for “Top” trusted brands but only one in 14 for “Lower” trusted ones.

There is some nuancing here between categories of product. In the IIHD Study, the authors find²⁸ that in what they refer to as “high involvement” categories such as health, beauty and baby-care, “consumers are more likely to look for trusted brands”, whilst in “low involvement” categories such as canned food, beverages, bath products and household cleaning, “consumers are more prepared to try new products, even it is an unfamiliar brand”. The natural economic interpretations of this are as follows.

First, for certain of the “low involvement” categories, brand imagery — even of an unfamiliar brand — may be sufficient to communicate key aspects of the nature of products even if the brand name itself is unfamiliar.²⁹

²⁸ See p X of the IIHD Study.

²⁹ For more on brand imagery, see our discussion above at 3.1.1.

Second, for the low involvement categories, assuming they have been sourced from somewhere with its own respectable brand, and thus can be assumed to meet legal safety requirements etc., the costs and risks of failed experimentation are relatively low. If I don't like a can of baked beans, I needn't buy them again but other consequences will be limited. Conversely, for the high involvement categories, both the uncertainty about the individual's appreciation of products and the costs of any error are much higher, so the appetite to take risks with unknown brands is correspondingly lower. The Europanel Study puts the point thus: "The more intimate the relationship with the category and the higher the level of perceived risk, the more we need to trust it."

For high involvement category products there is an advantage to suppliers in establishing a reputation first elsewhere (i.e. in lower involvement categories), then porting that reputation into the higher-risk environment where it is of particular value. As the IIHD Study puts it, "Innovations within [low involvement] categories represent opportunities for lesser known brands to build trust."³⁰ This is in line with the standard findings in other economics research.³¹

Again, the IIHD Study suggests³² that when consumer budgets are more pressed (e.g. if there is a recession or if a financial crisis restricted the access of consumers to credit), they tend to become more conservative in their product experimentation. A natural interpretation of this is that consumers are less able to self-insure by purchasing another product if the original purchase proves inappropriate or inadequate. So the costs to them of taking purchasing risks become greater. They mitigate those risks by focusing their purchases on brands that appear to provide greater certainty.

A further point is that, as well as product characteristics being better understood by either the firm or the consumer, there may also be some risk that products are counterfeit. If the risk or consequences of counterfeiting are high for consumers, and if brands can provide comfort that their products are not counterfeit (e.g. because brands are very well-known and any counterfeit would be spotted and widely advertised very quickly, or because brand imagery or other identification is complex and difficult for counterfeiters to duplicate) then brands can be a powerful device for consumer reassurance.

Increased specialisation in the workplace, education and so on, as well as the increased complexity and range of products, means that the ability for firms to communicate clearly and convincingly, so as to address what would otherwise be asymmetric information problems, is of significant value in an increasing range of sectors. Whereas in the 1950s the maximum value of a company's intangible assets (including in particular the value of brands) was around 30 per cent of total value, it is now often above 60 per cent.³³

Two-sided markets

In a number of markets, the value of using a particular platform or network depends partly on how many others are using the same platform or network. Being the only person with a telephone renders a telephone useless. Having a credit card that no shops accept is also useless. Being a supplier on a sharing economy platform where there are no purchasers is a waste of time and money. In such markets a strong brand provides confidence to market participants that there will be sufficient other users of the product to make it viable.

³⁰ *Ibid* p X.

³¹ For example, (Pepall and Richards, 2002) find that strong brands have the ability to extend their brands into markets that are far from their original line of products and into fragmented markets without strong incumbents. Reast (2005) provides evidence of a significant relationship between brand trust (which is already associated with brand equity and brand loyalty), and brand extension. Ambler and Styles (1996) examined the extension process using a case study approach using data relating to 11 extension launches that was collected from major FMCG manufacturers in Europe, the USA, and Australia and concluded that the extension decisions are more related to brand development rather than product development.

³² *Ibid* p X.

³³ See (Gerzema, 2009) and (Prahalad, 2011)

On the other hand, one should be wary of reverse causality here — it could be that what gives a brand value in such a market is precisely (and only) that it has attracted a certain number of participants on either side of the network.

By avoiding market failures, consumer trust in brands creates societal benefits

Market failures, arising from asymmetric information or two-sided markets can lead to absent markets. In such situations transactions do not occur that would be to mutual benefit. If markets were thus absent, then society would lose the gains from trade — the “producer surplus” and “consumer surplus” that would otherwise arise from the transactions.

Brands allow markets to deliver these gains from trade, thereby creating societal benefits. In practical terms, that means that brands allow consumers to use goods and services they would otherwise not be able to acquire, it means that firms are able to profit from selling goods and services they would otherwise not be able to sell, and it means that workers in those firms have jobs and incomes they would otherwise not have.

3.2 More precise satisfaction of consumer preferences

3.2.1 Product variety

Consumers have diverse preferences — some prefer this, others prefer that. If products were all the same in any one market, then consumers that were very typical, very average, would be content since goods and services would correspond very precisely to their needs. But consumers that were not typical would find that the products available were often not well suited to their needs and they would have to “make do”.

Insofar as consumers can trust them, brands facilitate product variety. That means that many more consumers have their needs met more precisely or that producers with specific talents, aptitudes or opportunities are able to produce the products they are best placed to produce. As well as being a benefit in itself, that in turn has additional spillover benefits for society. First, from the consumer perspective it means that society is more complex and richly interesting³⁴, which allows consumers to learn and broaden their minds and experience, partly by experimenting for themselves but also by observing in action the preferences of other consumers. Second, from the producer perspective it means there may be more opportunities for inventors, entrepreneurs or workers with distinctive skills to give of their best, increasing opportunities for personal and commercial flourishing.

3.2.2 Consumer activism

One important class of consumer preferences are those relating to socially significant standards or ethical norms. Brands facilitate consumer activism, which can be a force for generating societal benefits (albeit sometimes an imperfect one). Consumers can use their interaction with brands, including normal feedback mechanisms used by firms themselves to garner consumer preferences, but also factors such as word of mouth or public protests, to place pressure on producers to meet the ethical norms consumers want from them.

Consumer activism can take a number of forms. By applying pressure on brands, consumer activists demand, inter alia, that firms:

- pay “living wages”;

³⁴ (WIPO, 2014) performs a regression analysis demonstrating the correlation between economic development, measured in terms of GDP per capita, and brand investment. This shows that countries with higher GDP per capita tend to spend higher proportions of GDP on brand investment. That is the result one would expect if, as we argue above, wealthier people prefer more variety.

- hire certain proportions of women or members of ethnic minorities;
- remove senior staff with certain controversial political or moral opinions;
- meet ethical norms such as “fair trade”, “organic-only” or “no animal testing”;
- meet environmental standards; and
- pursue broader corporate social responsibility actions, such as support for charities or low-cost supply in deprived communities.

Consumer activism can be a two-edged sword. Much consumer pressure is regarded as benefitting broader society, but some campaigns may impose requirements upon firms that are damaging to the interests of certain consumers (e.g. it is sometimes suggested that some requirements such as “organic-only” raise the prices of products which mean that poorer consumers are unable to purchase) or simply be generally misguided. Other countervailing possibilities include the following:

- some firms might encourage consumers to focus upon certain dimensions of their performance (e.g. that their environmental standards are high) thereby distracting from less socially positive actions elsewhere (e.g. the use of child labour);
- firms not subject to consumer activism conclude that their consumers do not care about ethical issues and so make little to no effort;
- firms may focus upon meeting the demands of consumer activists even when those demands are not as stringent as regulatory standards — consumers may be satisfied with what is done but broader society may not.

These caveats notwithstanding, it is generally recognised that brands, by allowing more effective consumer pressure to be placed upon firms, tend to drive up socially significant standards.

3.2.3 Brand identification markets

Brands allow the existence of brand identification markets — i.e. markets for products such as Rolex or Police, in which the brand itself is a key part of what is being purchased and in which the manufacturers of those goods employ techniques to control their image — for example, by paying for celebrity endorsements (e.g. David Beckham endorsing Police sunglasses). These markets, like markets for luxury goods, are characterized by the fact that consumers value manufactured goods not only for their tangible features but also for how they allow identification with the brand.

It is sometimes suggested that in brand identification markets, because the brand is itself the central thing being sold — there might be no claim that the sunglasses or handbags branded are of higher quality than unbranded sunglasses or handbags — that means the brand is free-standing and unconnected with any product sold, as it were, pulling itself up by its own bootstraps. But this common suggestion fails to grasp that what is really being sold in a brand identification market is a service, not just a good. The brand is providing the service of guaranteeing that the products it offers are fashionable or otherwise consonant with the image with which the brand is associated. In brand identification markets, product selection is often a fundamental service provided as part of the brand, indeed sometimes most of the value of the bundled good (or service)-plus-brand product the brand creates.

Consumer trust is crucial in such cases, where part of the service provided by or implicit contract with the brand is that it will continue to maintain its associations (e.g. to be fashionable). Suppose for example that a brand presented itself as being for fashionable people, but sold all-pink handbags when, in truth, black-and-white spotted handbags were in fashion. Such a brand would lose credibility with its actual or potential customers. Consumers who are purchasing an ongoing identification with a brand need to be able to trust that that identification will indeed continue as promised.

3.3 Innovation and growth

Economists understand innovation to mean the search for and adoption of new processes (i.e. cost-reducing or quality-enhancing technologies or organisational techniques), or product innovations (i.e. technologies for producing new products).³⁵ According to Eurostat, between 2010 and 2012, across the EU28, 23.7 per cent of firms engaged in product innovations, 21.4 per cent implemented process innovations and 27.5 per cent introduced organisational innovations.³⁶

3.3.1 The Role of Brands in Innovation

Brands can contribute to innovation in processes. For example, firms with brands that have a reputation for reliability may innovate in their production processes so as to make their product ever more consistent and reliable.

However, the main contribution of brands to innovation will be in the form of new products. Past research for AIM, conducted by PIMS (Profit Impact of Market Strategies) in 1995, found that branded businesses innovate twice as much as non-branded businesses. Furthermore, branded businesses gain more by innovating, adding £2 in value for every £1 spent on research and development, versus a ratio of 1:1.3 in less brand-intensive sectors of the economy.

Moreover, the presence of brand loyalty generally allows firms (e.g. FMCG manufacturers) to achieve more rapid market penetration for new products. When consumers trust a brand, having had good experiences with it in respect of some product, they may be more willing to experiment with that same brand with new products. However, it is important to recognise that consumer trust may be product-specific and there is an additional step in making consumers trust a brand as opposed to a product — a brand whose previous products have been unreliable or other of poor quality may be unlikely to garner high consumer trust, but there is no guarantee that consumers will trust a brand with new products just because they found past products reliable and of the desired quality. Some brands are more suited to extended to other products than others. For example, the Virgin brand has been used to sell products ranging from FMCG (e.g. Virgin Cola) through airlines (Virgin Atlantic) to pay-TV (Virgin Media) to gyms (Virgin Active) to financial services (Virgin Money). It is much less clear that other brands used to sell FMCG product could be extended in the same way. Would a Toblerone Airways or a Toblerone Gyms be able to leverage the good reputation Toblerone has as a chocolate product?

Innovation can be particularly risky in respect of FMCG products. According to some estimates,³⁷ between 80 and 90 per cent of new FMCG product introductions fails, especially in saturated but highly innovative product categories (e.g. toiletries or cosmetics). Because it is so risky introducing a new product in these sectors, the right brands can greatly facilitate consumer take-up — a firm that has established consumer trust with existing products and for which a brand reputation can be extended credibly to new products will find take-up of new products easier.^{38,39}

³⁵ (Shy, 1995).

³⁶ http://ec.europa.eu/eurostat/statistics-explained/index.php/Innovation_statistics.

³⁷ See p24 of the IIHD Study.

³⁸ See (Boyd & Mason, 1999).

³⁹ (Aghion, Bloom, Blundell, Griffith, & Howitt, 2005) investigate the relationship between competition and innovation in terms of how competition may increase the incremental profit from innovation and how it may also reduce incentives to innovate on the other hand. The empirical evidence confirms the existence of an inverted U-shaped relationship between product market competition and innovations. Their findings indicate an escape-competition effect should dominate at lower levels of PMC as measured by the Lerner index.

3.3.2 The social value of innovation

Economists have long recognised the importance of innovation, as well as the importance of competitive markets, in securing maximum welfare gains to consumers and producers.⁴⁰

Social welfare as defined by economists is usually calculated by summing “consumer surplus” and “producer surplus”. Each consumer’s “surplus” is defined as the difference between what she would have been willing to pay for a product and what she actually did pay — also sometimes called the consumer’s “gains from trade”. Consumer “welfare” is then typically conceived of as the sum across consumers of their individual surpluses. Producer surplus typically refers to the aggregate profits firms make in a specific market. Economic theory demonstrates that the more competitive and contestable⁴¹ markets are, the more effective they are at securing welfare gains.

Furthermore, economists are not only concerned with ensuring that markets are as competitive as possible. It is recognised that innovation can also, and independently of competition, secure welfare gains for producers and consumers. Even markets that are not particularly competitive in their structure, taking a monopolistic or oligopolistic form, for example, can generate welfare increases through innovation. A well-known example of this is in information technology. This includes both innovations by players with market power (e.g. Microsoft) and market dynamics that replace one dominating player with another through technological change (e.g. if “android” operating system mobile devices were to replace iPhones and iPads).

3.3.3 The role of brand-facilitated innovation in economic growth

Innovation is one of the main drivers of economic growth. Total factor productivity (a measure of technological change) accounts for about 70 per cent of UK productivity growth (the key determinant of long-term growth in economic output per person).⁴²

Some technological change is improvements in processes — more efficient, lower-cost or higher-reliability production methods. As noted above some of that will be attributable to brands. But the main contribution of brands to innovation is likely to come from innovation in the forms of new products.

Consumer trust in brands could in principle also be associated with GDP growth in ways additional to innovation. For example, if developing trust in brands (without new innovation) allowed branded products to address more (or to better address) market failures over time, brands could contribute to growth even without innovation. Again, if developing trust in brands tended to mean the signals provided by branding were ever-more reliable, consumer search costs would fall continuously as consumer trust rose.

Insofar as growth is driven by capital accumulation where the capital in question is servicing branded products or is inherent in the brands themselves (e.g. as brand equity) these could also be growth drivers, but such capital accumulation is unlikely to have a direct connection to consumer trust.

In attempting to estimate the proportion of growth that is attributable to brands and thus, as we have explained, mainly facilitated by consumer trust in brands, we can use statistics on and models of the impact of trade marks at the firm level.⁴³ According to (EPO & OHIM, 2013) trade mark-intensive industries (which, for our purposes, we shall understand as industries in which brands are prevalent) account for 34 per cent

⁴⁰ See for example, (Ambler, 1997).

⁴¹ A “contestable” market is one in which, even if there is only one firm, the threat of a new firm entering the market is sufficient to keep the market operating at the competitive equilibrium. Such markets are of particular interest in an innovation context, as sometimes the threat of a new innovation is sufficient to make a market in there is only one current player contestable.

⁴² BIS Innovation Report 2014, p25.

⁴³ For the relationship between brands and trade marks, see Section 2.4 above, especially Footnote 26.

of EU GDP. We obtained the list of trade mark intensive industries from the (EPO & OHIM, 2013) report⁴⁴ and compared growth in these sectors with growth in the EU economy as a whole. This showed that in the period 2009-2011⁴⁵, those trade mark-intensive sectors (i.e. sectors in which brands are more prevalent) for which data were available grew at an average of 3.9 per cent per annum versus only 1.85 per cent for GDP as a whole.⁴⁶ We estimate that growth in the non-trade mark-intensive sectors of the economy was only 0.84 per cent. So the more rapid growth in the trade mark-intensive sectors added 1.0 per cent to annual GDP growth from 2009 to 2011.

That illustrates the significance of the innovation facilitated by consumer trust in brands for GDP growth.⁴⁷

3.4 Jobs and trade

3.4.1 Jobs and wages in branding-intensive sectors

Brand-building activities create jobs. More than one in five people are employed in trade mark intensive industries and design intensive industry employs 12 per cent of EU workers. Employment in trade mark-intensive sectors amounted to 45.5m and 26.6m in design-intensive sectors.⁴⁸ Further, average wages are 41 per cent higher in IPR-intensive than in non-IPR intensive industries. For trade mark and design intensive industries the wage premium is 42 per cent and 31 per cent respectively.⁴⁹

The study reports higher wages in firms with IPRs, the strongest effect is associated with owning patents (41 per cent), followed by design (23 per cent) and trade marks (19 per cent). Although in terms of revenue per employee, patents, compared with trade marks and designs, seem to be less associated with “extra” performance, they are the IPR type that on average generates the highest rewards for employees.⁵⁰

3.4.2 The role of brands in facilitating cross-border trade.

When products are sold very locally, consumer trust and intellectual property protection can be maintained via direct knowledge and direct social networks.⁵¹ In such a context, much of a small firm’s innovation or

⁴⁴ (EPO & OHIM, 2013) Table 29.

⁴⁵ The only years for which data were available were 2008 to 2011. We excluded 2008 from the series as being the peak of the boom, so as to abstract from the main effects of the Great Recession. We should offer the caveat that there could still be some remaining Great Recession impact in that the recovery phase might not be typical of the average for the economy in more stable times.

⁴⁶ The sectors for which we could obtain data (after filling in missing values) comprised 22 per cent of GDP by the end compared with the total of 34 per cent for such sectors. That suggests that our coverage, though not complete, was very significant. In our calculations that follow we assume that the sectors for which we lacked data were similar to the sectors for which we could obtain data. That allows us to scale the sectors in the proportion 34/22.

⁴⁷ (WIPO, 2014) investigates the accounting contribution of brands to labour productivity via its impacts upon intangible capital. It identifies a very small effect of what it terms “brand equity” upon intangible capital, with brand equity contributing 0.07 percentage points of the EU total intangible capital annual growth rate of 0.52 per cent (Table 3). However, (WIPO, 2014) notes that “[the] contribution of brand equity is rather small, but...some part of organizational capital is in reality a contribution from investments in branding/marketing.” For the EU organisational capital contributed an additional 0.11 percentage points of the 0.52 per cent total. From 1980 to 2011, of an average 2.25 per cent annual increase in output per hour, WIPO attributes 0.03 percentage points to brand equity (Table 4). Though interesting in its own terms, in our view this WIPO research does not provide a meaningful basis for estimating the contribution of consumer trust in brands to GDP growth. That contribution does not come principally through brand equity but, instead, through facilitating the existence of otherwise-failed markets, through reducing consumer search costs and, most importantly, through facilitating process and product innovation.

⁴⁸ (EPO & OHIM, 2013).

⁴⁹ (EPO & OHIM, 2013).

⁵⁰ (Europe Economics, 2015).

⁵¹ (Laperche, 2009).

broader “intellectual heritage” arises spontaneously, on a daily basis, in response to demand rather than from a broader innovation strategy. As a consequence, more often than not, craft enterprises do not possess a systematic and strategic process by which to manage their ‘knowledge capital’ / intellectual property either via formal property rights protection or more generally by the establishment of a brand. Firms are aware of owning such an ‘intellectual heritage’, but do not translate it into ‘knowledge capital’.

Once products are sold further afield, it becomes necessary to make greater use of brands, and the trade marks and more elaborate designs associated with establishing a brand, and of more formal intellectual property protection thereof. Brands allow firms to achieve similar effects to direct knowledge and intimate local networks on a much larger and more geographically spread scale.

Another factor in trade is the impact that a brand can have upon a country’s reputation — either for good or ill. A strong and respected brand such as Coca Cola, Stella Artois, the BBC or Mercedes may enhance a country’s general reputation, creating a “country brand” with which other export brands may be associated. Conversely, scandals such as the LIBOR scandal or recent events affecting VW might damage a country’s brand.

According to (EPO & OHIM, 2013), trade mark-intensive sectors account for 76 per cent of both EU imports and exports.

4 Conclusion

In this report we have considered the role of consumer trust in the economics of brands. We found that:

- Consumer trust *consists in* some combination of a belief in and ability to rely upon products acting in predictable ways — ideally functioning as they claim — and a belief that those associated with a brand have goals and/or values that are aligned with the consumer's.
- Consumer trust is *developed through*:
 - consumers perceiving a gap between how things are and how they could have been;
 - consumers obtaining information about how things are with the brand and its associated products;
 - what the sources of information say about the brand; and
 - how consumers weight or interpret the information they obtain.
- Brands convey information to consumers in a number of important dimensions, including in particular:
 - what the brand's products do or are — their abilities and functionality;
 - how consistent and reliable the brand's producers and suppliers are in getting products to consumers that either do what is intended or at least fail only with predictable regularity in predictable ways; and
 - how aligned the brand's broader objectives are with the consumer's.
- Consumer trust is most *created when* consumers perceive brands as:
 - innovative;
 - current;
 - consistently good quality; and
 - prestigious.
- Consumer trust in brands creates social value in a variety of ways:
 - It reduces consumers' search costs by enabling them to rely upon the signals provided by branding names and imagery. By facilitating switching in this way, brands also create social benefits for consumers that do not switch, as the quality of all products is raised as firms compete to gain those that do switch.
 - It means that where otherwise there might be missing markets because of market failures associated with asymmetric information or two-sided markets, trust in brands allows markets to flourish, serving consumer needs.
 - It facilitates product variety, which previous research suggests is valued highly by consumers, to the extent that in wealthier countries higher proportions of GDP are devoted to providing brands.
 - It enables consumer activism, which tends to drive up ethical standards and align the practices of firms more with the consumers and societies they serve.
 - It allows firms to enter into implicit ongoing trust relationships with consumers, in turn allowing markets in which identification with a brand and the guarantees and ongoing image it provides are themselves the key products.
 - It guides and facilitates innovation in branded products, enhancing consumer choice and advancing economic growth. We have presented a new model of the impact of brands upon growth, finding that from 2009-2011, more rapid growth in brand-intensive sectors added around 1 per cent to annual GDP growth.
 - It creates jobs developing and maintaining brands. Around one fifth of all EU employees work in brand-intensive sectors.
 - It facilitates exports, as firms are able to duplicate some of the effects of local social networks on an international stage and scale. Strong brands may even enhance the brand of the country in general.

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