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# Marketing Budgeting, Marketing Activities, and Distributor Loyalty: the Mediating Effect of Brand Equity

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## To cite this document :

Gregorius Wahyu Kurniawan, Firdaus Basbeth, & Assoc Prof. Dr. Leonnard Ong, SE, M. Comm. (2021). Marketing Budgeting, Marketing Activities, and Distributor Loyalty: the Mediating Effect of Brand Equity. Conference Series, 3(1), 744-759. Retrieved from <https://adi-journal.org/index.php/conferenceseries/article/view/407>

## Abstract

*In reaching their customers, the producer of fast-moving consumer goods (Keller, 1993) use distributors' channels to reach their end-user. Despite having a strong brand globally, with 9.04 bio USD of brand value (2020), the company experienced steady growth with higher marketing budget spending from 2017 to 2019. The trend of operating incomes has not improved. The effect of brand equity on loyalty in the B2B segment has not been conclusive. The study aims to find out the level of distributor loyalty, the effect of marketing activity, marketing budgeting, and brand equity on distributor loyalty. The research strategy was a survey, conducted with a quantitative method, with 65 distributors as respondents. The data was analyzed with a descriptive statistic and hypotheses were tested using SmartPLS3. The result has shown that the level of distributor loyalty was good, there was a positive significant effect of marketing activity on loyalty, a positive significant effect of marketing activity on brand equity, and a positive significant effect of brand equity to distributor loyalty. However, there was no effect of marketing budgeting to brand equity. The study gave a contribution to the industrial market segment or B2B marketer, for them to be able to invest marketing activity spending into the right marketing activity mix, suited to the market condition to achieve a*

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*better return of investment. Building brand equity in the industrial market segment is as important as consumer market. However, marketers shall be able to differentiate the approach, since the brand equity measures for the industrial market segment are different as compared to the consumer market.*

*Keywords: Brand Equity, Distributor Loyalty, B2B FMCG Industrial Market, Marketing Budget.*

## I. INTRODUCTION

The industrial business market segment or B2B is the set of all individuals and organizations that acquire goods and services that enter into the production of other products or services that are sold, rented, or supplied to others. The industrial market is different as compared to the consumer market since it will involve organizational buying which is more functional, and rational in decision making (Kotler et al, 2006). 3M has a strong brand globally, with 9.04 bio USD of brand value (2020), and ranked number 15 by Global Rep Track (2020), and number 64 on Best Global Brand (2019) by Interbrand. The businesses use distributors as chains to supply their product to the customer. The company experienced higher budget spending from 2017 to 2019, however, the trend of operating incomes was not reduced, many did not result in business growth & performance. COGS were high due to mainly inventory costs instead. Business growth during the year 2017 – 2019 was from trade promotion which resulted in more transactional buying instead of long-term distributor loyalty. Distributor loyalty is one of the important factors for B2B company business performance since the trend of utilizing a distributor is still around and going to thrive (Mudambi et al., 2001).

In the past decades, there is still a huge debate, mainly in the industrial segment, on the importance of brand equity and the relationships with loyalty for their business. Most of the research relates brand equity to customer loyalty only, while refers to Eggert (2012), this is only part of the customer retention factor since the loyalty to brand and channel or distributor are evenly split. Customers are willing to pay a premium from a company with a good reputation (Vyravene et al., 2016). Brand attributes are matters on the rational buying decision-making process and customer loyalty (Gomes et al., 2016). According to (Tjan, 2015) and (Vyravene, 2016), customer loyalty, was influenced by brand equity (Chandra, 2015) and marketing activity (Hutagalung et al., 2017; Erdogmus et al., 2012; Rumman et al., 2012, Laksamana, 2018). Related to marketing activities, budget allocation to support the program would affect the number and quality of marketing activities. However, there is little research available in evaluating the relationship between marketing budgeting on brand equity.

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Perceived advertising budget allocation has a positive impact on brand awareness (Buil et al., 2010), Therefore, this study aims to evaluate the level of distributor loyalty, the effect of brand equity to loyalty, the effect of marketing activities on distributor loyalty, and the marketing budget on brand equity for the B2B market.

## II.LITERATURE REVIEW

### A. Relationship between Marketing Activities and Distributor Loyalty

Relationship marketing was found to have a positive impact on customer loyalty in the banking sector (Ruswanti, 2016). While Tjan (2015) found that marketing activity in a form of promotion has a positive impact on customer loyalty in the shopping center business. Based on the explanation above we posit that

H1: Marketing activities has a positive effect on distributor loyalty

### B. Relationship between Marketing Activities and Brand Equity

As noted, brand equity has been defined in a variety of ways, depending on the particular purpose, for instance from the perspective of the consumer. The advantage of conceptualizing brand equity from this perspective is that it enables managers to consider specifically how their marketing program improves the value of their brands. Customer-based brand equity is defined as the differential effect of brand knowledge on consumer response to the marketing of the brand (Keller, 1993). Thus, according to Keller (1993), a brand is said to have positive or negative brand equity if consumers react more or less favorably to the product, price, promotion, or distribution of the brand. During the decade, there is a lot of research that explores marketing activity, mainly in a form of social media and online activity impacting brand equity. It was found that marketing activity such as social media campaign will have a positive impact to brand equity in the entrepreneurship sector (Hutagalung et al, 2017), banking sector (Laksamana, 2018), mobile services sector (Rumman et al. 2014), and general consumer market (Erdogmus et al., 2012). Marketing activity intensity has a positive relationship with brand equity (Chandra, 2015).H2: Subjective norm positively influences firm performance. Based on

H2: Marketing activities has a positive effect on brand equity

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### **C. Relationship between Marketing Budget and Brand Equity**

The higher the advertising spending of a company, the higher the brand awareness will be, even if it will not give a significant impact on perceived quality and brand associations (Buil et. al, 2010). Even it did not support the whole element of brand equity, but there is somehow a perception of one of the elements of brand equity which is awareness. However, the marketing spending will not necessarily build brand equity positively, for instance, monetary promotions will not give a significant impact on brand associations (Buil et al., 2010).

H3: Marketing budget has a positive effect on brand equity.

### **D. Relationship between Brand Equity and Distributor Loyalty**

According to Gomes et al. (2016), brand attributes are relevant in the B2B decision-making process, and there is a positive impact of brand relevance to customer purchase and loyalty. Ramaseshan et al. (2013) found different results, wherein the research it was found that there is no significant impact between brand equity and customer loyalty on the B2B context. Therefore, debate among researchers is going on, mainly for the B2B context. Based on the above explanation, the below hypothesis is shaped

H4: Brand equity has a positive effect on distributor loyalty.

### **E. The Mediating Effect of Brand Equity**

El Naggari and Bendary (2017) stated that there is a mediating effect between brand equity in the relationship between experience and brand trust, and Hu (2012) found that there is a mediating effect of brand equity in the relationship between service quality and loyalty. Shabbir, Khan, and Khan (2017) scholars have found that brand awareness mediates the relationship between loyalty to equity. A very few study in the B2B market evaluate brand equity as a moderating variable in the relationship between marketing activities and loyalty. From the previous research that marketing activities has a positive effect to brand equity and brand equity has a positive effect on loyalty, therefore we hypothesized the following

H5: Brand equity has a mediating effect on the relationship between marketing activities and distributor loyalty.

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### III. RESEARCH METHOD

The study used a quantitative survey using a questionnaire, proportionate random sampling with data collection started from July to September 2020. The target respondent was distributors which held more than one brand in their portfolio. Respondents head office are mostly located in the province of Jabodetabek area (80.49%), Central Java and DIY (4.88%), East Java (4.88%), Sumatera (4.88%) Kalimantan (2.44%), and Sulawesi (2.44%). The target respondent was the distributor's manager, according to Cohen (1992), the recommended sample size for data to be analyzed in SmartPLS3 with a significant level of 5%, expected R2 of 0,5, minimum recommended samples was 42. SmartPLS3 is particularly suitable for small samples with complex models; a prediction-oriented method that does not require strong theory (Henseler et al., 2014). The questionnaire utilized a 7 Likert scale from strongly disagree (1).to strongly agree (7). Survey questionnaires were used in light of the theoretical background of brand equity (Ajzen, 1991).

Measurement of marketing activities was based on Kotler (2016), measuring the multi-dimension of advertising activity, sales promotion, and trade spending activity, event & experiences activity, public relations and publicity activity, online & social media activity, direct database marketing, and personal selling activity. Measurement of the brand equity variable was using questionnaires from Keller (2003) and Kuhn Et al. (2006). Marketing budgeting measurement is according to Kotler (2016), which are categorized as an affordable method, percentage of sales method, competitive parity, method, and objectives & task method, and lastly, distributor or channel loyalty was measured using a multidimensional questionnaire by Narayandas (2015): purchases or their business performance and growth, efforts to grow the business, satisfaction in doing the business, endorsing the principal product to sell, willingness to grow the relationship, resist competitor blandishment, willingness to pay a premium, seeks to collaborate on new product development, may invest on principal business growth. The validity and reliability of the questionnaire were tested against the criterion used Pearson's correlation and Cronbach's Alpha and resulted in correlation value more than 0.3 to indicate that the questions are valid, and Cronbach's alpha was all above 0.7 indicating reliability was fulfilled.

### IV. RESULT

Distributor loyalty has high mean value (5.77) shown that distributor has loyalty to brand, although they deal with another segment in their portfolio, such as automotive business (22 distributors), oil and gas (16 distributors), manufacturing, construction and logistics (5 distributors). Evaluation of the measurement model (Figure 1) has accomplished through

three criteria for reflective measurement models 1) internal consistency 2) convergent validity 3) discriminant validity (Hair Jr, Hult, Ringle, & Sarstedt, 2014). Firstly, internal consistency reliability can be accomplished by composite reliability and/or Cronbach's alpha coefficient tests. Composite reliability is considered more suitable for PLS because it does not assume equal indicator loadings (Becker, Klein, & Wetzels, 2012; Hair et al., 2014; Wilden et al., 2013). While Cronbach's alpha assumes equal indicator loadings, should exceed 0.70. The measurement model test shows that all outer loading is above 0.7, internal consistency and reliability, shown by Cronbach's Alpha and composite reliability are above 0.7. For convergent validity, the outer loadings are greater than 0.7, and yield an AVE higher than 0.5 indicates the convergent validity criterion is fulfilled Hair et al. (2014). To establish discriminant validity, we evaluate the cross-loading and Fornell-Larcker, HTMT, and observe that all criterion was fulfilled. Further, we tested the HTMT values are significantly different from 1, therefore discriminant validity is established.

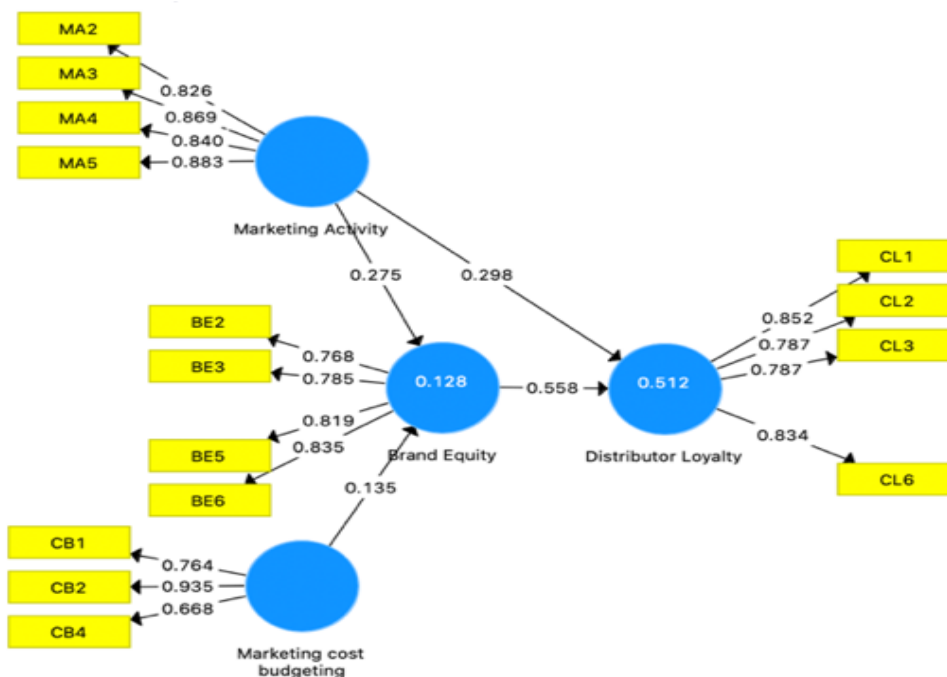


Figure 1. Research model.

Source: author, 2020

The structural model next was evaluated in PLS-SEM using some criteria collinearity (VIF), path coefficient, the level of (R<sup>2</sup>), the (f<sup>2</sup>)effect size (Hair Jr et al., 2014). The result of the evaluation was shown in Table 1.

Table 1 Result of structural model and hypothesis

Relationship	Path coefficient	R <sup>2</sup>	VIF	f <sup>2</sup>	T value	p value	Remarks
Marketing Activity → Distributor Loyalty	0.297	0.512	1.128	0.161	1.829	0.034	H1 supported
Marketing Activity → Brand Equity	0.275	0.128	1.268	0.068	1.614	0.053	H2 supported
Marketing budgeting → Brand Equity	0.135	0.128	1.268	0.016	0.646	0.259	H3 not supported
Brand Equity → Distributor Loyalty	0.558	0.512	1.128	0.564	4.578	0.000	H4 supported

Note: \*Significant at 0.05(1-tailed)

As can be seen from Table 1 R<sup>2</sup> of distributor loyalty is 0.564 (large), which indicates high variance accounted for variable endogenous. The inner VIF values reported for all numbers are below 5, indicating that all construct free from the collinearity problem. The effect of marketing activities on distributor loyalty was medium (0.297) and significant (1.829 and 0.0349) hence, hypothesis 1 is supported. The effect of marketing activity on brand equity showed by a low value of path coefficient (0.275), with t-stats and p-value (1.6142 and 0.053) indicates that Hypothesis 2 is supported. The effect of marketing budgeting on brand equity has a low positive effect (0.135) and not significantly with t-stats and p-value (0.646, and 0.259), therefore Hypothesis 3 is not supported. Finally, the effect of brand equity to distributor loyalty showed a high value of path coefficient (0.558) with t-value, and p-value (4.5783 and 0.000), giving an indication hypothesis 4 is supported.

To test the moderating role of gender in the relationship between personal attitude, subjective norm, perceived behavioral control, and EI, we test the measurement model and structural model separately for females and males. These hypotheses were tested utilizing the SmartPLS3 bootstrapping technique with 5000 subsamples to assess path coefficients' significance and t values to test the predictive and moderating potential of gender. The result was summarized in Table 2.

Table 2. Mediating effect of brand equity

Indirect effect	Path coefficient	T Statistics	P Values	Confidence Interval Bias corrected		Remarks
				5.0%	95.0%	
Marketing Activity → Brand Equity → Distributor Loyalty	0.153	1.240	0.107	-0.003	0.394	H5 not Supported

Note: \*Significant at 0.05(1-tailed)

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The result shows that the indirect effect from marketing activity  $\square$  brand equity  $\square$  distributor loyalty is (0.153), t value (1.240), and p-value (0.107), and confidence interval bias corrected at 5% and 95% does include zero, indicate non-significant effect, and brand equity does not mediate the relationship between marketing activity and distributor loyalty.

## V. DISCUSSION AND RESEARCH IMPLICATION

In the relationship between marketing activities and distributor loyalty, it was found that there is a significant positive impact between marketing activity conducted by the principal with distributor loyalty, this supports the hypothesis. This confirms the findings from Tjan (2015), Ruswanti (2016), Vyaravene (2016) which explored the banking industry, and consumer market segment. This research result supports the hypothesis that marketing activity is having a positive relationship with distributor loyalty in the B2B or industrial market segment. To increase distributor loyalty, marketers might invest the marketing activity on the activity of trade promotion, event and experience, social media, and publication. The marketing activity supported was the one suited to the served segment characteristic, such as trade promotions, events and exhibitions, publications, and social media. This is because of purchasers of automotive, manufacturing, and construction which dominates this research respondents mostly seeking their purchase information at the above-mentioned platform since their decision-making is more rational and functional. As has been mentioned, there is no mediation effect of brand equity (El Naggat & Bendary) for marketing activity (MA), and distributor loyalty (CL).

In the relationship between marketing activities and brand equity, the research found that there is a significant positive effect between marketing activities conducted by the principal and principal brand equity. These findings are consistent with the findings from Erdogmus et al (2012), Rumman et al., (2014), Laksamana (2018), Chandra (2015), Hutagalung (2017). Refers to the result, marketing activity will have a positive effect on brand equity, but the type of marketing activities and parameters on brand equity will be specific to the B2B segment, since most of the respondent are serving automotive (53%), manufacturing (49%), and construction industry (46%), therefore some types of marketing activity will affect their brand perceptions. Brand equity for the B2B segment is more functional, therefore the perception of brand equity will not merely be driven by marketing activities, but the services and experiences provided by the company as well.

In the relationship between Marketing Budget and Brand Equity, it was found that there is no significant impact and relationship between marketing cost budgeting to brand

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equity, therefore the hypothesis is rejected. This is not consistent with Buil et al (2010) finding, wherein in this case there is a perception that advertising spending allocation has a positive impact on brand awareness. But in this case, it will not enhance brand perception and brand association. However, Buil et al. (2010) findings also were not supporting the whole brand equity parameters. Therefore, further research can be conducted to verify these findings. This is mainly because most respondents are serving automotive (53%), manufacturing (49%), and construction (46%) business and most of them already know 3M as a strong global brand, therefore distributors perceive that spending on marketing will not increase or have a positive impact to the brand equity.

In the relationship between brand equity and distributor loyalty, according to the research, it was found that there is a significant positive impact between principal brand equity and distributor loyalty, therefore the hypothesis is supported. It is consistent with the result from Gomes et al. (2016) where it was found that the brand is a matter in the rational B2B decision-making process and has a positive impact on customer purchase loyalty. This confirms Vyravene et al. (2016) as well, where it was found that customers are willing to pay more as part of loyalty behavior to a company with a good reputation as part of the brand equity measures element. This research finding is not consistent with Ramaseshan et al (2013) findings where the finding was that there is no significant impact of brand equity on customer loyalty on the B2B market segment. The probable reason was that most of the respondents are serving automotive (53%), and manufacturing (49%), where at the served segment, the 3M brand has been well known, and strong globally, therefore the distributor is loyal to the brand. To increase distributor loyalty, a manager might focus on the activity of building a salesforce relationship and building a partnership relationship with the distributor. Another thing was that brand equity for the B2B segment is more functional, therefore the perception of brand equity did not merely drive-by marketing budget allocation, but the services and experiences provided by the company. From the analysis, it was found that there is a significant difference in distributor loyalty to the test value. Therefore, it is found that the distributor loyalty is high, and the possible root cause of a decrease in business growth and gross margin, even if marketing activity and investment were conducted is not on distributor loyalty.

Lastly, we tested whether brand equity mediates the relationship between marketing activity and distributor loyalty, it was found that brand equity does not mediate the relationship between marketing activities and distributor loyalty. It implies that brand equity does not have an elevation power to multiply the effect of marketing activities to distributor loyalty. Marketing activities only give a positive impact directly to distributor loyalty. To increase distributor

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activities to improve the principal bottom line, the company should not rely only on brand equity.

## VI. CONCLUSION AND RECOMMENDATION FOR FUTURE RESEARCH

The level of distributor loyalty is found as high, it is significant above the test point of 4. This answer research question number 1 on understanding the loyalty level of 3M Indonesia distributor. Marketing activity has a positive effect on distributor loyalty and marketing activity has a positive effect on brand equity. The marketing budget does not have a positive effect on brand equity and brand equity does not have a mediating effect on the relationship between marketing activity and distributor loyalty.

This research provided a new perspective on marketing activity, marketing activity budgeting, brand equity, and the correlation of those factors to distributor loyalty. The point of view of the distributor is something that not much researchers explored as well. Therefore, this research provides a different point of view. The study gave a contribution to the industrial market segment or B2B marketer, for them to be able to invest marketing activity spending into the right marketing activity mix, suited to the market condition to achieve a better return of investment. The industrial market segment marketer will also understand that building brand equity is similarly important for the industrial market segment as compared to the consumer market. However, marketers shall be able to differentiate the approach, since the brand equity measures for the industrial market segment are different as compared to the consumer market.

The research was conducted at small sampling and general industrial market segments. It will be better if future research was conducted at a bigger sampling distribution and specific industrial market segment industry. Since the characteristic will be different from one to another. Other limitations were that the study variable dimension was too general, such as for marketing activity it covers all mixes of marketing activities and does not specifically touch one mix. The limitations were also applied for brand equity, which covers general and all levels of brand equity measures. Therefore, future research can be conducted at larger but specific industrial business market segment industry respondents. This is to cover different characteristics of each different industry. On marketing activity, it will be good to have detailed research for each marketing activity mix, since the current study on the marketing activity of the industrial market segment is still limited. Research points of view on marketing activity and budgeting shall be perceived from the principal point of view as well, to have more objective results. Brand equity could be detailed down since there might be a component inside brand

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equity measures that are strongly impacted by marketing activities. This research is one-time research, to elaborate more on the effect of marketing activity, marketing budget, brand equity, to distributor loyalty, for future research it is suggested to use the longitudinal study to understand the effect of before and after marketing activities increase or decrease.

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