Gudlaugsson, T. (2018). The image of Costco in Iceland and its impact on the grocery store market. *Journal of Academy of Business and Economics, 18*(3), 93-103

THE IMAGE OF COSTCO IN ICELAND AND ITS IMPACT ON THE GROCERY STORE MARKET

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ABSTRACT

In May 2017, Costco opened a superstore in Iceland. Costco is one of the largest retailers in the world, and the opening of the store was expected to have a major impact on Iceland's grocery market. This paper focuses on the image of Costco in Iceland and its impact on the grocery store market. The results are based on 2,891 responses to a survey conducted in September and October 2017. The grocery stores or chains evaluated in the survey were Fjarðarkaup, Nettó, Hagkaup, Víðir, Bónus, Iceland, Costco and Krónan. Before Costco opened its store, Bónus and Krónan were the largest grocery stores in Iceland, together accounting for approximately 55% of the market share. Hagkaup and Fjarðarkaup are classified as quality stores with relatively high prices.

A perceptual mapping methodology was used to examine store image. The image attributes considered have been used previously in several other surveys and are as follows: "freshness," "low price," "great product range," "boring," "different," "high price," "quality," "opening hours" and "fun." The participants evaluated each store on all attributes using a nine-point scale, on which 1 denotes "applies very poorly to this store" and 9 "applies very well to this store."

The findings are robust as scores for the attributes "low price" and "high price," as well as "boring" and "fun," tend in opposite directions. Costco was found to have the strongest image and this is closely associated with the attribute "low price" along with several other positive attributes. Bónus is closely associated with the attribute "low price" but also with the negative attribute "boring". Hagkaup, which, prior to Costco's opening, was closely associated with several positive attributes, is now associated with the attribute "high price" and has much weaker associations with the positive attributes assigned to it prior to Costco's market entry. Other stores have market positions similar to those they occupied before Costco entered the market.

Keywords: Costco; Brand image, Grocery store market, Perceptual mapping, Iceland

1. INTRODUCTION

In May 2017, Costco opened its first superstore in Iceland. Costco is one of the largest retailers in the world and was therefore expected to have a major impact on Iceland's grocery market following the opening of the store. The major players on the market prior to Costco's entry were Bónus, Krónan, Fjarðarkaup, Nettó, Hagkaup, Víðir and Iceland. In 2014, it was estimated that Bónus' market share was 39%, while Krónan had 16%, Nettó 9% and Iceland and 10-11 6% together (www.althingi.is). Together, those four chains had a share of almost 70% of the total grocery market in Iceland prior to Costco opening its store in May 2017.

Previous research has been conducted on Costco and its impact on the markets. Greenhouse (2005) studies how Costco became the "anti-Wal-Mart." He argues that it would be preferable to be an employee or a customer than a shareholder of Costco since its prices are lower than those offered by its competitors and the average pay is 42% higher than that offered by its fiercest competitor, Sam's Club. The chief executive officer of Costco Wholesale in 2005, Jim Sinegal, claimed that Costco members are not drawn by attractive window displays or the presence of Santa Clauses or piano players; rather, they shop at Costco because the company offers excellent value. Cascio (2006a) argues that Costco delivers low prices to consumers in a manner that is fundamentally different to that of its competitor Walmart. The differences lie in Costco's business model, its ethical principles, core beliefs and values. Cascio (2006b) also notes that, in January 2005, 24% of American workers voluntarily quit their jobs, which is a major concern for a firm such as Walmart, whose employees numbered 1.6 million at the end of 2004. Since Costco is one of the largest retailers in the world, its opening in Iceland was expected to have at least some influence on the Icelandic grocery market. In this paper the following questions are put forward:

- **What image does Costco have in the Icelandic grocery market?**
- **Is it in line with Costco's position strategy?**
- **What impact does Costco have on the image of other retailers in the Icelandic grocery market?**

The results are based on 2,891 responses to a survey conducted in September and October 2017. The grocery store or chains evaluated in the survey were Fjarðarkaup, Nettó, Hagkaup, Víðir, Bónus, Iceland, Costco and Krónan. Before Costco opened its store, Bónus and Krónan, both of which are classified as discount stores, were the largest grocery stores in Iceland, together accounting for approximately 55% market share. Hagkaup and Fjarðarkaup are classified as quality stores with relatively high prices, and the other stores fall somewhere between these definitions.

Following a review of the relevant literature, this paper outlines the methodology employed in this study; thereafter, the results are presented. Finally, this is followed by a discussion of this paper's findings, its contributions to theory and practice, its limitations and suggestions for further research.

2. LITERATURE REVIEW

This paper focuses on the images of Iceland's local grocery stores and on whether the entry of Costco has affected consumers' perceptions of other stores. This study is grounded in basic brand management theory related to concepts such as brand knowledge, brand awareness, image and whether or not brands have strong, positive and unique positions in the minds of their target groups or segments. The aim of this paper is not to contribute to that basic theory.

Hu and Chuang (2009) investigate how different brand strategies can increase the success of retailers by comparing the Coca-Cola brand with Costco's own-brand cola. They argue that many successful companies have strong corporate brands, such as IBM, Nokia, McDonald's and Microsoft. These companies invest in creating, promoting and building loyalty to their brand names. In contrast, some retailers, such as Costco, Walmart and JCPenney, develop their own brands. The authors' findings indicate that corporate brands enjoy competitive advantage in relation to product quality, innovation and integrating marketing communication strategy, while private brands benefit from favorable shelf placement and membership marketing. The authors argue that customers with strong manufacturer brand loyalty are unwilling to change brands within stores. In contrast, for product categories in which manufacturer brands lack customer loyalty, retailers may have high substitution elasticity. According to the authors, this is because the majority of customers are willing to change brands within stores when making purchases from among the brands that retailers offer.

Brand knowledge can be divided into brand recognition and brand recall (Keller, 2008). Brand recognition refers to consumers' familiarity with a particular brand or their associate of the brand with the needs that may be fulfilled by a particular product. Brand recall refers to consumers' ability to associate a brand with product categories and various needs and buying intentions. Generally, for cases in which impulsive buying behavior is dominant, recognition is more important, whereas, for products in which buying behavior is more thoughtful, brand recall is more important (see Bettman, 1979; Rossiter and Percy, 1987). There is frequently a strong connection between brand awareness and "top-of-mind" observations, and it is therefore possible to measure brand awareness based on such observations (Gruber, 1969; Romaniuk and Sharp, 2004). However, certain caveats should be taken into consideration when using the results of such measurements as an indicator of brand awareness (see Buil, Chernatony and Martínez, 2013; Homburg, Klarmann and Schmitt, 2010; Huang and Sarigöllu, 2012). Marked differences also exist between sectors such as the tourist industry (e.g., Fung So, King, Sparks and Wang; 2013; Huang and Cai, 2015), the automobile industry (Fetscherin and Baker, 2009), the broad range of retail and service industries (Nyadzayo, Matanda and Ewing, 2011, Tsai, Lo and Cheung, 2013) and the retail banking industry (Al-Hawari and Ward, 2006; Aziz and Yasin, 2010), when respondents identified certain brands as being top-of-mind.

Brand awareness can also be divided into familiarity and image (see, for example, Davis, 2002; Keller, 2008; Trout, 2000). Familiarity is related to several factors, such as whether a brand comes to mind when the product category to which it belongs is mentioned and whether consumers associate a particular brand with certain conditions or uses (Rossiter and Perci, 1987). Brand image has long been considered important in marketing literature (Levy and Dennis, 2012); there are thus many definitions of image and therefore multiple ways of measuring this concept. Branding literature defines brand image as ensuring a brand has a strong, positive and unique position in the minds of its target consumers (Keller, 2008).

Having a strong position is partly associated with awareness, but it is also important that a brand is associated with specific image attributes (Chernatony, 2001, Keller, 2008). A comprehensive discussion of this topic can be found in Keller's white paper (2001), in which he presents the so-called customer-based brand equity (CBBE) model. The focus of this model is on both awareness and the connection between image attributes and performance. It is important to note that a strong connection alone is not sufficient; a brand also needs to be associated with something that customers consider important or positive (Bettman, 1979, Keller, 2001, Rossiter and Percy, 1987). Some image attributes are positive, while others are negative, and it is important that a brand has a position that is both strong and positive in the minds of its target consumers. In addition, it is important that a brand is regarded as unique by its target group, that is, consumers should be able to distinguish it from other in the market (Chernatony, 2001; Keller, 2001; Trout and Rivkin, 2008).

3. METHODOLOGY AND DATA ANALYSIS

This chapter provides an overview of how the research was planned and performed and how the data were processed.

3.1 Procedure

The data was obtained from surveys conducted in September and October 2017. Thirteen independent research groups gathered the data, all using the same questionnaire and the same web- and paper-based forms. The members of the research groups were all students at the University of Iceland. The web-based version was executed by using the software QuestionPro and the survey was open for two weeks. After ten days the paper-based part was executed and the reason for the paper-based part was to correct possible bias in the background, such as gender and age, of those who participate in the survey.

The author of this paper estimated whether there was a difference in the responses obtained using those two methods based on a 95% confidence interval. For two out of three questions concerning location and quality, there was a significant difference. The score for location was higher in the paper-based questionnaire, but, for the quality question, the score for the web-based questionnaire was higher. In both cases, the eta-squared was low at 0.005 and 0.004, respectively, meaning that only a small proportion of the variance could be attributed to the different data-gathering methods employed. The author also estimated whether there were differences among the 13 research groups based on a 95% confidence interval. Only for one question, concerning location, was there a significant difference between the groups. Eta-squared was low at 0.011. Therefore, all data were merged into a single dataset, which contained 2,891 valid answers.

3.2 Questionnaire

The total number of questions was 22 and the questionnaire began with an open question in which respondents were asked which grocery store first came to mind. The following four questions were statements on a Likert scale on which 1 indicated "strongly disagree with this statement" and 5 "strongly agree with it." The first question was "When choosing a grocery store, a location near my home is important. The second question was "When choosing a grocery store, low price is the most important factor," and the third question was "When choosing a grocery store, low price is the most important factor." The fourth question in this part focuses on how much participant welcomed the opening of Costco in Iceland.

The next 9 questions concerned image attributes, including "freshness," "low price," "product range," "boring," "different," "high price," "opening hours," "quality" and "funny." Some of these image attributes had been used in previous research and were included for the purposes of comparison (Gudlaugsson, 2005). Final question in this portion of the questionnaire concerned how often or rarely the respondents visit the grocery stores mentioned in the survey and they were Fjarðarkaup, Nettó, Hagkaup, Víðir, Bónus, Iceland, Costco and Krónan. Finally, there were background questions concerning gender, age, income before tax, postcode of household and education.

3.3 Data analysis

To examine store image, a perceptual mapping methodology was used. The image attributes considered for this study had been used in several previous surveys. Research participants evaluated each store on all attributes using a nine-point scale, on which 1 denotes “applies very badly to this store” and 9 “applies very well to this store.”

4. RESULTS

In this section, the results will be presented and the participants will be described.

4.1 Participants

The total number of answers were 2,891. Of those 38.2% were male and 61.8% were female. Therefore, findings are biased toward females. Most participants were 21-30 years old or 42.4% and therefore, findings are also biased towards age. 4.6% were younger than 21 years old, 13.2% were 31-40 years old, 17.3% were 41-50 years old, 14.9% were 51-60 years old and 7.6% were 61 years old or older.

58% of the participants had not earned university degree while 27.6% have BA or BS degree, and 14.4% MA/MS degree or higher. 29.6% did earned 300.000 ISK or lower in total monthly salary, 30.3% earned 301-500.000 ISK in monthly salary, 21.9% 501-700.000 in monthly salary and 18.3% did earned 701.000 or more in monthly salary before tax.

4.2 Findings for top of mind

The findings for top of mind question in the beginning of the questionnaire indicate that the store Bónus have the strongest position, or share of voce, but 50.9% of participants did mention that store/chain. The second store most often mentioned was Krónan but 18.8% of participants did mention that store and the third store most often mentioned as top of mind was Hagkaup but 10.3% did mention that store. Findings for all store or chain can be seen in table 1.

TABLE 1: FINDINGS FOR WHICH STORE/CHAIN IS TOP OF MIND

Store/chain	**Frequency**	**Percent**
Fjarðarkaup	51	1.8%
Nettó	146	5.1%
Hagkaup	297	10.3%
Bónus	1462	50.9%
Costco	286	10.0%
Krónan	539	18.8%
Other	92	3.2%
Total	2873	100%

Bónus operates 32 stores all over Iceland, and the store marketing positioning is low price and simplicity. Krónan, which was named after the Icelandic currency (the Icelandic Krona, ISK), operates 17 stores nationwide and, similar to Bónus, focuses its marketing efforts on relatively low price. Hagkaup (translates to buying and benefits) operates 11 stores, most of which are in the greater Reykjavik area. Costco was noted by 10% of respondents in this category but when Costco was established in 1959, it was a discount store, but it now focuses on quality and emphasizes its wide product range. Figure 1 shows the position map when two opposite image attributes, low price and high price, are used.

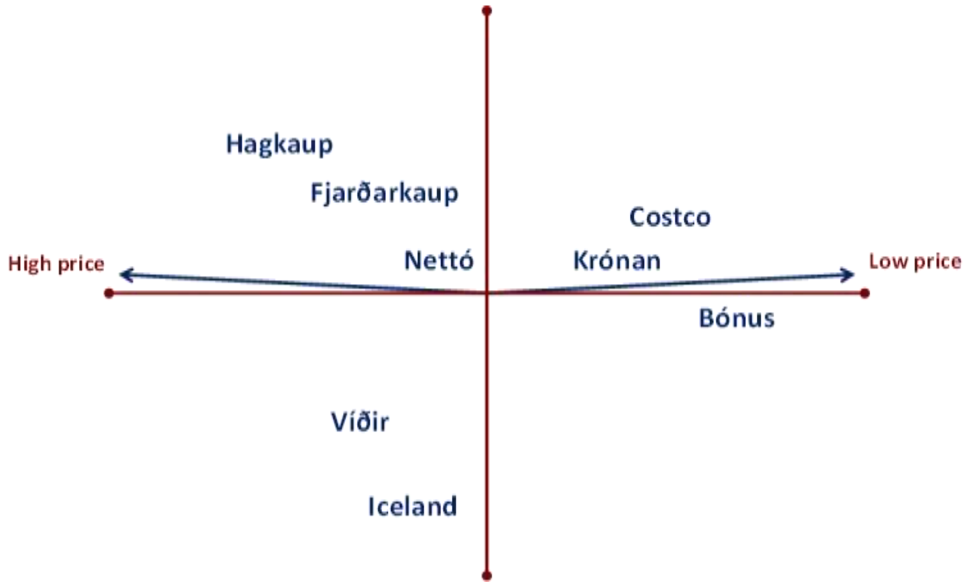

FIGURE 1: PERCEPTUAL MAP FOR TWO OPPOSITE ATTRIBUTES, HIGH/LOW PRICE

As shown, Bónus, Costco, and Krónan were more strongly related to low price than the other brands, and Hagkaup had the strongest relation to the image attribute high price.

A one-way between-groups analysis of variance was conducted to examine whether those who had discount stores at the top of their minds were more price sensitive than others. There was a statistically significant difference at the *p*<0.05 level within group *F*(6, 2.842, p=0.000). Post-hoc comparison using Duncan can be seen in table 2.

TABLE 2: POST-HOC COMPARISON FOR THE IMPORTANCE OF LOW PRICE BASED ON STORE

		Subset for alpha = 0.05			
Store/chain top of mind	**N**	**1**	**2**	**3**	**4**
Fjarðarkaup	50	3.3			
Other	91		3.53		
Hagkaup	296		3.57		
Nettó	145		3.63	3.63	
Krónan	532		3.74	3.74	
Costco	283			3.84	3.84
Bónus	1452				4.03

As table 2 illustrates, Bónus (M=4.03; SD=0.85), Costco (M=3.84; SD=1.0) and Krónan (M=3.74; SD=0.93), all at the low-price end of the market, had significantly higher scores than Hagkaup (M=3.57; SD=0.97), Other (M=3.53; SD=0.96) and Fjarðarkaup (M=3.3; SD=0.97) which are stores at the high-price end of the market.

4.3 Findings for statements

As mention before there were three statements at the beginning of the questionnaire. They were on 5-stage Likert scale and findings can be seen in table 3.

TABLE 3: FINDINGS FOR THE ONE-SAMPLE TEST

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Score	95% Confidence Interval of the Difference Lower	Upper
When choosing a grocery store, location near my home is important	186.454	2890	0.000	3.89	3.85	3.93
When choosing a grocery store, low price is the most important elements	222.939	2866	0.000	3.86	3.83	3.90
When choosing a grocery store, quality is the most important elements	271.588	2872	0.000	3.97	3.94	4.00

As seen in table 3, the average score for location was higher than that of low price but lower than the average score for quality. Quality had the highest score of the three elements. Based on the 95% confidence interval, it can be stated that quality had a significantly higher score than both location near home and low price.

4.4 Findings for the image attributes

The image attributes questions were nine and table 4 presents the average scores for the image attributes for each grocery store.

TABLE 4: AVERAGE SCORES FOR IMAGE ATTRIBUTES

Brands / Attributes	Fjarðarkaup	Nettó	Hagkaup	Víðir	Bónus	Iceland	Costco	Krónan
Freshness	6.84	5.94	6.98	6.37	5.15	4.58	**7.07**	6.54
Low price	4.46	5.03	3.16	4.06	**7.38**	4.62	7.25	6.58
Great product range	6.89	6.21	**7.50**	5.32	5.71	5.03	7.02	6.73
Boring	3.56	4.54	3.50	4.67	**5.17**	5.07	3.86	4.04
Different	6.42	4.67	5.38	4.79	3.52	4.62	**7.61**	4.57
High price	6.16	5.46	**7.51**	6.25	3.11	5.59	3.34	3.93
Quality	6.87	5.66	6.89	5.74	4.78	4.59	**6.93**	6.08
Opening hours	4.61	7.16	**8.27**	5.90	4.95	7.18	6.30	6.51
Fun	6.40	5.04	6.35	4.67	4.06	4.28	**6.66**	5.54

As can be seen in Table 4, the average scores varied. For example, Costco received the highest scores for “freshness,” “different,” “quality” and “fun,” while Bónus received the highest scores for “low price” and “boring.” Those two stores appear to have very different images among the respondents, with Costco being regarded as “fun, fresh and different” and Bónus as “cheap and boring.”

As indicated in Table 4, Costco seems to have the strongest image. However, a perceptual technique is used to examine this. This technique generates perceptual maps that depict the attributes as vectors, which should be read in both directions. The lengths of these vectors indicate how well each attribute functions as a point of difference for the brands evaluated. Figure 2 maps the positions of the grocery stores in 2003 (n=300). It indicates that the findings were robust since the attributes “boring” and “fun” are on opposite sides of the map, as are the attributes “opening hours” and “low price.” Attributes that have features in common should be grouped together, which was the case with the attributes “freshness” and “product range.”

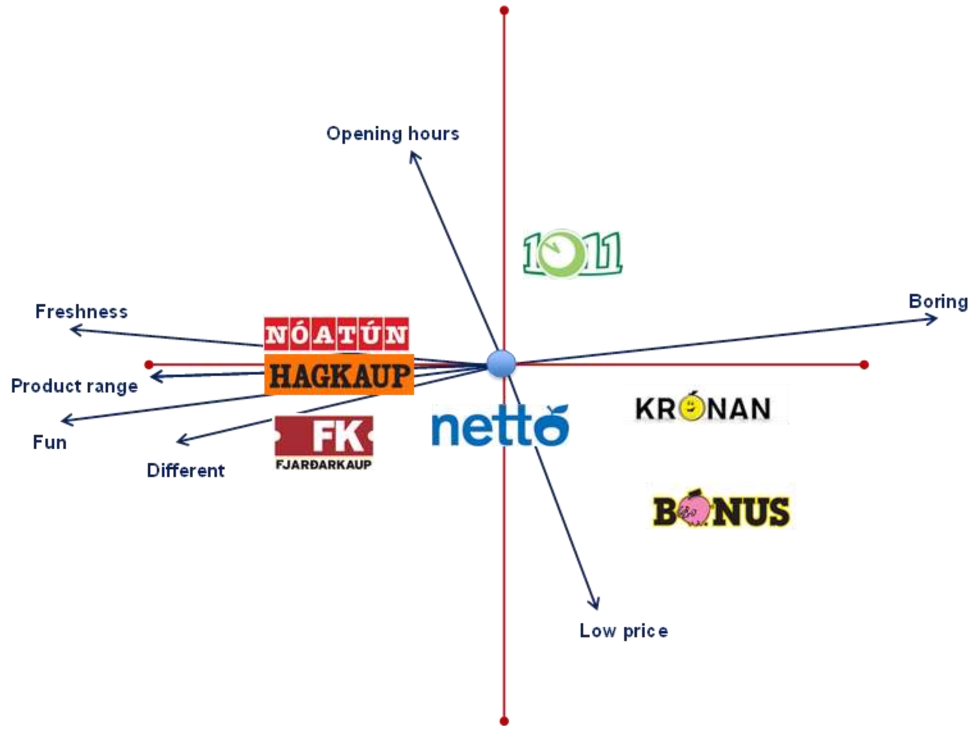

FIGURE 2: PERCEPTUAL MAP OF THE GROCERY MARKET IN ICELAND IN 2003

As can be observed in Figure 2, Bónus had a strong association with the attribute “low price” but was also considered boring. Krónan was also at the “low price” side of the map and was even more boring than Bónus. Hagkaup, Nóatún (which now operates only one store and is thus no longer part of this study) and Fjarðarkaup were all on the “quality” side of the map. Hagkaup had strong associations with the attribute “freshness,” “product range” and “fun.” Nóatún had a similar position on the map and Fjarðarkaup was strongly associated with the attribute “different.” The 10-11 chain had a strong association with the attribute “opening hours,” but this store is not considered further in this study because it has changed significantly. Several similar studies have been conducted over the years, but their findings were extremely similar to those obtained in 2003.

Figure 3 displays the positioning map of the grocery stores in 2017 (n=2,891). The map indicates that the findings are robust since the attributes “boring” and “fun” are on opposite sides of the map, as are “low price” and “high price.” Attributes that have features in common, such as “freshness” and “product range,” are also grouped together.

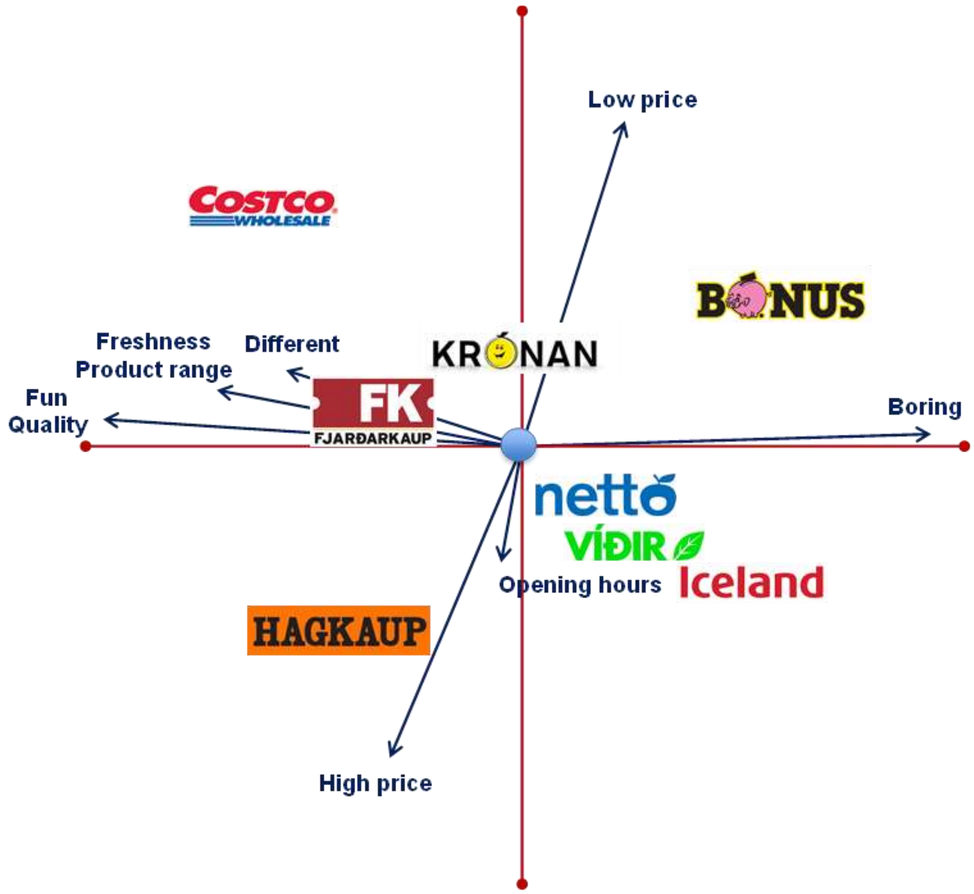

FIGURE 3: PERCEPTUAL MAP OF THE GROCERY MARKET IN ICELAND IN 2017

As can be observed in Figure 3, Bónus has a strong association with the attribute "low price," but was also considered "boring". Since this is consistent with the results for 2003, it can be concluded that the opening of Costco did have a minor effect on Bónus' image. As in 2003, Nettó occupies a position near the center of the map, which means that its position is unclear in the respondents' minds. Fjarðarkaup also has a similar position on the map as it did in 2003. Hagkaup is now first and foremost associated with the image attribute "high price" and has shifted away from the positive attributes "freshness," "product range," "fun" and "quality."

Costco has a strong position on the map; it is strongly associated with not only the attribute "low price" but also with the positive attributes "different," "freshness," "product range," "fun" and "quality." It seems that Costco has "pushed" Hagkaup away from the positive attributes it was associated with before, so that Hagkaup is now strongly associated with the attribute "high price" and therefore has a relatively weaker image than that it had prior to the opening of the Costco store.

5. DISCUSSION AND CONCLUSION

In this paper, three research questions were put forward. The first question focused on Costco's image in the Icelandic grocery market. Costco has a strong and positive image. It is strongly associated with the attribute "low price" and with the attributes "different", "freshness", "product range", "fun" and "quality". The image of Costco is therefore both strong and positive.

The second question was whether Costco's image is in line with its company strategy. Costco occupies a strong position, which Sinegal ascribed to it when he argued that Costco delivers quality at lower prices. As previously mentioned, Costco is strongly associated with both "low price" and "quality." Therefore, it can be concluded that the managers of Costco Iceland have managed to improve the company's position in the Icelandic grocery market.

The third question focused on the impact that Costco had on the image of other retailers in the Icelandic grocery market. Findings indicate that Bónus, Nettó and Fjarðarkaup occupy positions on the perceptual map that are similar to those they occupied in 2003, and it is therefore concluded that opening of Costco had a minimal impact on those stores from an image perspective. Krónan does have a stronger image than it did previously; it is still associated with "low price", but has become more strongly associated with other positive image attributes. This may be due to the adoption of a different strategy and may have nothing whatsoever to do with the opening of Costco; alternatively, the opening of Costco may have prompted Krónan's managers to consciously attempt to more strongly associate the chain with positive attributes such as "quality" and "freshness."

From the image perspective, Hagkaup seems to have been most affected by the opening of Costco. Prior to Costco's opening, Hagkaup was strongly associated with positive attributes, such as "freshness," "product range," "fun" and "different," but it is now viewed as the store with the highest price. Therefore, its value for the customer seems to have fallen, and this is likely because Costco has "pushed" Hagkaup from the positive attributes and nearer to the attribute "high price," which lowers the value for the customer.

It is interesting to note that the image attribute "opening hours" is now more of a point of parity (POP) than a point of difference (POD), which differs from 2003. This is because stores like Hagkaup, Nettó and Iceland are open 24 hours a day, 7 days a week, and, as other stores have flexible opening hours, the effect of this attribute as a differentiator is decreased.

The limitation for this research is that it is based on convenience sample and therefore might not present the population of those who visit grocery stores regularly. For example, the proportion of female is higher than male in the sample but on the other hand it can be argued that the proportion of female are higher among those who visit grocery store. In this sample the proportion of young people is also higher than in the population. For future research it is of interest to evaluate whether Costco is able to hold its strong image it has on the Icelandic grocery market in 2017.

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