Impact of Trade Protectionism on Firm's Brand Strategy: Evidence from an Emerging Economy

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Introduction

In the current economic environment characterized by subdued potential growth and anti-globalization rhetoric, the risk of protectionism and trade barriers has risen. The World Trade Organization (WTO) recently alerted about worrying trend that the rate of new trade restrictive measures such as tariff increases, stricter customs procedures, imposition of taxes and export duties introduced by G20 countries in the first half 2018 was twice as high as during same period in 2017 and out-numbered measures aimed at facilitating trade (WTO 2018). Moreover, an increase in within-country income inequality during the period of rapid globalization has fueled an intense debate about the benefits of trade liberalization in emerging economies (Mohan 2018). As a result, pressured by ongoing structural changes, the policymakers in these markets are tempted to shape commercial relationships between states in order to protect domestic industries from import competition. Simultaneously, the emerging markets experience raise of nationalism which is reflected in increasing preference for domestic brands and negative perceptions of global brands (Lindner 2016). Protectionist policies have been implemented by many countries despite the fact that most observers agree that the world economy generally benefits from free trade (Baggs and Brander 2006). Obviously, such actions have impact on marketing and branding strategies of firms domiciled or hosted in emerging markets (Reagan 2018). However, the mechanisms underlying such impact are not well understood. As such, this study is motivated by following two questions:

1. How does market protectionism affect brand strategies of emerging market firms, which are aimed to be insulated by such actions?

2. How do brand strategies of the foreign (international and global) brands in response to the market protectionism in an emerging economy?

We attempt to answer these questions in two studies based on both subjective and secondary data collected about brands sold in an emerging economy (Russia) and which are (un)affected by trade protectionism. In particular, in October 2014 Russian government erected barriers (called food embargo) to imports from EU, Australia, and North America in multiple product categories, such as meats, poultry, diary, nuts, etc. As a result of these actions, the imports in these categories fall dramatically from $40 billion in 2014 to $26 billion a year after. In addition to the substitution of traditional foreign suppliers with new ones from Middle East and South America, the Russian government provided incentives to the domestic agriculture and food producers to increase output and strengthen competitive position of their brands (Belova 2018). We aim to use food embargo as natural experiment, associated with protectionist activities in an emerging market. For the first study, we surveyed marketing managers of Russian and foreign companies after introduction of embargo and measured their perceptions of various dimensions of brand strategy. The study found asymmetric effects for umbrella vs. individual product brands. In particular, compared to foreign (global) umbrella brands, the owners of the domestic (Russian) brands put more emphasize on differentiation, brand image and organizational processes focused on creation of brand equity. However, foreign individual product brands communicated higher functional value than domestic ones. The second study will utilize a natural experiment design and evaluate changes in brand differentiation, extensions, and other branding activities in these organizations. In particular, we are in process of merging trademark, customer evaluations, and financial data for experimental group comprised of more than 800 largest Russian and foreign companies in food industry. Consequently, we will assess changes in branding activities inspired by the protectionist actions.

Conceptual Framework

Protectionism

Protectionism, a policy of protecting domestic producers against foreign competition by various means, including tariffs, import quotas, stricter customs procedures, embargos, and subsidies have been extensively studied in economics (Georgiadis and Gräb 2016) and political sciences (Flanders 1965). Prior research has established that countries adopt protectionist policies in response to recessions and/or losses in competitiveness through an appreciation of the real exchange rate (Bown and Crowley 2012). Some evidence also suggests that countries erect trade barriers when their trading partners experienced weaker growth (Georgiadis and Gräb 2016). The benefits of pursuing trade protection have been assessed in several studies. For example, (Marsh 1998) demonstrated that US firms, which seek anti-dumping protection had also experienced growth of market value of US firms. On contrary, Baggs and Brander (2006) demonstrate that lifting trade barriers and reducing protectionism hurt import-oriented but benefited exportoriented Canadian firms. As such, there is evidence that protectionist activities have impact on operations and performance of firms in the markets subject to such policies.

Brand Strategy

Strong brand is often claimed as top priority for firms operating in various categories and markets. After all, brands with strong equity often enjoy high customer loyalty and superior profitability stemming from positional advantages (Keller and Lehmann 2006). Keller (1993) argues that companies use brands to establish relationships with their customers. As such, brand strategy involves design and implementation of marketing activities aimed at achieving effective brand differentiation in the target markets and maintaining relationships with customers and key stakeholders (Keller 2013; Morgan 2012). Building on these theoretical foundations and prior research, we identify several dimensions of brand strategy that may be conducive to the changes in markets, caused by protectionism: differentiation, brand orientation, brand image, and functionality.

- *Differentiation* is an extent to which a brand is distinctive from competitors (Keller 2013).

- *Brand Orientation* describes importance of creation of strong brand for an organization and how organizational processes revolve around the creation, development, and protection of brand identity (Urde 1999).

- *Brand Image* - organizational activities aimed at creation of strong brand image (Aaker 1997).

- *Functionality* – extent to which brand excels at delivering the functional benefits customers truly desire (Keller 2000).

Past research suggests that firm reactions along above strategic dimensions may vary dependent on organizing structure of firm's brand portfolio, in which roles and relationships between brands are specified (Aaker and Joachimsthaler 2000). As such, we distinguish between individual product brands and umbrella brands.

Brand Responses to Market Protectionism

Prior research suggests that protection of domestic industries shields home firms from foreign competition. Reduced competition creates opportunities for domestic firms on several levels. First, such firms may enjoy superior profitability and create resource slack for future investments in brand development and expansion abroad. Second, emerging market firms may devote more attention to serving customers and brand building rather than on monitoring and following competitors' moves. Finally, increasing nationalism and ethnocentrism in emerging markets may create positional advantages for domestic firms, which may be effectively exploited to capture market share from foreign competitor. Collectively, these arguments suggest that protectionism will lead domestic marketers to focus more on brand differentiation, image, orientation, and functionality dimensions of brand strategy.

Study 1 – Evaluation of Brand Strategy Dimensions by Marketing Managers

The first study was based on a survey of 178 marketing managers of the Russian and global companies in the food industry, which is affected by protectionist actions. In the survey, we used 7-point Lykert scales for previously used items (Urde 1999) to measure four dimensions of firm's brand strategy. Additionally, we used categorical variables to capture company type (B2C or B2B), size (SME vs. large company), and presence of a brand manager in organizational hierarchy (Table 1). Next, we used two brand-related dummies capturing physical good or service and umbrella brand vs. individual product brand. Finally, we used TNS Kantar's Market Index to measure brand awareness in a period preceding survey, which may reflect effectiveness of past marketing investments. The marketers may use such feedback to control and modify brand strategy.

Model

Our empirical model is specified as linear equation as following:

$$Br\_Str_i = \beta_0 + \beta_1 * Domestic_i + \beta_2 * Good_i + \beta_3 * B2C_i + \beta_4 * SME_i + \beta_5 * BR\_MAN_i +$$

$$\beta_6 * BR\_AWARE_i + \varepsilon_i \tag{1},$$

Where *BR_STR$_i$* describes each dimension of firm's brand strategy, and *B2C, SME, BR_MAN* and *BR_AWARE* are predictors listed in Table 1.

Results

The results demonstrate that managers of the domestic firms, which adopted umbrella brand strategy emphasized brand differentiation ($\beta = 1.50$, p<.05), orientation ($\beta = 1.49$, p<.05), and image ($\beta = 1.51$, p<.05) to a greater extent than global firms with similar branding strategy. Such results provide initial support for anecdotal evidence that protectionist actions motivated domestic firms to grow and strengthen corporate brands. However, parameter estimates for *Domestic* was not statistically significant for these three dimensions for individual product brands. In other words, both domestic and foreign brand owners similarly value differentiation,

image, and brand orientation. Next, the owners of the domestic individual product brands had lower brand functionality compared to foreign firms (β = -1.46, p<.05). As such, in wake of embargo, the foreign brand owners chose to compensate by communicating superior functional benefits of their brands. Third, the results suggest that brand awareness was positively associated with all dimensions of umbrella brand strategy. Finally, presence of a brand manager in a marketing team had positive impact on each strategic dimension for both umbrella and product brands.

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Table 1
Measures

#	Variable	Survey Items/Measures
1	Domestic	1 if Russian brand, 0 – otherwise.
2	Differentiation	• Our brand is differentiated toward the brands of our competitors • We check regularly whether or not our brand is different from the profiles of competing brands
3	Brand Orientation	• The brand is an important asset for us • There is good communication between marketing and other departments as regards branding • The business processes in our firm revolve around the development and maintenance of the brand identity
4	Brand Image	• We invest in image advertising
5	Functionality	• Our brand offers our customers superior functional benefits
6	Umbrella	1 if umbrella brand, 0 – individual product brand
7	Good	1 if physical good, 0 -service
8	B2C	1 if B2C brand, 0 - otherwise
9	Small or Medium Business	1 if number of employees <=50, 0 - otherwise

| 10 | BR_MAN | 1 if marketing department has brand managers; 0 otherwise |
| 11 | Brand Awareness | TNS brand awareness score in 2017 |