The Influence of Brand Equity on Customer Loyalty: A Case Study on Pandora

Yinxiao Lu*

Management School, The University of Lancaster, Lancaster, LA1 4YW, the United Kingdom
*Corresponding author: 15040340403@xs.hnit.edu.cn

Abstract. With globalization and technological advances, the competition in the jewelry market is becoming increasingly fierce. Under the influence of the pandemic, it is even more difficult for brands like Pandora, which is positioned in the mid-market, to compete for market share. The purpose of this study was to explore the impact of Pandora’s brand identity and brand image on customer loyalty during COVID-19. Different from the previous article, it further analyzed the adjustments and improvements made by Pandora in terms of branding when it was in the face of downtown and the pandemic. Through the use of a SWOT analysis, a qualitative study was conducted. The research concluded that the brand identity and image of Pandora can positively and significantly influence the loyalty of its customers, while it is essential to ensure that the brand identity and image are consistent. Therefore, both scholars and companies should be aware of the importance of brand identity and brand image. The market and theoretical implications of the study and future studies are finally discussed.

Keywords: Pandora, COVID-19, Brand identity, Brand image, Customer loyalty.

1. Introduction

1.1 Research Background

It is forecast that the size of jewelry market worldwide will develop rapidly in the coming years. Compared to US$ 228 billion in 2020, its value will increase to US$ 307 billion by 2026 [1]. Meanwhile, in 2021, the three leading countries in the jewelry and watches market worldwide, based on revenue, were China, the United States, and India [2]. According to Statista, the value of global online jewelry is projected to grow rapidly, rising from US$ 21.5 billion in 2020 to US$ 58.9 billion in 2027 [2]. In a global, fast-paced society where online and offline sales are closely integrated, the jewelry market is highly competitive and brands are challenged to stand out from the crowd, especially some light luxury jewelry brands, such as Pandora [3].

Pandora is a Danish jewelry brand that offers affordable luxury products to consumers in over 100 countries [4]. It helps people express who they are and what is important to them through personalized, unique service, and its main product categories are charms, bracelets, rings, earrings, and necklaces [4, 5].

1.2 Research Gap

Several previous studies have analyzed Pandora as a case study. They examined how Pandora improved its consumer brand engagement (CBE), interactivity, and co-creation to enhance the brand experience for consumers [6], and examined Pandora’s value-based co-creation storytelling marketing, that is, consumers create and communicate their own stories through DIY (do it yourself), with the company providing the platform and product guidance [7]. Li and Shi then analyzed the reasons for successive closures of Pandora Café and brick-and-mortars in China, compared to the cafes of Tiffany & Co., Fendi, and Dior. The decline of brand potency, as well as COVID-19, are important influencing factors [8]. Moreover, according to Dias and Cavalheiro, storytelling as a tool could promote consumers’ love for Pandora. Product narrative is a great way to add value to brands. Because the stories that consumers articulate in relation to their own Pandora jewelry make the connection between the product and the story go beyond storytelling, consumers as storytellers become fonder of the brand [9].
The above research discusses the impact of Pandora’s storytelling on brand love, Pandora café, and consumer brand engagement. However, in reality, it hasn’t always been smooth sailing for Pandora. After rapid growth in brand sales, Pandora had an “unsatisfactory” year in 2018, whose main cause was the inconsistency of the brand identity and brand image [10]. In order to attract customers and rejuvenate once again, Pandora has been adapting its marketing strategy to the COVID-19 and working to clarify the brand identity and image problems. Previous studies have not examined the image and identity of Pandora on customer loyalty during the COVID-19 period, and this research plan will focus on it.

1.3 Fill The Gap

Hiscock stated that forming a strong connection between consumers and brands is the ultimate goal of marketing [11]. Brand identity and brand image are both essential elements of a strong brand, and their concepts are related but different [12]. Brand identity refers to the brand strategists’ desire for how a brand is perceived, while brand image means how consumers perceive the brand [13]. Meanwhile, ensuring that the brand image of the products is identical to the brand identity is what strategists strive for, as a strong identity-image association can create and sustain brand loyalty and thus prevent customers from becoming loyal users of their competitors [13, 14].

This research question is: how do brand identity and brand image affect customer loyalty? It enables scholars to better understand how Pandora has evolved and changed via brand equity. It also provides suggestions to other companies on how to clarify the brand identity and brand image.

2. Literature Review

2.1 Brand Identity & Brand Image

2.1.1 Definition

Brand identity is a distinct collection of associations consisting of brand features and characteristics that a company desires to invent and sustain, issued unilaterally by brand management [15]. A brand identity with clear and strong definitions facilitates the formation of barriers to competitors, develops trust, and forecasts the future actions of the brand [16].

Consumer’s rational or emotional perceptions of a particular brand are known as its “brand image”, of which functional and symbolic beliefs are its components [17]. Similarly, on the one hand, the brand image includes physical factors, such as the physical characteristics of the brand in terms of packaging design, brand name, logo, product functionality, and usability. The other side is the psychological factors that are perceived by consumers to represent the brand product, which is formed by emotions, beliefs, personality, and values [18]. As a strong marketing tool, it can effectively differentiate the company from other competitors [19].

2.1.2 Important Results

Reliable brands provide responsible products that try to meet the expressed and unexpressed needs of consumers through continuous improvement with the consumer at the center of the business world. This improvement is dependent on the connection between brand image and brand identity [20]. These two concepts are frequently used interchangeably in communication between brands and their customers [13]. In the following, the Brand Derby Matrix (Figure 1.) will be used to explain the relationship between the two, while Credibility-Alteration-Relationship-Expansion (CARE-ing) strategy (Figure 2.) will provide suggestions for future development [20].

The Brand Derby Matrix classifies different brands according to brand identity and brand image, serves as a positioning tool, and provides the company with a future direction. After identification, the CARE-ing strategy will be adopted. As shown in Figure 1 and Figure 2, a brand is referred to as a “Blind horse” when it has a strong identity but its image leaves much to be desired. “Dark horse”, in comparison, represents a brand with an outstanding image but its identity needs to be strengthened. “Blind horse” can address a weak brand image by developing strategies to enhance credibility. For
“Dark horse”, what these brands need is to further promote their brand image while shedding their weak identity. Therefore, extensive communication with consumers is required. Besides, when the brand image and brand identity are both weak and poor, such brands are classified as “Lame horse”. In comparison to “Lame horse”, when both two aspects are strong, the brand is referred to as “Jackpot”. The solution for the “Lame horse” is to create alternatives. Finally, expansion is an appropriate strategy for the future development of the “Jackpot” [20].

![Brand derby matrix](Figure 1. Brand derby matrix [20])

<table>
<thead>
<tr>
<th>Brand Identity</th>
<th>Strong</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Brand Image</td>
<td>Blind horse</td>
<td>Lame horse</td>
</tr>
<tr>
<td>Poor</td>
<td>Excellent</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Brand Identity</th>
<th>Strong</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Brand Image</td>
<td>Credibility building</td>
<td>Alteration</td>
</tr>
<tr>
<td>Expansion</td>
<td>Relationship building</td>
<td></td>
</tr>
<tr>
<td>Poor</td>
<td>Excellent</td>
<td></td>
</tr>
</tbody>
</table>

![CARE-ing strategy](Figure 2. CARE-ing strategy [20])

2.2 Customer Loyalty

2.2.1 Definition and Development

According to Oliver, the definition of customer loyalty is “a firm future promise to continuously repurchase a chosen product or service, notwithstanding conversion actions may be engendered due to environmental and marketing factors” [21]. It is crucial to the retention of existing customers in an organization and can facilitate the success of a brand or company. This is because the benefits of customer loyalty are obvious, namely lower price sensitivity of loyal customers, lower company operating costs, and high profitability [22, 23]. Based on research, attracting new clients to purchase products costs five to eight times as much as convincing existing ones [24, 25].

Customer loyalty has been tested in previous research through three main approaches: the attitudinal loyalty approach, behavioral loyalty approaches, and the combined attitudinal and behavioral approach [21, 26, 27]. While behavioral loyalty denotes actual recurrent purchase behavior, loyalty in attitudes relates to consumer’s psychological state [28]. Moreover, different managerial results, such as word-of-mouth and performance (i.e., sales), are influenced by attitudinal and behavioral loyalty [29]. Considering loyalty as an attitude-behavior relationship facilitates a comprehensive exploration of the causes and results of perceived loyalty of customers, as the formation of a loyal client is divided into four stages, namely beliefs, positive attitudes, intentions to behave, and actions [21, 30]. The following are some studies that investigate the factors influencing customer loyalty.
2.2.2 Important Results

Chao et al. in 2015 demonstrated that the loyalty could be influenced by brand image via service quality. That is, when attentive service can lead to a subjective reflection and a feeling of being treated well by consumers, service quality will have an impact on consumer loyalty [28].

Then, Nyadzayo and Khajehzadeh mentioned that customer loyalty could be affected by a variety of factors, including service quality, customer value, and customer satisfaction. And the mediating role of customer relationship management (CMR) quality is significant. These relationships are positively correlated with CMR quality, namely the higher the customer’s perceived quality of CMR, the stronger these relationships are. In addition, brand image is the moderator of the relationship between customer satisfaction and CMR quality. For brands with a better brand image, customer satisfaction yields greater perceived levels of CMR quality, which in turn increases customer loyalty [31].

Besides, a study examined the relationships between brand color identity, brand association, and loyalty. Results show that brand attributions, benefits, and attitudes, as three subsidiary components of brand association, are significantly affected by color identity and they affect brand self-identification. As the mediator, brand self-identification facilitates the association between the brand association and brand loyalty. Additionally, the influence of color identity is stronger compared to brand attributions and benefits, while brand attitudes are more influential on self-identification in comparison to other variables [32].

2.3 Summary

Together, these studies outline that as fundamental elements of a strong brand, brand identity and brand image are two distinct but linked ideas. While maintaining a balance between these two can be difficult, even with few brands succeeding, companies still strive to ensure that they are consistent. Besides, brand identity and brand image can directly or indirectly influence customer loyalty to a brand. However, no one pays attention to whether Pandora’s updated brand identity and brand image have a comparable effect on perceived loyalty of customers in the context of the pandemic.

3. Methods

3.1 Research Design

Various methods have been utilized to evaluate the impact of brand identity or brand image on customer loyalty, mainly using quantitative analysis to test hypotheses. Besides, some studies apply qualitative analysis or mixed-method, and each method has its advantages and disadvantages [29-31]. In this paper, qualitative analysis is employed and SWOT analysis is conducted on the key informants of the case.

The SWOT method is a structured, widely applied strategic planning tool for business, health, education, and community development that allows for qualitative descriptive [33]. Meanwhile, whether for individuals, groups, teams, organizations, or programs, this successful technique can be applied. It facilitates the observation and analysis of the internal (strengths and weaknesses) and external (opportunities and threats) factors of the organization, thus enabling the company or other scholars to understand the current situation and future direction of the company, and finally can help the company to improve existing strategies or propose new ones [34, 35]. Therefore, the use of qualitative case studies in this research is an appropriate method for investigating Pandora’s strategy and customer perceived loyalty.

3.2 Pandora

Pandora’s target group is women between the ages of 18-34, which account for 44% of current Pandora users. Although the majority of wearers are women, more than half of the purchasers are actually men. Pandora Jewelry was purchased by these men as a gift for their friends, and studies
show that women influence the choice of gift. For future development, Pandora intends to tap into the younger generation (such as Generation Z and Millennials), as this is expected to be the main growth driver for luxury consumption [4].

As the world’s largest jewelry brand, Pandora Jewelry is sold in over 100 countries, with the US, UK, Italy, and China as its main sales markets [4]. In addition, consumers can purchase the products in a variety of ways, as products are sold through both internet-based and brick-and-mortar channels, such as online stores, offline flagship stores, and concept stores.

In 2018, Pandora experienced a crisis. For Pandora, too many promotional activities, confused new assortments, and less attractive new products damaged its brand equity, leading to a brand image that was not in line with its brand identity (uniqueness, personalization, innovation, etc.) [10]. After a down year, Pandora has undergone a huge brand revolution and it has also adjusted its marketing strategies to cope with the effects of COVID-19 (such as its two-year program Pandora NOW). The company has refreshed its brand promise to be more specific with a clear brand identity [4].

3.3 SWOT Analysis

3.3.1 Strength

The brand identity and brand image of Pandora have tended to be consistent after continuous improvement in recent years. As shown in the literature review, brand image mainly consists of physical and psychological aspects. Concerning its psychological aspect, the company has refreshed its brand promise to be more specific with a clear brand identity of “Give a voice to people’s love”, “Passion”, “Self-expression”, “Personalization”, and so on [4]. Pandora resonates with its customers through storytelling as consumers are not only the recipients of the story but also the creators and sharers of it. Through Pandora Jewelry, customers express themselves, articulate what they cherish and what is important to them, as well as share happiness, love, sense of belonging.

In contrast to the general brand image described above, Pandora also launched a specific campaign – “Pandora ME” aimed at the younger generation [4]. The campaign’s distinctive “young” and “glamorous” image was reinforced and promoted by the inclusion of celebrities from Generation Z such as Addison Rae, Donte Colley, and Cecilia Cantara [36]. Pandora ME performed well among the younger generation, with its revenues accounting for 4% of revenues in the fourth quarter of 2021 [4, 36]. Besides, its revenue surged 169% and 68% in the quarter and for the year respectively. Therefore, it is obvious that its brand image promotes the behavioral aspect of brand loyalty.

The brand image also includes some physical factors such as packaging design, logo, and product usability. Firstly, Pandora promotes the replacement of plastic packaging with low-carbon packaging. New and improved bags and boxes were launched in its brick-and-mortar and online shops in 2021, with new packaging that was more recyclable and could reduce greenhouse gas emissions by 60% [4]. This is beneficial to the establishment of a sustainable corporate image.

Then, affected by COVID-19 and with the renewal of the brand image in recent years, Pandora has overhauled and revamped its online and offline operations in order to better respond to the changing environment and brand image concept. It has updated the design of shops, adopting Pandora pink as the main/theme color of the concept and updating the logo to emphasize Pandora’s fine craftsmanship. As mentioned by Pandora’s Chief Product Officer Fairchild, Pandora’s new concept creates a warm and interactive environment that encourages customers to explore, and the new graphic design is a key visual element as the centerpiece of the identity [37]. Moreover, Pandora’s online shop design has also been updated and a 176% spike in sales through its e-commerce operations was reported in the second quarter of 2020. Benefiting from the key role of digitalization, the proportion of online sales to total revenue was 26% in 2021 [4].

In conclusion, with DKK 23.4 billion, Pandora produced its highest-ever revenue in 2021. This translates to a gain in organic sales of 23% from 2020. Meanwhile, it is ranked number one in brand awareness in five out of seven key markets [4]. In addition, Pandora’s official Twitter accounts have seen a significant increase in followers, from an average of approximately 100,000 followers per account across the three accounts (Pandora Group, Pandora_N.A, Pandora Jewelry UK) in 2020 to
approximately 130,000 followers in 2022. Thus, Pandora’s brand identity and brand image have a high level of impact on customer loyalty during the pandemic.

3.3.2 Weakness

On the one hand, strategies for communication in Pandora are relatively poor. Low brand exposure through TV, outdoor advertising, online advertising, and so on, is not conducive to the perception and formation of brand awareness and brand image, thereby having a relatively negative impact on customer loyalty. Besides, renewal and addition of concept stores can also increase the company’s costs, while staff hiring and training costs also increase. When understaffing results in poor service quality in flagship shops, it will affect the brand image and customer experience, which in turn will affect customer satisfaction and loyalty.

3.3.3 Opportunity

Firstly, the advent of 5G technology and the era of big data has created opportunities for Pandora to realize greater efficiency, streamline processes, and enhance customer experience. It also enables data analysis to better understand consumer preferences, reduce inventory risk, and better workforce scheduling. Understanding consumer preferences facilitates the development of new products for the company, resulting in a “diverse” brand image. It also enables brand managers to anticipate the future direction in which the brand identity and perceived brand image could be updated based on preferences. Better organization of the workforce increases the likelihood of providing better service to customers, thus promoting the relationship between brand image and customer loyalty.

Then, Pandora mentions that the US and Chinese markets will be the major target markets [4]. The revenue of the Chinese market only accounted for 5% of total revenues in 2021. As a result, the Chinese market is still in an under-explored state and big data allows the company to better understand local culture and policies and develop appropriate strategies to promote the perception of brand image by customers.

3.3.4 Threat

Firstly, the international jewelry market is highly competitive, with competitors such as Swarovski and Tiffany & Co. At the same time, numerous other brands (like clothing brands) have expanded their product categories to launch jewelry products. Consumer loyalty may be affected by the increased choice of brands available to them. At the same time, the more brands there are, the more the brand identity or brand image may be partially identical or homogenized between brands. Eventually, the brand will be in crisis due to a lack of uniqueness.

In addition, COVID-19 has an impact on many aspects of products, such as product production, global transportation, and national trade policies. On the one hand, the supply chain has been affected. The quality of products and the speed of production can be affected by a shortage of labor or the availability of work in production plants. On the other hand, global transportation is influenced and the speed of new product launches in various markets can be affected or customer waiting time can be extended. These are detrimental to the perception of brand image and the establishment of customer loyalty.

COVID-19 has different influences on different markets, depending on their geographical location. According to Pandora, the Europe market was affected by the lockdown early in 2021 and its offline stores were temporarily closed, but after reopening its stores, sales proliferated. Conversely, the performance of China, Australia, and other Asian markets was severely affected by the pandemic because of shop closures and government restrictions [4]. As a result, customers in different markets may have different levels of brand image perception or customer loyalty, as the combination of offline and online sales has a stronger impact on customer perception than online sales only. Besides, other factors (i.e., culture, income, etc.) may also influence customer perceptions of the brand. Thus, companies may need to spend more time developing strategies that are appropriate to each market to promote brand communication and loyalty.
4. Results & Discussion

4.1 Results

For Pandora, its brand image and brand identity are clear and specific, while its core proposition is in line with what modern women pursue. Meanwhile, digital developments can facilitate more precise and rapid decision-making, and Pandora has the opportunity to expand into more markets. Additionally, sales will be affected to various degrees due to COVID-19, and the operating costs in offline shops and marketing investment will affect the perception of service quality and brand visibility, which may affect the customer’s perception and impression of the brand image.

4.2 Discussion

Overall, the impact of brand identity and brand image on customers’ perceptions of brand loyalty is positive. This loyalty is reflected in both behavioral and attitudinal loyalty. The following are suggestions for Pandora Jewelry in response to the above SWOT analysis.

Firstly, the company should ensure that the brand identity and brand image remain consistent and are updated and changed in line with times and fashion. Secondly, the company could invest more in marketing to increase brand exposure and awareness, so that more people will know the brand and its image and gradually become consumers of this brand. The brand then could analyze customer preferences and understand the culture and policies of different countries with the help of digitalization and advanced technology to expand new markets and increase its market share. Finally, in the face of numerous competitors, Pandora should increase its product diversity for its target. For example, by developing diamond products.

Lastly, the results of this research are generally the same as those of previous scholars. The association between customer loyalty and brand image/identity is positively correlated. More specifically, in the context of the pandemic, geographical factors may also affect this relationship. Because of the different policies and environmental characteristics of each region or market, the total revenue and growth proportion end up differing from market to market.

5. Conclusion

This article examined the impact of Pandora’s revamped brand identity and brand image on its customer loyalty during the pandemic. The psychological and psychological aspects of Pandora’s brand image were analyzed in the context of the consistency between brand identity and brand image, and the impact on loyalty was identified through the behavioral and psychological dimensions. Qualitative research was employed and SWOT analysis was applied to analyze the current performance and future direction of Pandora. The final result showed that Pandora’s brand image and brand identity benefit the loyalty of its customers. From the new design of the brand logo, the change of packaging to the renewal of the brand statement all contributed to the customer’s purchase performance and engagement.

5.1 Contribution and Implication

From a theoretical perspective, this article utilizes the real-life case of Pandora to further demonstrate the relationship between brand identity and brand image, the importance of aligning the two for brands, and the impact they have on customer loyalty. It offers new insights for scholars exploring brand image and identity and brand loyalty.

From the practical side, the article shows the importance of positioning the brand with a good identity and ensuring that customers form a good brand image, in conjunction with the analysis of Pandora Jewelry. Meanwhile, it provides the company’s brand managers and marketing executives with several recommendations on aspects such as packaging, advertising, and campaigns to boost revenues and increase customer satisfaction and loyalty.
5.2 Limitations and Future study

On the one hand, this research investigates the influence of Pandora’s identity and image on customer loyalty during the pandemic in general, while the data analyzed are Pandora’s overall data, that is, including all its markets. However, depending on geographical factors, the extent to which the relationship between brand image/identity and customer loyalty is strong or weak may vary across different markets (i.e., the Chinese markets, and the US market), as they are also influenced by other factors, like the government’s policies. Thus, a more specific market can be studied in the future.

On the other hand, qualitative research is influenced by the subjective feelings, opinions, and experiences of individuals and is interpretive in nature, meaning that the results are ultimately the product of the researcher’s subjective interpretation of the data. Therefore, future research on this kind of topic can be carried out through the quantitative method, as it is rigorous, systematic, tightly controlled, and precise, and can produce reliable data.

References


