FACTORS INFLUENCING SUCCESSFUL BRAND EXTENSION INTO RELATED AND UNRELATED PRODUCT CATEGORIES

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ABSTRACT

This study describes the study that analyzes the factors influencing successful brand extension. Specifically the study analyze the impact of similarity, brand reputation, perceived risk and consumer innovativeness on the success of brand extension into related or unrelated categories of FMCG products. A set of hypotheses were developed and tested by regression analysis. It investigated the effect of factors such as brand reputation, perceived risk, perceived similarity and consumer innovativeness on successful brand extension in FMCG. This study provides support for two out of the four hypotheses of Hem & Charnatony's model. Parent brand reputations, and consumer innovativeness, have powerful positive effect on consumers' mind-set towards the brand extension in related and unrelated product category. The third hypothesis i.e. interaction of perceived similarity is positive and significant in related FMCG product category and hence hypothesis 1 is partially supported. However the fourth hypothesis i.e. perceived risk in preparing the extension with customers' attitude regarding brand extension could not be supported. The result of this study suggests a number of implications for product extensions in our country. Implications have been discussed for the organization of consumer information and effect across related and unrelated product class and for understanding earlier research results on brand extension.

Keywords: Brand extensions, Similarity, Reputation, Perceived risk, Innovativeness.

INTRODUCTION

A brand can be thought of as a name, word, symbol, indication, design or a mix of these which is intended to identify the products and services of a company and to distinguish them from those of rivals. A brand name is among the most significant, fundamental and long lasting assets of a firm. Marketing managers seek ways to enhance the value of brands by leveraging this value through brand extensions and other means. Where as brand extension is a widely used concept in a field of marketing by using a successful brand name to launch a new or modified product in a new

category. Brand extension is a widely accepted brand strategy to attach an existing brand name to a new product introduced in a different product category (Swaminathan and Reddy., 2001). And these strategies were widely used because of the idea that built powerful brand positioning, boost awareness and quality association and lessen the new product risk for consumers (Taylor and Bearden, 2002).

One such approach is line extension, by mean of which a current brand name is used in 2005 to enter a new marketplace segment in its product class (e.g. Diet Coke and Surf Excelmatic). Another approach is brand extension, by mean of which a current brand name is used to enter an entirely different product class (e.g. Dawn Mayo, Tasty Masalay). The strategy in 1992 by Aaker & Keller of introducing new product as extension has become widespread. Brand extension strategies are broadly accepted because of belief that was made and communicated powerful brand positioning; enhance knowledge and quality association and increase likelihood of trial by reducing new product risk for consumers.

The brand extension strategy decision is strategically critical to an organization. According to Aaker and Keller (1990) the success of a brand extension often depends on certain assumptions about consumer behavior such as (1) consumer hold positive beliefs and favorable attitude towards the original brand in memory, (2) these positive associations facilitated the formation of positive belief and favorable attitudes towards the brand extension and (3) negative associations were neither transferred to nor created by the brand extension. Almost no research, however has provided guidance about considerations affecting the likelihood that these assumption hold (Aaker and Keller, 1990). The strategy in 1992 by Aaker & Keller of introducing new product as extension has become widespread. Brand extension strategies are broadly accepted because of belief that was made and communicated powerful brand positioning; enhance knowledge and quality association and increase likelihood of trial by reducing new product risk for consumers.

Brand extension strategy has received considerably notice by the scholarly researchers and practitioners during the last ten years (Barwise, 1993). The past 15 years have witnessed the progress of an important body of experimental evidence on consumer attitude vis-à-vis brand extensions (Czellar, 2003). Aaker and Keller (1990) influential study was the first logical research on consumer behavior towards brand extension. More than eight duplication of Aaker and Keller (1990) actual study have been conducted in different parts of world. Sunde (1993) in Newzeland, Nijssen and Hartman (1994) in Holland, Alexandre-Bourhis (1994) in France, Bottomley et al. (1996) in UK, Holden and Patrick (1996) in three different places England, France and America, replicated Aaker and Keller (1990) study. Riel et al. (2001) repeated and extended Aaker and Keller (1990) in the services context.

More or less all the replications of Aaker and Keller (1990) study were conducted in the industrialized countries. Our reproduction of this study by replicating the model developed by

Chernatony *et al.* (2003) which discusses the four components influencing the acceptability of Brand Extension. Our replication of this study in Pakistan allows us to examine the generalizibility and robustness of previously reported findings of Chernatony model regarding brand extension in the framework of developing economies.

Preliminary Literature Review and Theoretical Framework

In order to make an attempt to analyze the factors influencing the acceptability of brand extension, the main focus of the present study is to simply test the model of Chernatony *et al.* (2003) by applying on low involvement product in Pakistan.

Empirically, many brand extension studies reported the findings and used laboratory experiments and surveys with students, employees and consumers with original and fictitious brands (table 1). The external validity of these studies has been questioned and criticism leveled against genaralisability (Lynch, 1999; Winer, 1999; Klink and Smith, 2001). The methodology used is a further reason for the conflicting findings between studies (Smith and Park, 1992; Dacin *et al.*, 1994). It was sought to have closer replicate market behavior and focus on consumer, using existing brands. Another finding presented with unfamiliar brands, the reputation of the parent brand is a helpful evaluative cue Wernerfelt (1988) and it is important to appreciate how this influences brand extension perceptions, it was investigated this variable. Derbaix (1983) work focused on the perceived risk while purchasing new product, yet reliance on known brand names is a favored way of reducing perceived risk. It was, therefore, investigated the impact of perceived risk on brand extension.

A Schematic representation of the variables discussed in the study
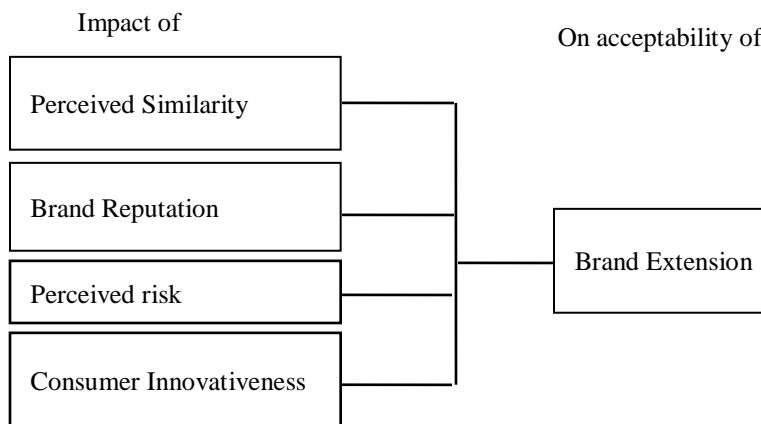
Source: Chernatony *et al.* (2003)

Perceived Similarity

Perceived similarity is the extent to which consumer perceive the extension as similar to other product affiliated with the Brand (Smith and Park, 1992). As mentioned in previous researches as well as shown in table No 2.1 it is evident that similarity between the original brand and its extension is an important basis for determining the fit between them and greater transfer of positive or negative effect to extensions (Boush *et al.*, 1987; Park *et al.*, 1991; Dacin *et al.*, 1994).

It is important to mention here another study (University of Minnesota Consumer Behavior Seminar., 1987) provided empirical support for the notion that greater perceived similarity between the existing and new products indicate to a greater move of positive or negative affect to the latest product. Assuming that there exist different findings that are not given a clear picture of the brand name concept or image that effect consumer perception fit between parent brand and extension. Hence it is important to recognize that the research of consumer evaluation of brand extensions should consider not only product feature similarity such as price, design, look but also brand concept consistency like product category, status etc. (Bridges, 1990).

Brand Reputation

Brand reputation has been stated in term of consumer perception of quality associated with a brand Aaker and Keller (1990); Barone and Romeo (2000). In addition to this it is also observed that brand strength has been articulated absolutely in term of consumer's favorable inclination towards the brand (Keller, 1993).

However same insight on the part of Aaker and Keller (1990) study observed that the impact of perceived quality on the attitude towards the extension should be unambiguously positive. If the brand is associated with high quality, the extension should be benefit; if it is associated with inferior quality, the extension should be harmed. However, in most previous research which discussed brand reputation, it is the consumer perception of quality associated with a brand (Aaker and Keller, 1990; Barone and Romeo, 2000).

Perceived Risk

It implies that consumer experience pre-purchase uncertainty regarding the type and degree of expected loss resulting form the purchase and use of the product Cox (1967). It is define in term of consumer perception of the *uncertainty* and unfavorable *consequences* of purchasing an item for consumption or services Dowling and Staelin (1994). A brand which is extended into a new product category offers a new alternative to consumer, but also impact on the consumer's perceptions of risk. Based on literature that a well-known brand is a risk reliever and boost the probability of product trial (Chernatony *et al.*, 2003). Dowling and Staelin (1994) draw a distinction between product-category risk and product-specific risk which identify the first type of risk as "the person's perception of the riskiness buying an average product in the product

class" (Dowling and Staelin, 1994), while the second type of risk reveal the perceived risk of the specific alternatives being considered. When consumers evaluate a brand extension both types of risk were significant.

Consumer Innovativeness

It is a personality trait to an individual's receptivity to new ideas and willingness to try new practices and brands. On the other hand the same is conceptualized by Hirschman (1980) as the desire or willingness to try new and different experiences. The most salient trait of this variable is the comfort that gained from taking risk (Rogers, 1983). Whereas, another approach about the innovativeness given by Smith and Park (1992) is that established brand reduced the risk associated with buying a new product. A common observation is that individuals high in innovativeness are more venturesome and more willing to try new brands (Steenkamp and Baumgartner, 1995). The response differences between highly innovative and less innovative consumers (early and later adopters) reflect, to some extent, differences in risk-taking propensity. Innovators tend to be less risk averse than other consumers (Chernatony *et al.*, 2003).

Overall Evaluation

It is the subject's reaction towards a proposed brand extension was measured using behavioral and attitudinal statements following the established attitude research procedures (Fishbein and Ajzen, 1975).

METHODOLOGY

A questionnaire has been formed to carry out the survey. In order to test the hypotheses, data was gathered using a consumer survey. The selection of suitable brand for the this study examined consumer's reactions to a variety of extension for FMCG product taking (Dawn Bread) was leveraged into 2 different hypothetical extensions on two level of product that is relevant and irrelevant extensions and logically connected to the parent brand. High quality and renown brand was chosen because the use of low quality brand would have tended to generate extensions that would be less realistic.

Original Brand	Product Class Extension
Dawn Bread	Dawn Jam
Dawn Bread	Dawn Chocolate

Convenience sampling technique was used for FMCG product chosen. Subject participating in the study were of 100 samples for both FMCG products has been taken into account from regular users of the product. All product users in Karachi comprise the population of the study. The data analysis relied on regression analysis as its core analytical technique. A scale was developed, 5 being the highest, and 1 being the lowest score, to measure the responses from the subjects. The set of 32

questions and a 5 point likert scale (1 = strongly disagree, 5 = strongly agree) measured and assessed the overall quality of original and extension of the parent product. Before testing the hypotheses the reliability of the measures derived from the respondents about the acceptability of brand extensions has been checked. The reliability measures showed for this study normal values. Reliability analyses was conducted on the given data and get 0.6 for Dawn Jam and 0.5 (perceived similarity is deleted) for Dawn Chocolate, and then conducted Regression Tests for further analysis.

Based on the literature studied the following hypotheses have been established:

Hl: Extensions into categories perceived related to the category of the parent brands should more likely to be accepted compared to extensions into unrelated product categories.

H2: The higher the perceived reputations of the parent brand, the more favorable should be evaluations of the brand extensions into related categories.

H3: The higher the perceived risk associated with the extension category, the more positive should be evaluations of the brand extensions into related categories.

H4: The higher consumers' innovativeness, the more positive should be the evaluations of extended brands.

DATA ANALYSIS

The objective of the study was to see what types of associations emerged from a thought-listing about the original brands and the extensions and thus gain insight about why evaluation were more favorable toward some of the extension than towards other and what type of extension is favorable as compare to the product-category and product-specific extension. To test the correlation between the variables in both the cases of Dawn jam and Dawn Chocolate, Spearman correlation (1-tailed) was used. Correlations between the variables have been summarized in table 4.1. Examining the results of correlations between the independent and dependent variables in both the cases in table 4.2 which indicates that in case of Dawn Jam there is positive correlation between similarity, reputation, perceived risk and consumer innovativeness and overall evaluation of brand extension. While in case of Dawn Chocolate, the correlation between the similarity, perceived risk and consumer innovativeness and overall evaluation is positive on the other hand reputation illustrates a negative or reverse relationship. Hence it is concluded that the correlation coefficients between reputation and overall evaluation of brand extension were not significant for Dawn Chocolate and negative.

Table-4.1. Correlation between Research Variables

	Dawn Jam				Dawn Chocolate			
	1	2	3	4	1	2	3	4
1: Parent Brand Reputation	1				1			
2: Perceived Similarity	.026	1			-.311**	1		
3: Perceived Risk	-.225**	.149	1		.204*	.002	1	
4: Consumer Innovativeness	.371**	.126	.022	1	.371**	-.141	.236**	1
5: Overall Evaluation	.397**	.251**	.099	.169	-.075	.077	.151	.141
**. Correlation is significant at 0.01 level (1-tailed)								
*. Correlation is significant at 0.05 level (1-tailed)								

Multivariate Analysis

To test the hypotheses more meticulously, a multiple regression was used to determine the association between the independent variables i.e. reputation, similarity, risk and innovativeness, and the dependent variable i.e. overall evaluation of brand extensions for two products of Dawn Jam and Dawn Chocolate. Table 4.2 indicates that variability in dependent variable is explained by a set of independent variables equal to 27.1% in case of Dawn Jam and 16.9% in case of Dawn Chocolate. Both the models were significant and the final regression model by stepwise method provides three independent variables similarity, reputation and innovativeness in case of Dawn Jam and reputation and Innovativeness in Dawn Chocolate. That's not grand but it has been kept in the record. However, it is suggesting a reasonable "model fit". These finding is similar to the research conducted by Chernatony *et al.* (2003), Aaker and Keller (1990), Smith and Park (1992), however contrary to the findings of Keller and Sood (2002/3), John *et al.* (1998) researchers results.

Finding from the linear regression are demonstrated in the following tables:

Regression Outputs of Independent Variables on Overall Evaluation of Brand Extension by Stepwise Method

Table-4.2

Final Model

	R Square	Adjusted R^2	F	Sig.
Dawn Jam	0.293	.271	13.254	.000
Dawn Chocolate	0.186	.169	11.084	.000

Table 4.2 shows that overall model is significant at 5 % significant level for Dawn Jam and Dawn Chocolate models both. F statistics value of 13.25 and 11.084 significant at 0.000. It means that the model (independent variables) has explained almost 16% to 27% of the influencing factors that affect the overall evaluation of brand extension. However, this also indicates a 72 per cent

unexplained variation, showing that there were some significant variables missing in the model. This may call for a further study in the same area. As far as the values or the numbers is concerned as shown from the equation **1** for the Dawn Jam Model if one degree is increased in innovativeness towards agreeness that increase 0.286 unit and similarly increase 0.24 units in brand reputation and 0.155 unit innovativeness. On the other hand from equation **2** it is evident that if one degree is increased in innovativeness towards agreeness increases 0.614 units and similarly - 0.352 unit decreases in brand reputation. It is worth mentioning that in case of Dawn Chocolate as applied regression stepwise method "perceived similarity" is excluded as it has no effect for this model.

Equation for Dawn Jam:

$$\text{Overall evaluation }_{Jam} = b_0 + b_1\,Inn + b_2\,BrRep + b_3\,PerSim$$

$$\text{Overall evaluation }_{Jam} = 1.208 + .286\,Inn + .24\,BrRep + .155\,PerSim \ldots\ldots (1)$$

Whereas

Inn = consumer Innovativeness

$BrRep$ = Parent Brand Reputation

$PerSim$ = Perceived Similarity

Equation for Dawn Chocolate:

$$\text{Overall evaluation }_{Chocolate} = b_0 + b_1\,Inn + b_2\,BrRep$$

$$\text{Overall evaluation }_{Chocolate} = 2.414 + .614\,Inn - .352\,BrRep \ldots\ldots\ldots (2)$$

RESULT & DISCUSSION

Much of the earlier work on product extension with few exceptions uses an experimental approach to investigate the effect of brand extension. Prior research shows the important conviction and factors about the brand extensions and investigated several consequences and antecedents thereby have influenced this field of research. The current finding contribute further to this literature on brand extension by examining and replicating the model of Chernatony *et al.* (2003) and extending the original study in Pakistan to draw general conclusion and robustness of the said model in the framework of developing economies. This research provides support for three out of four hypotheses of Hem & Charnatony's model. Overall evaluation of brand extensions of original brand and three fit variables, Similarity, Brand Reputation and Consumer Innovativeness, have powerful certain and real effect on consumers' frame of mind towards the brand extension in one FMCG product category (Dawn Jam) relevant with parent brand. On the contrary two fit variables, Brand Reputation and Consumer Innovativeness, have strong positive effect on consumers' attitude towards the brand extension in one FMCG product category (Dawn Chocolate) irrelevant with parent brand. The major finding of this study is that product perceived risk is not affected and hence not included in our regression model by stepwise method in testing the model in Karachi, Pakistan. Interestingly perceived similarity seems not to be of equal importance for the brand extension evaluation in both product samples clearly demonstrates that there is a difference in the

mechanism behind consumer evaluation of related and unrelated product category of brand extensions.

Limitations

1. The research confine to Karachi only and the result attain from this study would be generalized over entire Pakistan

2. The result of the study may not be applicable to every country.

3. It is impossible to incorporate the entire product users/consumer in Karachi in the study.

4. Finally, the study used two samples from related and unrelated of the FMCG product category. Limited timing constraints brought hindrance in discussing the other durable goods, service sector or high involvement products that might have given different result in these categories. Future study could examine the model on variety of other product in order to further verify the results.

5. One of the limitations of this study is, like initial study and following replication; that all the factors are not contributed as in the used model and "perceived fit" may not be as restrictive as prior research has implied.

Managerial Implications

1. Companies which deal in brand extension in fact had an opportunity to craft different strategy using this model.

2. By understanding these variables that influence consumer' perception about the acceptability of brand extensions marketer should be better able to develop more effective strategies.

3. Identify the pattern and preference of the local people in our country for the acceptability of brand extension so that the model would benefit when apply this model in our country to the success of brand extensions.

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