

# The role of brand extension



In over two decades, the business strategy of introducing new products as extensions has become popular (Maoz and Tybout, 2002; Hou, 2003).

Similarly, brand extension is considered as a key to develop brand. In details, it is widely used as eight out of ten new products are introduced as a brand extension in the market (Keller 2003; Simms, 2005; Volckner and Sattler, 2006). Brand extension strategies are broadly applied in order to reduce marketing expense in launching new product, enhance well-known and quality of core brand, and lessen risk for companies (Keller and Aaker, 1992; Taylor and Bearden, 2002).

On the other hand, exploiting valuable core brand to built up for the brand extensions are an obvious strategy for growth (Keller and Aaker, 1992) but it is not without risks for firms (Swaminathan, Fox, and Reddy, 2001; Hem, Chernatory and Iversen, 2003) in the new economic environment. Prior studies on brand extension have indicated that a successful brand extension depends a lot on firm characteristics (Hou, 2003), core brand characteristics (Keller and Aaker, 1992; Park and Kim, 2001; Hou, 2003), customer characteristics (Keller, 1993; Swaminathan, et al., 2001), extended brand characteristics (Hou, 2003), and marketing strategies (Desai and Keller, 2002; K. L Washburn, Till and Priluck, 2000; Park and Kim, 2001; Hou, 2003). “ Brand extensions offer many potential benefits but also can pose many problems” (Keller, 2003, p. 623).

As a result, understanding brand extension evaluation in terms of its core brand, its characteristics and customer behaviors are very important for marketers and firms in order to expand and increase sales revenue. Thus, this paper is designed to additionally examine the relationship between

parent and extended brand and its influence on customer. Furthermore, this paper will study the impact of brand extension characteristic on customer purchase intention.

## **2. The role of brand extension**

### **2. 1. Definition and types of brand extension**

As an interesting research topic, brand extension can be defined and classified into many types as well as many researchers have done about this topic. The need to differ clearly brand substitutions and changes in brand design had led to define brand name extension as the replacement of at least one of the verbal denominations of a product by another, accompanied by the disappearance of the former denomination (Collange, 2008). Brand extension is also defined as “ a product whose nature and function differ from those of products currently commercialized under the brand name” (Cegarra and Merunka, 1993 cited in Collange, 2008). In other words, brand extension is defined as using an established brand name so-called parent brand or core brand (Volckner and Sattler, 2006) to introduce a new product (Keller, 2003).

As one of the most frequently tool branding development (Volckner and Sattler, 2006) brand extension is classified into two categories: depth and width of parent brand (Keller, 2003). Keller (2003, p. 581) claimed that “ brand extensions can come in all forms”. A core brand is replaced by sub-brand (Collange, 2008) or using new feature added to the host product (Densai and Keller, 2002). In another research, Edward classified brand extension into some categories, what he calls a franchise-extension based on the brand extension characteristics and its correlation to the parent brand.

Those are introduction new product as a different form with the core product, or as a component of parent product, or as a companion product, or as a relevant product for the brand (Tauber, 2004).

## **2. 2. The advantages of brand extension strategy**

As the efficient strategy, brand extension have become a usually occurrence over the last fifteen years. There are a lot of firm like Apple, which has succeeded with the extension of Apple iPod digital music player. It is concerned as a tool for firm to improve brand image when consumers' inferences to the performance of new product based on what they really know about the brand itself. These inferences are noted by Keller (2003) that can improve the strength and uniqueness of the core brand. Sony is the great example for this point, when a new personal computer for multimedia application is introduced consumers may have been more likely to feel comfortable with its anticipated performance because of their experience of other Sony products than if the product had been branded by Sony as something totally new. This extension is one of factors that are seen to create and enhance the competitive advantages of Company in order to develop their product line.

As competitive economic environment, extending brand is often seen as a popular (Maoz and Tybout, 2002) and beneficial strategy to introduce different product into market in order to reduce costs, risks of failure and to increase successful opportunity (Taylor and Bearden, 2002). In addition, a lot of firms are using this way expected to generate quicker positive reciprocal effects and heavier purchase by consumers (Swaminathan, et al., 2001).

Moreover, another potential benefit is to facilitate the acceptance of

extended brand (Keller and Aaker, 1992). Extending brands both within and beyond the original product category is deemed to be profitable. In over fifteen years, these extensions are usually motivated by the need to decrease a portfolio of brands due to the increasingly in advertising expenditure (Cegarra, 1994; Villemus, 1996 cited in Colange, 2008) or price promotions (Volckner and Sattler, 2006). For example, McDonald's has expanded broadly around the world especially in Asia, Europe and Middle-Earth with extended brands. They were successful with McNuggets in England, Maharaja Mac in India even with new product categories such as McCafe, McTreat, or non-food brand extension Golden Arch Hotel in Switzerland (Studer and Ordonez, 2000).

### **2. 3. The risk of brand extension**

As the cost of opportunity, the success of brand extensions is uncertain (Nkwocha, Bao, Johnson, and Brotspies, 2005). As an “innovation can be very risk” (Kotler and Amstrong, 2001, pp. 337), a brand extension can create negative reciprocal consequences that enhance or diminish the equity of the parent brand (Swaminathan, et al., 2001). In some specific circumstances, it is an extremely risk for firms or would be doubted (Collange, 2008). As a result, these extensions may not be successful (Martin and Stewart, 2001) and it could lead to a tangible drop in sales and market share. Extending brand in marketplace today seems to be more challenging (Hansen and Hem, 2004) and needs to select and manage very carefully (Park, Kim K., and Kim J., 2002). Besides, it requires companies to have knowledge and understanding how customer evaluate brand extensions

(Bottomley and Holden, 2001) and research further how customer react upon brand extensions in order to maximize profit.

In some cases, extended brand cause consumer feel unappreciated, this confusion may lead consumer to question the integrity and competence of the brand. It is noted as one of the most popular reason for the failure of brand extension (Park, Milberg and Lawson, 1991). Besides, the worst possible consequence with an extension brand is that not only does it fail, but it also diminishes the parent brand. Audi is classic example, its sales declined from USD \$ 74, 000 in 1985 to 21, 000 in 1989 as the result of failure of Audi 5000 had launched in 1986. Each of brands created its own image and associations and introduced into the markets absolutely different from those that currently placed in the market by the Company. As the research, Keller (2003) claimed that introduction a new brand as brand extension always have significant and potentially hidden costs, it requires a new brand should be introduced and updated in the most competitively advantageous way possible. Similarly, brand name extended is extremely risk for firms because consumer may no longer recognize it on the shelf or doubt its quality. As the result, this could lead to a drop in sales and market share of core brand (Kapferer, 2007). Moreover, understanding unsuccessful brand extensions may harm the parent brands is very important. It also leads to research and address in this topic, when the role of brand extension and its evaluation have been finding for a long time. Therefore, before extend brand image, company must find out and measure the potential impact on brand evaluation and purchase intention (Changeur, 2004).

### **3. Components of the literature**

#### **3. 1. Parent brand and brand extension evaluation**

##### **Core brand equity**

According to previous researchers, the parent brand characteristics have influenced on brand extension evaluation (Hou, 2003) and play an important role in successful brand extension (Keller and Aaker, 1992). Specially, the relationship between core and extended brand is linked to the dominant and nature of the core brand (Bridges, Keller and Sood, 2000). As most of new products are extended brands from the core brand (Keller 2003; Simms, 2005; Volckner and Sattler, 2006), previous researchers have shown the positive effect of parent brand on brand extension evaluation. One of these reveals that extended brands from the high equity core brands will be shaped more favorable attitudes (Washburn, Till and Priluck, 2000). On the other hand, the core brand image is not affected negatively by brand extension failure (Keller and Aaker, 2000) and has a low risk relation with brand extension (Maoz and Tybout, 2002).

The literatures on brand extension have shown the essential role of brand equity in shaping consumer attitudes about an extension (Collange, 2008). Later researches have revealed that stronger parent brand equity is, whether formed by the brand's quality (Keller and Aaker, 2000) or its awareness (Reddy, Holak and Bhat, 1994) the more brand extension is appreciated and to be successful. The core brand equity has not disappeared, and it remains engraved in customers' mind even though it is replaced by the extended brand. This is demonstrated by the fact that many companies continue to

refer a new product by its former name (Collange, 2008) as the warranty of success.

## **Quality of parent brand**

Moreover, brand extensions are perceived by customers' perceive about the quality of the core brands (Densai and Keller, 2002; Taylor and Bearden, 2002). An existing brand name provides an assurance of quality, thereby reducing the risks involved in purchasing a new product (Swamanithan, et al., 2001). Extension brands from high quality parent brands are perceived as substitutes tend to be less favorably received than those from lower quality brands (Bottomley and Holden, 2001). As the importance of quality, brand extensions which are from strong quality brand are benefited more than those from the weak brands (Park, et al., 2002). Also, in the later research, those effects should depend on the level of perceived quality of the core brand and a high level of both perceived core brand quality between the original and extension product categories was necessary for favorable extension evaluations (Keller and Aaker, 1992).

## **Customer-brand relationship**

The customer-brand relationship quality interacts significantly and positively with brand extension evaluation (Park, et al., 2002). In the context of introduction new brand extensions, this strong relationship helps to obtain customers' acceptance on the new extensions (Park, et al., 2002) and extended brand will be formed better in customers' mind (Densai and Keller, 2002). Besides, the greater customers' beliefs about the core brand, the better brand extension will be evaluated (Swamanithan, et al., 2001). In



addition, customer with greater perception of core brand will accept the proposed extension more favorable (Keller and Aaker, 1992).

### **3. 2. Brand extension characteristics are most concerned in evaluating brand extension**

There are some brand extension characteristics which are considered by customer in evaluating brand extension (Hou, 2003).

#### **Brand attachment**

Due to the limitation of knowledge about new offering (Taylor and Bearden, 2002), customer may evaluate extended brand by their experience about the core brand (Swamanithan, et al., 2001). As a definition above, firstly, brand extension is integrated the variable of attachment to the initial brand (Collange, 2008). Furthermore, brand attachment is defined as an emotional relationship of consumer with the parent brand (Lacoeuilhe, 2001 cited in Collange, 2008). It means consumer who is emotionally attached to the core brand will be unhappy if it disappears, regardless of the qualities of the substitution brand. It was claimed that the stronger the consumer's attachment of extended brand to the initial the more purchase intention will deteriorate. Indeed, the third condition for extended brand to be a success is that consumers must not be too attached to the brand that will eventually disappear (Collange, 2008). On the other hand, the evaluation of brand extension seems to be difficult because consumers have an established relationship to the parent brand in the extension category (Hansen and Hem, 2004).

## **Perceived fit**

Another characteristic of brand extension, which is recognized as one of the key success of brand extension is perceived fit of the extended brand to the core brand (Hou, 2003). According to previous researches, perceived fit can impact brand extension evaluations in some ways. First, it affects the extension to which consumers transfer their core brand awareness to an extension (Densai and Keller, 2002). Second, consumer may fit as a cue to make their inferences about an extension (Hou, 2003). Besides, perceived fit of brand extension is an important component of extension evaluations (Bridges, et al., 2000). In other words, brand extension must fit with the core brand is considered as the first condition (Collange, 2008). It leads to evaluate brand extension more positive (Michel and Cegarra, 2002; Collange, 2008). Otherwise, lack of category fit can cause the failure of brand extension (Park, et al., 2002; Yeo and Park, 2006). An earlier research has shown that perceived fit between a brand and an extension is high; consumers are more likely to base their evaluations of the new product on their attitudes toward the parent brand (Bridges, et al., 2000). Therefore, as one of the key success factor of brand extension, it is needed to manage and emphasize carefully the transfer of the brand in terms of customer perspective (Collange, 2008).

In prior researches, transfer has been examined as the greatest impact on extension evaluations among these dimensions (Hou, 2003), which are complement, substitute and transfer (Keller, 2003). Moreover, these types of features involved in fit judgments (Keller, 2002) have suited. Perceived fit is not only the extension's functional similarity to the brand category but also

its relevance to abstract brand benefits (Broniarczyk and Alba, 1994).

Furthermore, consumers may evaluate brand extension perceived fit on deep features or surface features (Zhang and Sood, 2002). It might be the main reason led to the mixed results above.

### **Perceived similarity**

Furthermore, perceived similarity is characterized as a factor which influence consumer's acceptance of extensions (Hem and Iversen, 2008). An important reason, also, is that similarity has been found to be a major determinant of brand extension evaluations (Hansen and Hem, 2004). It is defined in terms of the features shared by the core product and extension product (Keller and Aaker, 2000). Historically, similarity is understood in terms of internal operating synergies that arise when a new product can leverage on existing market (Hem, Gronhaug, and Lines, 2002). Perceived similarity is found to be the most relevant variable that can influence on the successful result of extensions (Volckner and Sattler, 2006; Hem and Iversen, 2008).

The similarity between parent and extended brand might influence on perceptions of customer to brand extension and a similar extension of a brand is evaluated more favorably than a dissimilar one (Yeo and Park, 2006). Besides, a customer perception of new brand extensions is related to similarity (Taylor and Bearden, 2002). In addition, the extension information must be deemed relevant in the parent category and the similarity between the extension and parent brand is necessary for the extension information to be considered relevant (Swaminathan, et al., 2001). In the last ten years, researchers have concerned about brand extensions. The higher similarity between the extension and the core brand, the more favorable brand

extensions are assessed (Taylor and Bearden, 2002; Park, et al., 2002), the higher purchase intention will be (Collange, 2008). This result was also found in the research of Sony and Nike about extension and new brands, when perceived similarity is a positive effect on brand extension evaluation (McCarthy, Heath and Milberg, 2001).

Otherwise, when the extension is seen as unrelated to the core brand, extension will not be evaluated favorably this association will not be seen as relevant to judging the extension (Boush and Loken, 2003). In contrast, a number of successful extensions that lack an overall perceived similarity with the parent brand have been launched into the market (Maoz & Tybout, 2002). For example, the Virgin brand has been extended to a huge range of products, such as magazines, a music retailing chain, music label, airlines, trains, holidays, personal computers, wine, cola, financial services, radio stations, bridal services, movie theatres, perfume and cellular phones (Keller, 2003). The role of similarity is to influence both positive and negative reciprocal effects (Swaminathan, et al., 2001). As these researches, thus, perceived similarity should be focused deeper on further research in order to evaluate its important role in terms of customer purchase intention (Volckner and Sattler, 2006).

### **3.3. Customer attitudes towards brand extension**

#### **Attitudes and purchase intention**

Customer attitudes towards brand extension may be affected and varied in terms of age, mood and culture (Hou, 2003). As consumer is heterogeneous, they may evaluate differently brand extension (Fu, Ding and Qu, 2009). This difference is the main reason caused to the mixed results in the prior

studies. For example, Zhang and Sood (2002) measure the brand extension in terms of customer's age groups and they found that teens evaluate brand extensions by relying more on surface cues and less on deep cues. Similarly, the difference in culture can lead customers to uncommon response to brand extensions. Customers from Eastern culture, characterized by holistic thinking, perceive higher brand extension fit and evaluate brand extension more favorably than those in Western culture, characterized by analytic attitudes (Monga and John, 2007).

Customer purchase products to obtain benefits and products deliver benefits to customers (Osselaer and Alba, 2003). In terms of customer intent to purchase extended brand, there are some opinions about the dependent on customer relationship and satisfaction in the core brand (Park, et al., 2002). An important factor that leads to customer purchase intention is a lower affective commitment to parent brand (Hansen and Hem, 2004). This means the parent brand experience has no impact on repeat purchase of the brand extension (Swaminathan, et al., 2001). In the same way, the evolution of product purchase intention corresponds to the difference in the degree of purchase intention between the product with the substitution brand and the one with the initial brand (Michel and Cegarra, 2002; Collange, 2008). On the other hand, consumers' willingness to buy is influenced by perceived value of the core brand (Taylor and Bearden, 2002). Similarly, purchase decision to buy extended brand is depended on consumer level of involvement in core brand (Hansen and Hem, 2004).

## **Customer knowledge**

Besides, consumer knowledge is considered as the most important factors that might influence on their attitudes towards brand extension (Hou, 2003). In a research, Brucks (1985) had described three categories of consumer knowledge: subjective knowledge, objective knowledge and prior experiences with the product category. And in the further research, subject knowledge that is what consumer think they know is considered as the strongest motivation of purchase intention for extended product (Hem, et al., 2002). Also, when consumers encounter a new product in the marketplace, they are unlikely to engage in extension cognitive deliberation. This means they might base their evaluations of an extended brand on their subjective to the core brand without considering any specific or different features that the extended brand might have (Yeung and Wyer, 2005). However, in the past research of brand extension show the mixed results for the effects of consumer knowledge on extension brand. For instant, perceived subjective knowledge about the extension category was found that it has negative effect on brand extension evaluation, it means the evaluation of brand extensions are more positive when perceived subjective knowledge of consumer is low than when it is high (Park and Smith, 1992). In the other hand, the positive effect was found in further research (Dacin and Smith, 1994) or there is no effect on extension evaluations (Keller and Aaker, 1992). As mentioned in the research, this conflicting finding could be explained by the limited number of items used to evaluate consumer knowledge (Hem and Iversen, 2008). Therefore, the effect of subjective knowledge on evaluation brand extension is required to research further (Czellar, 2003).

## **Customer attitudes and the characteristics of brand extension**

Also, as the strong relationship between the extended brand and the core brand, customer attitudes brand extension might transfer from parent brand (Keller and Aaker, 1992; Volckner and Sattler, 2006). However, customer awareness of brand extension may cause a negative effect on customer attitudes towards the core brand except the high quality of core brand and perceived fit between the core and extension brand (Hou, 2003). Besides, brand extension characteristics have the most weight in the evolution of purchase intention for the brand that has changed name (Collange, 2008). Purchase intention toward the extension is directly influenced by the perceived similarity (Swaminathan, et al., 2001). However, this influence of perceived similarity will be mediated by a categorization construct, called brand meaning (Martin and Stewart, 2001). This minor conflict is needed to research further and provided more evidence to understand customer purchase intention in relationship (Collange, 2008) with core brand characteristics and brand extension characteristics as well.

Along with the importance of perceived similarity in the studies of brand extension, researchers have suggested that explain how and why similarity is important for successful brand extension is necessary as well. Consumers first consider there is a match between what they know and experience about the parent brand and what they believe to be true about the parent brand in a new product category (Hem, et al., 2002). If the match is perceived good, consumers might expect to transfer their attitudes to the

extended brand. Hem and his co-authors (2002) have noted that consumers may also evaluate the extended brand in a more piecemeal fashion.

#### **4. Brand extension evaluation in the fast-moving consumer goods (FMCG) industry**

Brand extension is used widely in many industries (Hou, 2003) and in order to evaluate brand extension effectiveness, this research scope will be narrowed down to one of the most popular and typical area industry of brand extension, FMCG. In FMCG industry, brands are viewed as the key assets of the company, and all investments will be made to create brands. The focus of the organization is on brands and all departments work together towards the brand development. Using new brand name and cooperating brand names are two of three basic brand development strategies for FMCG industry (Schuiling and Moss, 2004). The success and high rank of Procter & Gamble (P&G) or Nestle in this industry are the great examples for the importance of brand extension in brand development strategies. Moreover, due to very high cost needed to launch a new product and difficult marketing approaches, the use of brand extension approaches in FMCG companies is increasing for the last few years (Juda, 2007) and as the result of globalization, FMCG companies tend to take an existing brand name and then extending it to other product categories has been applied increasingly (Schuiling, 2001). Therefore, FMCG is seen as the most typical industry where required study further and deeper about brand extension.

#### **5. Conclusion**

In the competitive environment, the use of brand extension is the efficient tool for many firms in order to place higher position in the market. To



achieve this goal, brand extensions have been evaluated for a long time. These studies have provided the understanding of the importance of brand extension and the need to address brand extension evaluation in this paper. Also, the relationship between the core brand and the extended brand is shown clearly, especially in terms of brand extension characteristics and customer attitudes towards brand extensions. However, to date, the conflicts in the literatures have existed and deeper understanding brand extension evaluation and its relation to customer purchase intention require researching further (Collange, 2008). Moreover, the limitation in number of items used to measure is reason that cause to the irrelevant results in the past researches. There are still some mixed results about the impact of perceived similarity and perceived fit on customer purchase intension, the lack of information about the correlation between the parent brand and the extended brand. These confusions need to re-solve in further research.

As mentioned in the background and literature review, the extended brand is strongly affected by the parent brand. When an extended brand is being created, it would be necessary for marketers to understand how customers look at the brand extension and how it will impact on their purchase intention. In order to have further understanding this issue in the FMCG industry in Vietnam, the below questions and hypotheses have been developed:

Q1: What are the factors of parent brand affect on brand extension evaluation?

H1: High equity of parent brand will provide more favorable effects on extended brand.

H2: Perceived quality of parent brand correlates to extended brand perceived quality.

H3: Customer's relationship of the parent brand positively correlates to the acceptance of extended brand.

H4: Customer attitude toward parent brand will relatively affects on the extended brand.

Q2: How brand extension characteristics influence on customer purchase intention?

H5: The more similarity to the parent brand, the higher level of customer purchase intention of extended brand.

H6: The higher of perceived fit of extended brand to the parent brand will positively impact on the customer purchase intention of extended brand.

H7: Customer's attachment to the parent brand is correlated to the customer purchase intention of extended brand.

H8: Customer awareness of the extended brand is correlated to the level of their purchase intention of extended brand.