The Determinants of Brand Extension's Success in an Emerging Market: Identifying The Effects of Parent Brand Image, Category Fit And Consumer Characteristics

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ABSTRACT

Brand extension is the use of an established brand name to launch new products. It is one of the most used branding strategies because it gives the new brands faster acceptance. But the brand extension contains risks as well as it has opportunities. The wrong extension could create damaging associations that may be expensive to change. The failure affects the extension strategy as well as the existing brand either through brand dilution or damaging the existing brand image. In sum, "if the judgement is wrong, substantial time and resources are lost and other market opportunities may be missed". In that scope the success of the brand extension is a crucial issue for a company. Through that, this study aims to identify the key determinants influencing the brand extension's success in an emerging market.

In this study, the data is collected by face-to-face interviews with 453 students. In order to test the research hypothesis structural equation modelling was conducted.

INTRODUCTION

In today's fast- moving marketplace, a company should be good at in developing and managing its brands and its growth to compete successfully. In order to grow, the company has two main options which are entering into a new product category or having additional items in the existing product category. In doing so, the company can either use a new brand name or its existing brand name. Through that, the company has four growth strategies which are multi brand, new brand, line extension and brand extension (Kotler and Armstrong, 2004).

Brand extension is a frequently used growth strategy, especially in mature fast-moving consumer goods, while entering into a new market (Ambler and Styles, 1997). But it is a critical decision since it has risks as well as benefits. These risks are crucial because the wrong extension not only damages the extension strategy and causes losses but also may generate harmful results for the existing brand. In that point, it is important to define the factors effecting the success of the brand extension.

As subject to research, a producer of home and electronic appliances was chosen. That company has extended into the mobile market in recent years. Mobile market is a potential market in Turkey. With more than 50 million mobile phones in the market, Turkey is by far the largest wireless network in Eastern Europe and the Middle East. Among these 50 million phones, there are more than 30 million java compatible models, making the country very attractive for new generation mobile applications. Recently a java based mobile betting application launched by Pozitron reached a number of 60,000 users in 12 months. This application might be the widest distributed java based mobile betting application in the world (Wireless World Forum, 2006). Since it is an attractive and profitable market, the brand extension's success will provide not only bigger market shares but also new marketing opportunities for the brands. Within that scope, the aim of this study is to identify the impacts of parent brand image, category fit and consumer characteristics as determinative factors on the brand extension's success in an emerging market.

CONCEPTUAL FRAMEWORK AND THE RESEARCH MODEL

The growth opportunities for a company are categorized by Tauber (1981) through two dimensions which are product category and brand name used. That categorization produces four main strategies. These can be seen in the Figure 1.

Figure 1: Growth Matrix

Insert Figure Here

These strategies are new brand, flanker- it is named as "multi brands" by Kotler and Armstrong (2004)- line extension and brand extension. As it is seen from the Figure 1, the company has two options in terms of product category: growing into a new product category or into the existing product category. The "new product category" is defined as a completely new category for the company. In other words, in order the category to be defined as a new product category, the company should have no existing products in that category. In entering into a new market, the company can use a new brand name which is called as "new brand strategy" or the company use its existing brand name which is called as "brand extension".

In brand extension the company uses an established brand name to enter into a new product category (Aaker and Keller, 1990). In other words, "a brand extension involves the use of a successful brand name to launch new or modified products in a new category" (Kotler and Armstrong, 2004). In that point, line extension differs from brand extension. In line extension, the company uses its existing brand name to enter into a product category in which the company has already products. In doing so, the existing brand name is extended into new forms, sizes and flavours- i.e. Light Coke, Marlboro Light etc.

Brand extension is an attractive option for the companies because it has many advantageous. First of all, the new product is recognised and accepted fastly. Therefore, the company can save the high advertising costs required to build a new brand name (Kotler and Armstrong, 2004). And also the costs to build-up awareness and to achieve target trial levels are low (Ambler and Styles, 1997). Moreover, due to the familiarity and knowledge of the consumers about the existing brand name, the risks that the company can face in introducing a

product in a new market can be reduced (Aaker and Keller, 1990). Besides, brand positioning can be strengthened and through the creation of "mega-brands" not only the bargaining power of the company increases but also an effective defence is gained against the competitors (Ambler and Styles, 1997).

Brand extension is a strategically important decision. This is mainly because it has risks as well as opportunities. The wrong extension could create damaging associations that may be expensive to change (Ries and Trout, 1981). The failure effects the extension strategy as well as the existing brand either through brand dilution or damaging the existing brand image (Ambler and Styles, 1997; Martinez and Chernatony, 2004). In sum, if the judgement is wrong, substantial time and resources are lost and other market opportunities may be missed (Aaker and Kelller, 1990). Therefore to know the factors affecting the brand extension's success is a crucial issue for the academic researchers and the marketing practitioners. Understanding why and how the consumers have a positive attitude towards "the extension" will guide companies to develop successful growth strategies in an emerging market while decreasing the failure rates. Within that scope the aim of this study is to define the effects of the determinative factors on the brand extension's success in an emerging market. In Figure 2, research model developed through can be seen.

Figure 2: Research Model

Insert Figure Here

Given the large literature on brand extension's success, the factors effecting can be grouped as (Völckner and Sattler, 2006; Reast, 2005; Ambler and Styles, 1997; Chakravarti et. all., 1990).

- parent brand image,

- category fit, and

- consumer characteristics.

Brand image is defined as "perceptions about a brand as reflected by the brand associations held in consumer memory" (Keller, 1993). From the cognitive psychology view, knowledge of a brand in consumer memory is represented as a series of associations (Chakravarti et. all., 1990). Thus in the consumer memory there exists brand-specific associations as well as associations related with the product category. The most of the associations with the brand has a potential to be transferred to the extension (Aaker and Keller, 1990; Park et. all., 1991). Since brand image, perceived quality and brand attitude are related to each other (Low and Lamb, 2000), and the consumer knowledge or familiarity with the brand is likely to influence all the perceptions about a brand (Martinez and Chernatony, 2004), the beliefs and attitudes in relation with the original brand will be transferred to the extension and will generate attitudes parallel with the parent brand. Therefore it was postulated:

H1: The parent brand image has a direct effect on the brand extension's success.

In addition, in the literature, the relationship between the parent brand and the brand extension is explained through the categorization theory. When a consumer encounters a new brand, s/he attempts to make a classification through putting the object into a certain category (Nan, 2006). The evaluation of brand extension involves category- based processing (Boush and Loken, 1991) and categorization occurs when the consumer mind compares the new stimuli with the experiences in mind. Through that a new category fit or non-category fit is created. The brand extension is more likely to be accepted when the consumer's mind perceives the extension to be similar to the original parent brand (Gürhan-Canlı and Maheswaran, 2001; Park et. all.,

1991; Aaker and Keller, 1990; Herr et. all., 1996; Boush and Loken, 1991). In that point, the good fit between the parent brand and the extension is an important success factor. Through that it was postulated:

H2: The category fit between the parent brand and the extension will affect the brand extension's success.

Moreover, consumer characteristics are the other main factor influencing the success of brand extension. These include perceived risk, consumer innovativeness and product involvement. Innovativeness is defined as the desire to try new and different experiences (Hirschman, 1980). In the view of diffusion theory, it is determined that people respond differently to new products (Hirschman, 1980). Within that scope, earlier adopters may be more receptive to the extensions than the later adopters (Klink and Smith, 2001). Regarding these, the hypothesis was postulated as:

H3: The innovativeness of the consumer affects the brand extension's success.

Another important consumer characteristic is risk perception. Perceived risk, firstly, is defined by Bauer (1960) as below:

"... consumer behaviour involves risk in the sense that any action of a consumer will produce consequences which he can not anticipate with anything approximating certainity, and some of which are likely to be unpleasant."

In other words, because of the probability of "unmet expectations" perceived risk can be determined as a cost factor. If the perceived risk is high, that situation positively influences the brand loyalty (Roselius, 1971). In order to reduce the risk, consumers prefer to buy the brands they know. In that scope, it can be beneficial for the firm to enter into a new category through its existing brand instead of a new brand. Therefore it was postulated that:

H4: The risk perception for unknown brand positively affects the brand extension's success.

The last consumer characteristics examined in the research is the involvement. Involvement is defined as "...a person's perceived relevance of the object based on inherent needs, values and interests (Zaichkowski, 1985). It reflects the perceived relevance of the product category to the individual on an ongoing basis (Quester and Lim, 2003). In that scope, it refers to the relative strength of the consumer's cognitive structure related to a product (O'Cass, 2000). Involvement effects the consumer's evaluations of the products and the categories. Therefore it was postulated that:

H5: Consumer's involvement affects the brand extension's success.

RESEARCH METHODOLOGY

Objectives and Limitations of the Research

The aim of this study is to determine the factors affecting the brand extension's success in an emerging market, Turkey, which is declared as one of the four emerging markets that should be watched (IBR, 2007).

In the study, the population was determined as the young consumers between the ages 18-24. This is because of there is a growing mobile market potential among the youth. Turkey's young subscriber base is the 6th largest in the world with more than 11 million subscribers under the age of 25 (Turkey Mobile Market Statistics, 2006).

Sampling and Data Collection

The data was collected via questionnaire conducted in Aksaray University, during 2 April- 21 April 2007. The questionnaire consisted of two sections: Section 1: The multi-item

measures of the variables; Section 2: The socio-demographic variables. In order to measure the research variables the scales used were:

- **Parent brand image,** measured through 13 items in the scale developed by Lee and Ganesh (1999).

- **Category fit,** measured as "the extended category fit" and "the extension's image fit" through 8 items used by Casey (2003)

- **Consumer innovativeness,** measured through 4 items used by Völckner and Sattler (2006)

- **Perceived risk,** measured as "the perceived risk for unknown brands" through 3 items used by Völckner and Sattler (2006)

- **Product involvement,** measured through 14 items in the scale developed by Bauer, Sauer and Becker (2006)

- **Brand extension's success,** measured as "the perceived brand extension's quality" through 4 items used by Völckner and Sattler (2006); Aaker and Keller (1990).

All the scales were Likert-type.

In the study, 600 questionnaires were distributed. After the eliminations 453 useful questionnaires were obtained.

Demographic Characteristics of The Research Sample

In Table 1, the demographic characteristics of the research sample can be seen. The male ratio was close to the female ratio, 54,1% of the research sample was females while 45,9 % of the sample was males.

Table 1: The Demographic Characteristics of the Research Sample

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RESEARCH FINDINGS

Before the hypotheses were tested, the validity and the reliability of the scales used in the research were tested. The reliability of the scales was tested through internal consistency, by using Cronbach's alpha that is a commonly used measure of reliability and while evaluating the reliability of the scales, 0,70 is taken as the lower limit (Malhotra, 2004).

In addition to the internal reliability, the validity of the scales was also tested. Validity is the extent to which a scale or set of measures accurately represents the concept of interest (Hair et. all., 1998). The test of the construct validity is done through factor analysis. The purpose of the exploratory factor analysis is to confirm whether items loaded correctly to the corresponding factors as identified by previous researches (Jamal et. all., 2006). The summary of the reliability and the validity analyses' results are as in the Table 2.

Table 2: The Results of Validity and Reliability Analyses

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As it can be seen from the Table 2, the Cronbach's alpha values of the used scales are higher than 0,70, which is the lower level of acceptability for reliability. In addition to that, the factor loadings and the total explained variance attained from the factor analysis are high.

After determining the reliability and the validity of the scales used in the research, the relationships among brand extension's success, parent brand image, category fit and consumer characteristics (perceived risk, involvement, innovativeness) is tested by using structural equation modeling. Structural Equation Modeling is a powerful statistical technique since it is a

combination of factor analysis and multiple regression analysis. The most obvious difference between SEM and other multivariate techniques is the use of separate relationships for each of a set of dependent variable. SEM estimates a series of separate, but interdependent, multiple regression equations simultaneously by specifying the structural model used by the statistical program (Hair et.all., 1998). In this research, the research hypotheses were tested by using AMOS 6.0.

The variables included in the model which is formed to identify the relationships among parent brand image, category fit, consumer characteristics and brand extension's success buying are in Table 3.

Table 3: The Variables Included In the Model

Insert Table Here

As it can be seen from the Table 3, the model includes 73 variables. 33 of them are observed variables and 40 of them are unobserved variables. The unobserved variables include 34 variables which are showing error and are identified as "e" and 6 latent variables (perceived risk, innovativeness, parent brand image, category fit, involvement, brand extension's success).

Figure 3: Model of Hypothesized Relationship among Perceived Risk, Innovativeness, Parent Brand Image, Category Fit, Involvement, Brand Extension's Success

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Insert Figure Here

The model which is formed to identify the relationships among perceived risk, innovativeness, parent brand image, category fit, involvement and brand extension's success

includes six latent variables. The latent variables are shown as ellipse and the identified variables to measure the latent variables are shown as rectangle.

The evaluation criteria and values related with the fitness of the data and the model are given in Table 4 in details.

Table 4: Fit Measures

Insert Table Here

As can be seen from Table 4, in evaluating the goodness-of-fit between the model and the data the first measure is the likelihood ratio chi-square statistics. This value has a statistical significance (p=0.000). But, the chi-square statistics alone is not an enough measurement since he χ^2 value is sensitive to the sample size, some other values also should be taken into consideration in the evaluation process (Hair et.all., 1998)

Therefore, other fitness measures also checked. First, we also looked at the χ^2/sd ratio, which is calculated by dividing chi-square value by the degrees of freedom. Closeness of this value to the zero means that there is goodness-of-fit between the data and the model (Yoon et.all., 2001)). In our research it is found as χ^2/sd = 2.783. So it can be said that there is a fitness between the data obtained and the research model.

Another criteria in the evaluation of the data and the model fitness is the goodness of fit value (GFI) which is found as 0.839. The closeness of this value to the 1.0 represents the validity of the model. In that research, as it can be seen in Table 4, the data fit to the measurement model. In addition to that, the other criterias NFI (0.776), RFI (0.754), IFI (0.844), TLI (0.827) and CFI (0.843) also indicate the fitness. Besides, the RMSEA value of the model is 0.063. This falls well within the recommended levels of 0.05 and 0.08 (Weston and Gore, 2006).

At last, in order to determine the required minimum sample size to test the research hypothesis at the stated level of confidence interval Hoelter .05 and Hoelter .01 indexes are used. To test the hypothesis at %95 confidence interval level and 0.05 significance level, the required minimum sample size is determined as 181 and to test the hypothesis at %99 confidence interval level and 0.01 significance level, the required minimum sample size is determined as 188. As it can be seen from the Table 4, the sample size is much more than the required minimum sample sizes determined by Hoelter .05 and Hoelter .01 indexes.

Table 5: Regression Weights

Insert Table Here

Table 5 includes the regression coefficients related with the research hypotheses' tests. The first hypothesis of the research "H_4: Perceived risk is related to brand extension's success" was accepted at the significance level of $\alpha=0.05$, H1: "Parent Brand Image is related to brand extension's success" and H_2: "Category fit is related to brand extension's success" were also accepted at the significance level of $\alpha=0.01$, while H_3: "Innovativeness is related to brand extension's success" and H_5: "Involvement is related to brand extension's success" were rejected.

In order to identify the explanatory power of the model, R^2 values are used. R^2 values represent the explanatory power of the dependent variables and the overall adequacy of the model. It displays the explained percentage of endogenous latent construct by exogenous latent variables (Sirohi, Mclaughlin and Wittink, 1998: 236). In that manner, it can be seen from the Table 5, 0.78 value indicates that the explanatory power of parent brand image, category fit and

consumer characteristics (perceived risk, involvement and innovativeness) on brand extension's success is quite high.

Table 6: Standardized Regression Weights

Insert Table Here

The standardized regression weights estimates the variables having the greatest impact (Weston and Gore, 2006). As it can be seen from the Table 6, the impact of parent brand image is 0,780 and the impact of category fit is 0,175. Table 7 indicates the factor loadings of observed variables that are used to measure latent variables.

Table 7: Factor Loadings

Insert Table Here

CONCLUSIONS AND RECOMMENDATIONS

Brand extension is a growth strategy in which the company uses its existing brand name to launch new products in a new category. It is a strategic decision since it has risks as well as opportunities. The risks are costly and the results of the wrong decision are irreversible. With that scope, in the present study, the factors affecting the brand extension's success in an emerging market were examined. The research was conducted in mobile market which was taken as the extended new market. This is mainly because; mobile market is a growing market that has potential for other brands to extend in. Also, this product category is an important category since it already consist mostly the extended brands. Besides, in Turkey, as one of the four emerging markets that should be watched, it is expected the mobile market boom will continue (Wireless World Forum, 2006).

Through the literature in relation with the research it was hypothesized that, parent brand image, category fit, innovativeness, perceived risk and involvement effects the evaluation of the brand extension's success. In order to analyse these hypothesized relationships structural equation modelling was used.

As a result it was found that the parent brand image, category fit and perceived risk affected the brand extension's success while innovativeness and involvement did not have any effect on. Parent brand image was the factor that had the biggest impact on the success evaluation. This finding confirms the literature on the brand extension. The factor that had the greatest impact is parent brand image. That is, if the parent brand image is similar to the extension, consumers evaluate the brand extension as successful. In brand extension, the parent brand associations are transferred to the extension, then consumers will perceive the extension as fitting with the brand category and will accept it, which, in turn, should also have a positive effect on the parent brand (Chakravarti et all., 1990; Park et all., 1991). So that, the marketers should have an integrated approach to the brand extension.

The second important factor in brand extension's success is the category fit. Throughout the category fit, the fit of the brand extension's image with the other products in the extended category is important as well as the existing brand image fit with the category. These results confirms the categorization theory. In that point the marketers should develop marketing strategies to clarify the brand image and focus on emphasizing the fit.

The last factor influencing the brand extension's success is the perceived risk. The risk perception for an unknown brand in the category positively affects the extension's success. If the extended category is a category that the consumers perceive risk, in entering into that category, the firm should choose brand extension as a growth strategy. Because a new brand name is an

unknown brand name for the consumers and so it will take time and it will be costly for the new brand to be successful.

The findings of the study about the parent image impact and the category fit impact confirm the literature. Both of these factors have a positive affect and the greatest impacts on the brand extension' success. The other contribution of the study on the literature is at the point of the impact of perceived risk. It was found that the risk perception for an unknown brand positively affected the brand extension's success.

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Product Category

	New	**Existing**
New	New Brand	Flanker
Existing	Brand Extension	Line Extension

Brand Name

Figure 1: Growth Matrix
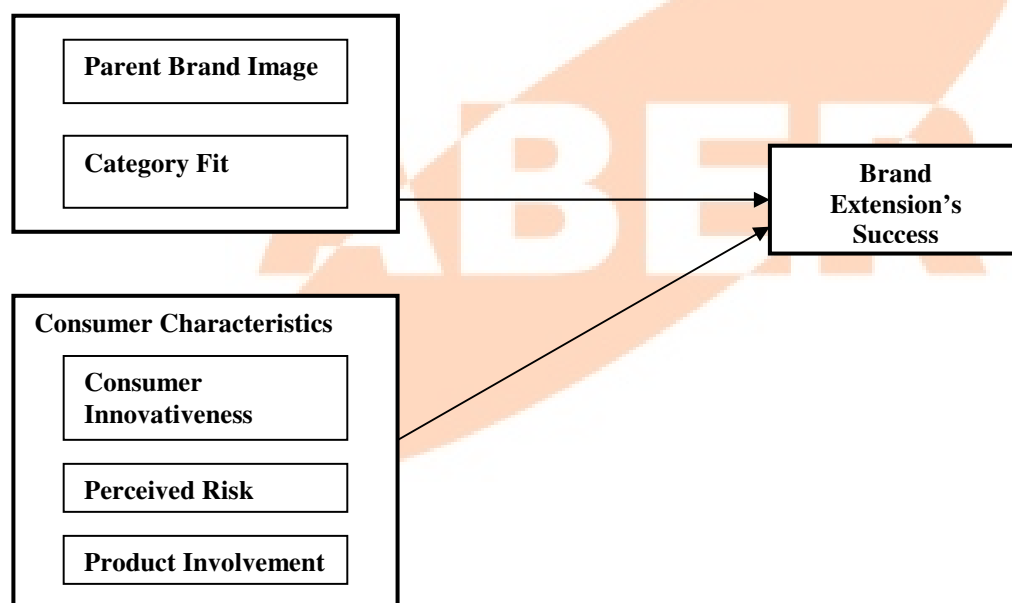**Source:** Ambler and Styles, 1997: 223

Figure 2: Research Model

Table 1: The Demographic Characteristics of The Research Sample

Monthly Individual Spending (YTL)	n	%	Gender	n	%
250 or below	192	42.4	Female	245	54.1
251-500	212	46.8	Male	208	45.9
501-750	35	7.8	**Total**	**453**	**100.0**
751-1.000	7	1.5			
1001 or above	7	1.5			
Total	**453**	**100.0**			

Family Income (YTL)			Family Size		
1.000 or below	199	43.9	2 person	4	0.9
1.001-2.000	172	38.0	3 person	33	7.3
2.001-3.000	44	9.7	4 person	121	26.7
3.001-4.000	31	6.8	5 person	135	29.8
4.001-5.000	4	0.9	6 person	82	18.1
5.001 or above	3	0.7	7 and +	78	17.2
Total	**453**	**100.0**	**Total**	**453**	**100.0**

Table 2 : The Results of Validity and Reliability Analyses

Scales	Number of Variables	AlfaCoefficients (Reliability Analysis)	Total Variance (Validity-Factor Analysis)
Parent Brand image	10	0.834	0.705
Category Fit	3	0.738	0.506
Perceived Risk	3	0.833	0.699
Product Involvement	10	0.811	0.712
Innovativeness	4	0.756	0.675
Brand Extension's Success	3	0.707	0.573

Table 3 : The Variables Included in The Model

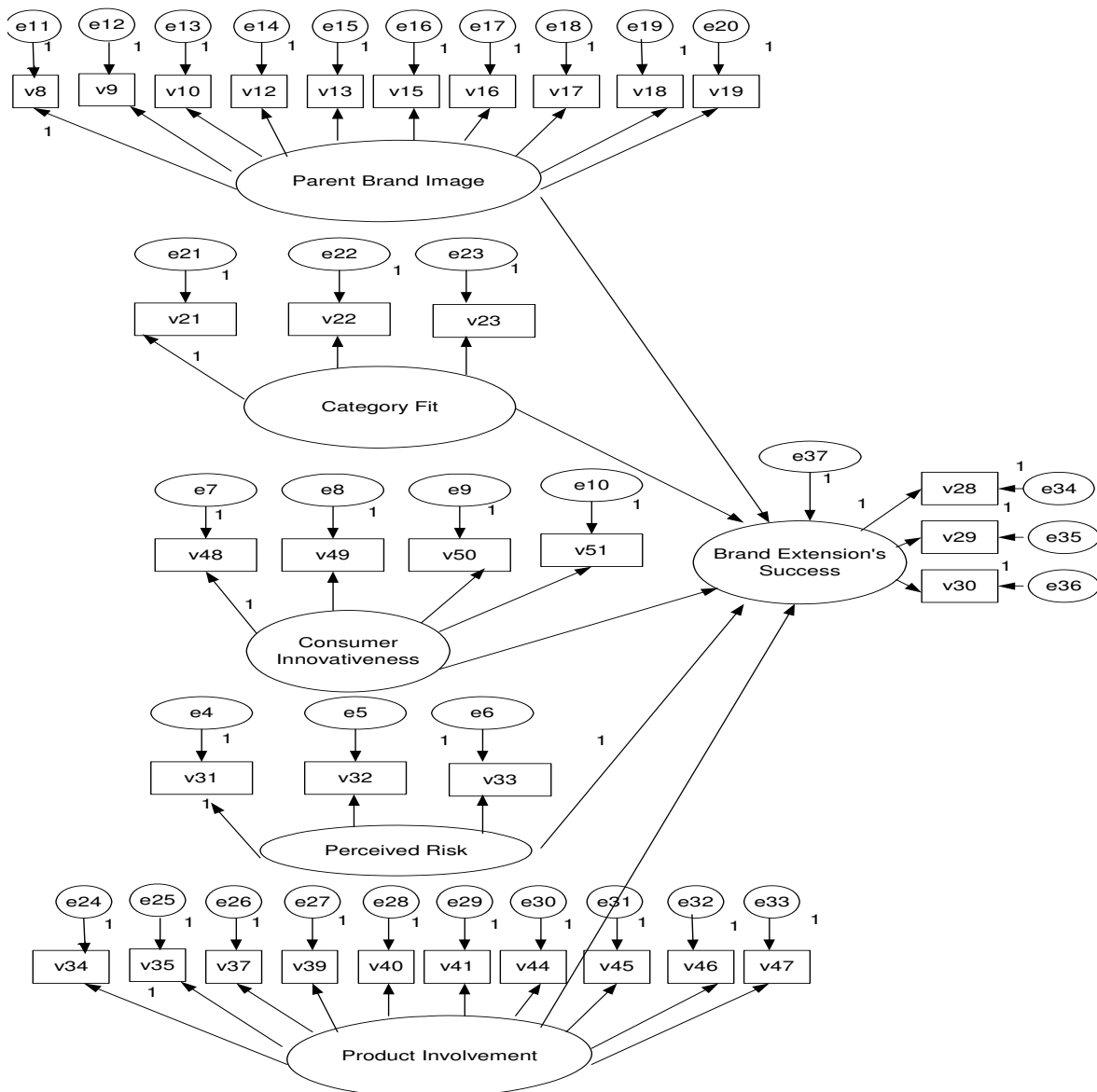|	
Number of variables in model	73
Number of observed variables	33
Number of unobserved variables	40
Number of exogenous variables	39
Number of endogenous variables	34

Figure 3: Model of Hypothesized Relationship among Perceived Risk, Innovativeness, Parent Brand Image, Category Fit, Involvement, Brand Extension's Success

Table 4 : Fit Measures

Fit Measure	Default model	Saturated	Abbreviations
Discrepancy	1335.778	0.000	CMIN
Degrees of freedom	480	0	DF
P	0.000		p
Discrepancy / df	2.783		CMINDF
RMR	0.073	0.000	RMR
GFI	0.839	1.000	GFI
Normed fit index	0.776	1.000	NFI
Relative fit index	0.754		RFI
Incremental fit index	0.844	1.000	IFI
Tucker-Lewis index	0.827		TLI
Comparative fit index	0.843	1.000	CFI
RMSEA	0.063		RMSEA
Hoelter .05 index	181		HFIVE
Hoelter .01 index	188		HONE

Table 5 : Regression Weights

		Estimate	Standard Error	t value	p	
Brand Extension's Success	<-- Parent Brand Image	**0.972**	**0.08**	**12.089**	**0.000**	**H_1 is accepted**
Brand Extension's Success	<-- Category Fit	**0.295**	**0.082**	**3.585**	**0.000**	**H_2 is accepted**
Brand Extension's Success	<-- Innovativeness	0.021	0.074	0.288	0.773	H_3 is rejected
Brand Extension's Success	<-- Perceived Risk	**0.090**	**0.045**	**1.993**	**0.046**	**H_4 is accepted**
Brand Extension's Success	<-- Involvement	-0.005	0.118	-0.04	0.968	H_5 is rejected

Brand Extension's Success $R^2 = 0.78$

Table 6: Standardized Regression Weights

			Estimate
Brand Extension's Success	**<--**	**Parent Brand Image**	**0.780**
Brand Extension's Success	**<--**	**Category Fit**	**0.175**
Brand Extension's Success	<--	Innovativeness	0.020
Brand Extension's Success	**<--**	**Perceived Risk**	**0.082**
Brand Extension's Success	<--	Involvement	-0.003

Table 7: Factor Loading

Variable Codes			Estimate
v33	<--	Perceived risk	0.799
v32	<--	Perceived risk	0.933
v31	<--	Perceived risk	0.665
v48	<--	Innovativeness	0.648
v49	<--	Innovativeness	0.772
v50	<--	Innovativeness	0.666
v51	<--	Innovativeness	0.589
v8	<--	Parent brand image	0.682
v9	<--	Parent brand image	0.685
v10	<--	Parent brand image	0.778
v12	<--	Parent brand image	0.737
v13	<--	Parent brand image	0.729
v15	<--	Parent brand image	0.580
v16	<--	Parent brand image	0.542
v17	<--	Parent brand image	0.519
v18	<--	Parent brand image	0.714
v19	<--	Parent brand image	0.718
v21	<--	Category fit	0.524
v22	<--	Category fit	0.856
v23	<--	Category fit	0.546
v34	<--	Involvement	0.444
v35	<--	Involvement	0.444
v37	<--	Involvement	0.549
v39	<--	Involvement	0.593
v40	<--	Involvement	0.532
v41	<--	Involvement	0.559
v44	<--	Involvement	0,696
v45	<--	Involvement	0.622
v46	<--	Involvement	0.646
v47	<--	Involvement	0.746
v28	<--	Brand extension's success	0.806
v29	<--	Brand extension's success	0.528
v30	<--	Brand extension's success	0.671