FACTORS INFLUENCING CONSUMERS' ACCEPTANCE OF BRAND EXTENSIONS

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Abstract: *Launching new products is one of the most used strategies for companies to grow. However companies are far from being experts in doing successful extensions – a research of Harvard Business Review shows that only one out of four new products survive after the second year. Understanding the factors which make consumers accept the brand extension, is an essential part of the planning process and it can define the final outcome of a company. The following article is intended to summarize all the researches made so far on the different factors which influence consumer's acceptance of brand extensions.*

Key words: *brand extension, new product launch, consumers' acceptance*

INTRODUCTION

With the new technologies and the change in consumers' behavior (24/7 access to product data- prices, ratings and reviews, the possibility to compare them, transition from offline to online shopping, etc.) it is crucial that companies carefully plan their new product launches. One of the most important decisions they have to make is about the brand. As the brand extension strategy is having a lot of advantages, companies very often try to transfer the positive associations they had already created for the brand into the new categories they enter. This is a risky strategy not only long term, but also short term, therefore knowing the factors which influence the consumers' acceptance of a brand extension is a must.

I. BRAND EXTENSION

Amongst all the theories about brand extension one of the oldest is that of Aaker and Keller [2]- that is why their definition of a brand extension will be used as a base. They classify the extensions into four categories depending on the category and the price level of the extension:

- **Line extension**- the brand already have products in the same category;
- **Brand extension**- the brand enters in a new category;
- **Horizontal extension-** the new product launches are on the same price and/ or quality level as the existing ones;
- **Vertical extension**- the brand enters in new price positioning or launches products with different quality.

When referring to brand extension in the report, it will be either meant brand or line extension as there are factors which influence both extension types.

II. CONSUMERS' ACCEPTANCE OF BRAND EXTENSION- FACTORS

Research on consumers' evaluation of brand extension try to answer two main questions- "Which factors can influence consumers' acceptance of brand extensions and how these

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factors act?" and "How extensions influence consumers' attitude towards the brand?" [12]. There have been a lot of factors investigated during the last 25 years. The purpose of this report is to combine all of them for which at least one research was performed (the list is modified and reworked, but the base used was firstly published by Völckner and Sattler [28]).

The factors will be classified in 5 categories:
- **Brand extension characteristics**
- **Parent brand characteristics**
- **Company related factors**
- **Consumer related factors**
- **Marketing environment**

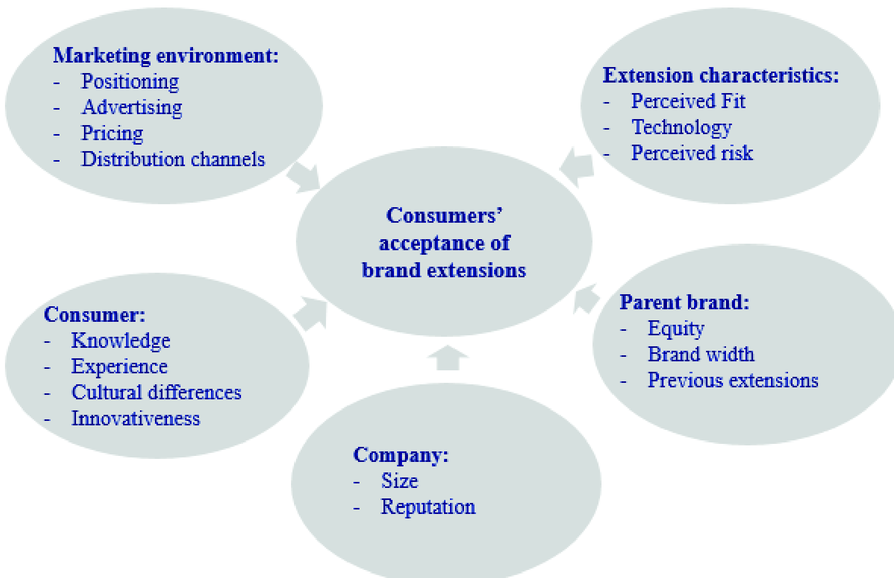

Figure 1: Factors influencing consumers' acceptance of brand extension
Source: Adapted and enriched by Völckner and Sattler [28].

1. Brand extension characteristics.

1.1. Perceived fit between the extension and the parent brand. From the very first research on brand extension this factor has been thought of as the most important for defining the extension success. Aaker and Keller [2] define three directions of the fit- addition, substitution and transfer (i.e. the possibility that the company uses the same resources and competences to produce the extension). They prove that from the three, transfer has the highest importance for the brand extension success. Smith and Andrews [24] enrich the meaning of transfer and they define it as the consumer's comfort/security (that the company will deliver the promised result) and they find that the connection between the fit and the extension evaluation depends on the consumer's security. All research of brand and line extensions show positive relation between the fit and the extension evaluation. ([2], [24]). The bigger the fit between the categories, the more parent brand characteristics are transferred to the extension.

1.2. Technology. It is defined as the technology that the company uses for producing the parent brand and to what extent consumers believe that the company has the capacity to

1.3. produce the extension. Jun, Mazumdar and Raj [10] prove that consumers evaluate the extension higher when the technology for production of the parent brand is more complex than that of the extension. Aaker and Keller [2] point out those consumers will evaluate the extension lower if it is too simple for production. In line extensions this factor has no influence as the technology is the same (the modification of the product is very small- a new size, scent, etc.).

1.4. Perceived risk. The purchase of a new product is associated with a certain level of insecurity and consumers have to take some risk ([8], [20]). This risk can be the purchase of a product with low quality or a product that does not fit their taste. Unlike previous research where branding is seen as quality guarantee, Montgomery and Wernerfelt [18] see it as a risk minimizing instrument. The empirical results show that the umbrella brand acts as a tool for reducing the risk and its effect is higher for products with higher price.

2. Parent brand characteristics. There are two parent brand characteristics which directly influence consumer evaluation of the extension- brand equity and brand width.

2.1. Brand equity. When investigating the influence that the brand extesnion could have on the market share and ad efficiency Smith and Park [24] find that brand equity and the number of products of the same brand influence consumer decision. When researching the brand extension success, the brand equity is being evaluated by the association consumers have with it. Smith and Park define the equity as consumer's perception of brand quality. In the very first research about brand extension ([1], [2]) it has been found that the strong brands contribute more for the extension success compared to the weak ones.

2.2. Brand width. Boush and Loken [4] say that the brand width is a function of previous extensions. The bigger the similarity of the previous extensions, the more narrow the brand is. They prove that the wider the brand is, the higher the consumers' acceptance of

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extensions that does not fit the parent brand. The logic behind this comes from the categorization theory- by increasing the number of products having the same brand, its meaning in consumers' minds starts to fade and that is why it does not offer base for further extensions. When the category of one extension is unclear, the chance for positive transmission of brand associations to the extension is lower.

Dacin and Smith [6] say - „Despite the fear that adding extension to a brand can weaken it, there isn't research on how the brand portfolio influences the brand equity". That is why they make two experiments which show positive connection between the number of products in the brand's portfolio and the positive evaluation of the brand extension. Their research finds that the number of products is in straight dependence of the positive evaluation, as well as how similar the products are (having any connection between themselves), the more positive the consumer evaluation is.

3. Company characteristics. It might seem strange at first sight that the company condition might influence consumers' acceptance of a brand extension, but many studies have proven its importance.

3.1. Company size. Han and Schmitt [9] prove that the company size is not influencing American consumers' evaluation of the brand extension. For them, more important is the fit between the brand and the extension. However for Hong Kong's inhabitants when the brand extension is in a category far from that of the parent brand, the size of the company influences their evaluation of the extension. Reddy, Srinivas, Holak and Bhat [22] prove that the company size has positive influence on the extension success.

3.2. Company image (credibility). It is important for consumers that the company has the capability of producing the extension. The more successful extensions the company has, the more credible it becomes [2].

4. Consumer characteristics. Each consumer has different factors in mind when evaluating the extension. Most of these factors depend on consumer's own personality.

4.1. Product knowledge. One of the most important things when evaluating the extension is whether consumers know the main brand. Muthukrishnan and Weitz [20] prove that when the similarity between the extension and the parent brand is based on technology, then experts are more inclined to transfer their positive attitude to the extension compared to the newcomers (early adopters). When the fit is based on common usage or is more abstract, then the newcomers are those that transfer their opinion on the extension. Broniarczyk and Alba [5] prove that the more consumers are aware of the specific for the brand associations, the more inclined they are to transfer them on the extension as well.

4.2. Experience with the main brand. Swaminathan, Fox and Reddy [25] prove that there is a direct relationship between the testing stimulus for the extension amongst the non-loyal consumers and the non-users of the main brand. This positive relationship is being transformed later on in higher market share. They also prove that the more similar the parent brand and the extension categories are, the lower this positive effect is. The role of the experience with the parent brand for extension evaluation is decreased when consumers once test the extension.

Research on consumer behavior shows that the information and the experience consumers receive when using a product usually happens at a certain state of mind [13]. This information is more vivid and that is why it has a bigger impact on their thinking and stays longer in their mind [13]. It has been acquired independently and it is quite normal for consumers to think of it being more credible than all the other sources of information (e.g. those being controlled by the company). Consumers' experience creates stronger beliefs, they know the parent brand better, have stronger associations and it comes to their mind more often. Erdem [8] proves that when an established and well-known brand is present on the product, it is a quality guarantee and thus it reduces the risk of buying the new product. The conclusion is that the experience with a brand stimulates consumers to try extensions.

4.3. Individual and cultural differences. Culture, mood and age differences are three main factors which influence consumer acceptance of the brand extension. Zhang and Sood [29] found that with children, the extensions name is much more important for the way they evaluate it, rather than how similar it is to the main brand. Barone, Miniard and Romeo [3] prove that the positive attitude/ mood can positively influence the consumers' acceptance of the extension.

4.4. Consumer innovativeness. One of the main points in Bass' diffusion model (1969) is that consumers react differently to new products. In the specific case of brand extension (which is a specific type of new product), the early adopters are more inclined to react positively to a category which is far from that of the parent brand, compared to the late majority. The main reason for this is the reluctance of the latter to take risk (which is higher when the product is new). Brand extension in a completely new category from that of the parent brand is a far riskier compared to a line extension for example. However this does not mean that the line extensions are perceived by consumers as free of risk. The majority of researchers are in favour of the idea that the risk that is associated with the constant innovations can be reduced by the presence of an established brand being on the product. Consumers which are least willing to take risks will accept an extension which is in a category far from that of the parent brand only because they see the established brand on the new product. Those who are most sensitive towards risk taking might not accept the extension. Therefore the more innovative consumers are towards new products, the more important will be the fit between the parent brand category and that of the extension.

5. Marketing mix. By investigating the marketing mix separately from the company's characteristics, more focus is put on it- it has the biggest influence on determining consumers' evaluation of the brand extension.

5.1. Positioning. The difference in product positioning leads to different consumer attitudes. Milberg, Park and McCarthy [17] prove that when the brand extension is in a category far from that of the parent brand, the usage of a subbrand (adding a name next to the main brand) leads to a more favorable evaluation of the extension compared to when only the main brand is used. Aaker and Keller [2] prove that when the positioning focuses on the quality of the parent brand, then the evaluation of the extension does not change; when in the positioning a specific feature of the extension is in focus, then this leads to a more favorable evaluation.

5.2. Pricing. Pricing is especially important in the case of a line extension and when the parent brand and the extension categories are close to each other (in this case consumers can make direct comparison between the quality of the main product and the extension). Taylor and Bearden [27] investigate how the price information can influence the extension evaluation. They make the conclusion that a higher price has a better influence on the quality perception when there is a weaker connection between the categories of the parent brand and that of the extension. When the two categories are close, there is a negative correlation between the quality perception and the purchase intention. One of the important contributions of Taylor and Bearden research is that companies can use price promotion during launch for incentivizing trial for launches in more distant categories without risking the image of the parent brand.

5.3. Communication strategy. Lane [15] investigates the influence that advertising has on the extension evaluation. He evaluates to what extent the ad exposure can influence the acceptance of unfit extensions. He proves that consumers who had seen the extension ad five times evaluate it higher compared to those who had seen it just once. Smith and Park [24] measure the ratio between the ad spending and the sales generated. If the company uses the same advertising budget, the extension should bring additional sales, which will decrease this ratio. If the company wants to have a specific ratio of the net sales, extension should help this happen with lower advertising costs compared to if the company relies only on existing products.

5.4. Distribution channels strength. Distribution channels are becoming more complex and more powerful. Competition is further strengthened by the launch of private labels which the channels can afford to sell at lower price and respectively higher margin. Another factor which influences the market is the short time before a new product is being copied by the competition which makes the product life cycle shorter. Line and brand extensions which are being launched later (especially the "me-too" products) might never pay off [20]. Distribution channels are very conservative in accepting new products- for them the followers are what creates healthy competition. All brands that follow the innovations either have something more to offer to consumers, or they just copy the innovation. According to Quelch and Kenny [21] the line extension which are adding different size or packaging does not satisfy any consumer need. The acceptance of these extensions depends very much on the goodwill of the distribution channels and their good relations with the producers. However even in this case the channels will define some KPIs which the extension should achieve for a certain period of time. Nijssen [20] proves that the stronger the distribution channel, the lower the chances of success of the extension.

CONCLUSION

Knowing the factors which positive influence consumers' evaluation of brand extensions will not guarantee successful implementation of the strategy. However it will increase the chances of the new product launches of having better long term performance. The understanding of the current brand and company status, the extension category, marketing mix and the target group of the extension are the must-haves before taking the decision for extending the brand.

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