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- The Role of Relevance in Brand Extensions: The Case of the
Norwegian Food Market -

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1.0 Introduction

There is a large expense linked to introducing new brands and products for many businesses in the consumer packaged goods market. The process of introducing new products meets the competition of aggressive use of promotions by established firms, and the cost and difficulty of obtaining distribution. As a result, firms are using established brand names to facilitate entering new markets. When firms are launching a new product by using an existing brand name in a different product category, it is with the hope to leverage its existing brand loyalty and customer base. However, such extensions may also result in negative consequences. If a brand extension is unsuccessful, it can harm the parent brand in several ways. Hence, it is important for brand managers to understand what contributes to a successful brand extension, in order to avoid that the extension causes negative effects on the image of the extended brand.

A thorough review of the brand extension literature uncovers many success criteria for a brand extension. These factors include parent brand conviction, retailer acceptance, brand-specific attribute associations, marketing support, perception of high quality for the original brand, and fit. Even if it is identified many such success criteria, researchers (Aaker & Keller, 1990; Sattler, 2006) have found that fit between the parent brand and the extension product is the most important driver for a successful brand extension. According to Sattler (2006), fit should become a focus of further research, given the importance of the fit variable found in this study and in previous studies (e.g., Bottomley and Holden, 2001).

Further, some researchers have found that in order to create fit, the extended product has to include *relevance* and *similarity*. The researchers also found that relevance was the most crucial driver to obtain fit (Spiggle, Nguyen, & Caravella, 2012). However, all research in this area are generally done for fast moving consumer goods in non-food industries. Hence, there is a lack of research of when relevance is a significant factor and when it is not in the food industry. As about 50% of all fast-moving consumer goods are sold in the food industry, it is important to examine if the role of relevance is different in the food industry compared to a non-food industry. Consequently, it is introducing an area of fit we would further like to explore.

By investigating relevance, this paper will build further on Spiggle et al. (2012)'s conceptual framework of brand extension. Their original framework is illustrated in the model below.

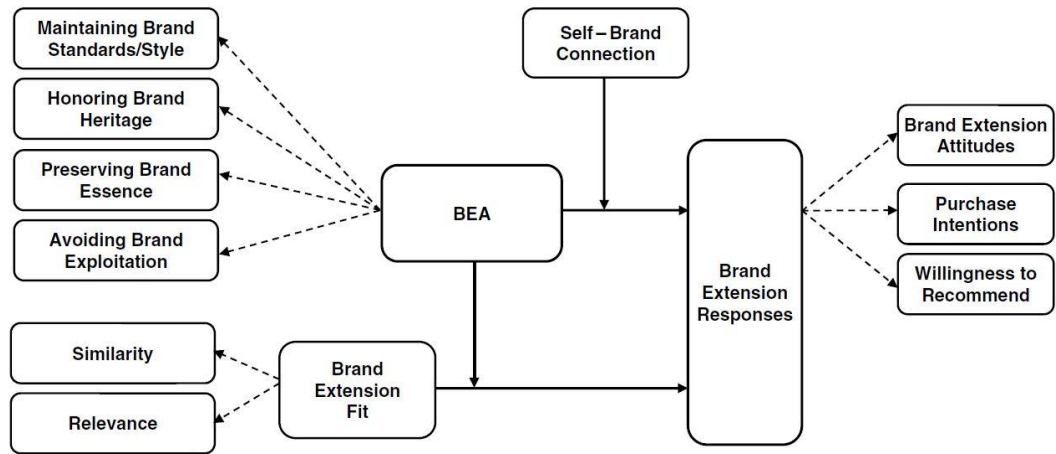


Figure 1: Conceptual framework of brand extension (Spiggle et al., 2012)

This paper aims to extend the conceptual framework for consumer packaged goods brand extension, and investigate which factors must be of managerial attention to develop perfect relevance of the extension product within the food industry. Thus, the following research question is defined:

“What role has relevance for brand extension responses in brand extension for a Norwegian fast mover consumer retailer in the food industry?”

Further the paper provides a theoretical background addressing several aspects of brand extension, followed by a description of our test objects, Lerum AS and Lambi AS. A description of the methodology is provided, which includes a 2x2 between-subject factorial design. Lastly, expected results are discussed, before a presentation of limitations and further research.

2.0 Theoretical background

2.1 Brand equity

Brand equity is a concept that arose in the 1980's, and has elevated the importance of the brand in marketing strategy ever since. There are several definitions of the concept, but most observers agree that brand equity consists of the marketing effects that uniquely determine a brand (Keller, 2013). Other authors have defined brand equity as the intrinsic value of a brand name (Schiffman & Wisenblit, 2015). Simply put, a high equity brand has high value in the market, and thus the ability to create positive differential response in the marketplace (Pullig, 2008).

This means that all positive consequences emerging from high brand equity are positive responses to the brand. The author also stresses the importance of understanding the source of the brand value, to be able to create these responses. Further, other researchers such as Aaker (1992), explains that five brand equity assets are the source of the value created. These assets include brand loyalty, brand name awareness, perceived brand quality, brand associations in addition to perceived quality, and other proprietary brand assets.

As it is extremely costly and risky to develop new products, many firms capitalize their brand equity through brand extensions rather than launching a new product. Brand equity is most important for firms that offer inexpensive consumer packaged goods that are bought frequently and with little processing of cognitive information. In these cases, an important strategy is to constantly advertising to prevent extinction and forgetting, as a brand name is the most valuable asset a firm has (Schiffman & Wisenblit, 2015). This is supported by Ambler and Styles (1997), who assess the role of brand equity in the extension decision process. Their paper elaborates that extension decisions are more about brand development than new product development, which means that brand equity has an impact of the success of an extension (Ambler & Styles, 1997) referred in Rangaswamy et.al. (1993). Further, they conclude that highly valued brands extend more successfully.

2.2 Brand extensions

A brand extension occurs when a firm uses an established brand name to introduce a new product, either as a line- or a category extension. A brand extension can offer several advantages such as improved brand image, reduced risk perceived by customers, increased efficiency of promotional expenditures etc. However, an unsuccessful brand extension may also give negative implications, such as confused and frustrated customers, encountered retailer resistance, it may hurt the parent brand if failing, or cannibalize the parent brand if it works too well (Keller, 2013). Due to these negative consequences, it is important for firms to ensure successful extensions.

Several researchers have examined important success criteria for a brand extension. Broniarczyk and Alba (1994) have investigated the importance of the brand in a brand extension. Their research results showed that brand-specific associations have greater impact on an extension than for instance brand affect or product category similarity. Meaning that an extension into a category that shares the same benefits perceived by the customers, may strengthen the association with the brand name. Hence, also increase the brand's value in the original category. This is supported by other researchers Spiggle et al. (2012), who address these benefits as relevance of the extended product compared to the parent brand.

However, Broniarczyk and Alba (1994) explained that they did not use real brands in their research, and that further research should test real conditions such as local environments. This is supported by a research done some years later by Kim and Sullivan (1998). The researchers have analyzed how customer's experience with the parent brand have a significant impact of an extension. Their research revealed that if a customer has good experience with the parent brand, the expectation of the extension quality is high, and the customer will be more likely to try the extension. However, the researchers also found that the customer will be less likely to repurchase the extension, due to selection bias. Sattler (2006) have also discussed important drivers for brand extension success, and concluded that fit between the parent brand and the extension is the most significant factor. However, the researchers stress the importance to further explore the concept of fit, and study what really constitutes such fit.

2.3 Spillover effect in umbrella branding

Umbrella branding, which involves the practice of using a single brand name for the sale of two or more related products, is mainly used by companies with a positive brand equity (Pullig, 2008). According to Erdem (1998) Referred in Wernerfelt 1988), consumer's quality perception will transfer if the parent brand and the extension is perceived to fit, and these quality perceptions are the key for umbrella branding. Hence, umbrella branding can enhance the effectiveness of the marketing programs and increase demand for extensions by informing consumers about the quality of new products. Because uncertainty about product attributes is especially important for new products, a firm with more than one product can use its brand name as a bond for quality when it introduces a new experience good. Consumers can use their experience with the parent product as a signal of the quality of the extension, and since the experience with the parent product provides consumers with information about the new product, this can reduce consumer uncertainty and thus, perceived risk associated with the extension (Erdem, 1998).

The spillover effects regarding umbrella branding, can be both strengthening and harmful. Many of the positive consequences have been mentioned earlier, including how one can lowering the cost related to introducing new products, and that the likelihood of acceptance is higher when applying an existing brand name to a new product (Keller, 2013). Additionally, Erdem and Sun (2002) found that advertising spillover effects affect both utility mean and variance. This means that spillover effects provide evidence for the uncertainty-reducing role of advertising, along with experience across categories for umbrella brands.

However, it is important to be aware that failure of one product could hurt other products sold under the same brand name. The fact that consumer's quality perception can transfer from existing products to new products if there is perceived fit, applies regardless of good or poor quality perception. Keller (2013) explains that if the product linked to the parent brand and their marketing programs are not carefully considered and designed, the associations to the parent brand may become weaker and less favorable.

2.4 Relevance as fit in brand extensions

As Spiggle et al. (2012) suggest, there are two perspectives of fit - similarity and relevance. Both perspectives rest on cognitive categorization theory, meaning that a brand is formed by a network of associations formed by the customers. Many researchers have argued that similarity is what drives customer's positive evaluation of a brand extension (Aaker & Keller, 1990; Boush & Loken, 1991; Dawar, 1996; Spiggle et al., 2012). However, Spiggle et al. (2012) further argue that even if similarity is the primary determinant of fit, relevance in form of brand-specific associations is what drives customer's perception of fit. The concept of brand-specific associations was introduced by Broniarczyk and Alba (1994), who formulated these associations as attributes or benefits. The more these associations are linked to important benefits a customer seeks when doing a purchase, the higher marketing success a firm might achieve. When consumers view the same attributes or benefits for the parent brand as for the extended category, a brand extension will be successful.

Based on previous research, and lack of research in some areas following hypotheses are formulated:

H1a: Relevance has a less important role for quality perception in brand extension for fast moving consumer goods in the food industry, compared to in a non-food industry.

H1b: Relevance has a less important role for purchase intention in brand extension for fast moving consumer goods in the food industry, compared to in a non-food industry.

H1c: Relevance has a less important role for willingness to recommend in brand extension for fast moving consumer goods in the food industry, compared to in a non-food industry.

3.0 Methodology

3.1 Experimental design

Given the lack of research in the area, this study is aimed at theory development as opposed to theory extension. To test our hypothesis concerning if fit in form of relevance in a brand extension has a less important role on quality perception of the extension, or not, we will use a 2x2 between-subject factorial design. The test will include four treatment conditions; high relevance - not in food industry, low relevance - not in food industry (control group) versus high relevance - in food industry, low relevance - in food industry (control group). We will use a qualitative method, and more specifically a laboratory experiment to carry out the study. Below is a matrix illustrating the different conditions in the experiment.

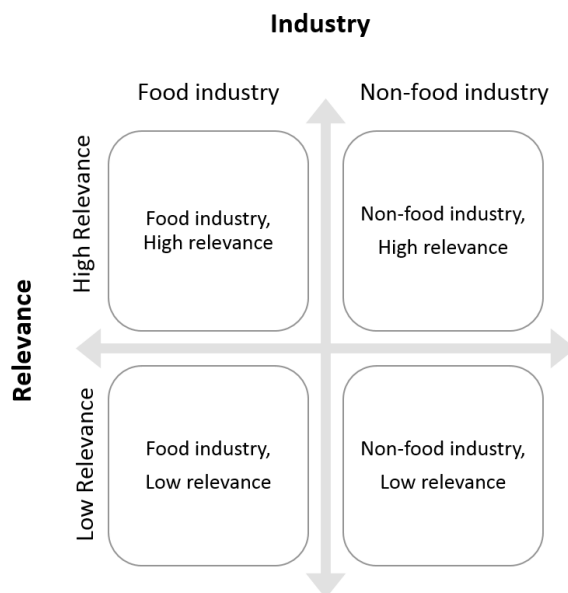


Figure 2: Matrix of conditions

Lerum is the primary empirical objective we will use to understand if relevance has an important role of brand extension responses on a brand extension in the food industry. Lerum is a well-known Norwegian retailer located in idyllic Sogndal. The firm produces household products, and is mainly known for their lemonade and jam. However, lemonade is the firm's original product, as well as the most coveted product among customers. Lerum's products are essentially distributed through grocery stores all over the country. In addition, the firm deliver their products to institutional households and industry (Lerum, 2015).

The second empirical objective that will be used to test our hypothesis is a retailer operating in a non-food fast moving consumer goods industry. The objective will be Lambi, who is a well-known brand in Norway, providing toilet paper. The company was established in 1965 and have developed toiled paper focusing on softness ever since. Lambi was the first toilet paper with pattern design, and today they have the most popular softness-paper in the Nordic region (Lambi, 2016).

As both Lerum and Lambi appeal to a broad audience, the test results can be seen as valid and representative for all the Norwegian population.

3.2 Participants

The sampling technique used in this research will be survey-based probability sampling, thus selection based on randomness. As previously mentioned, both test-objectives have broad target audience, as they offer products that applies to the whole Norwegian population. Thereby, we find no need to construct homogeneous groups of specific demographics in order to obtain valid results. Since both Lerum and Lambi are typically Norwegian brands, the only qualifying criteria is to make sure that only Norwegians are included, to ensure that respondents have the minimum amount of knowledge required about both brands used in the experiment.

We will invite 200 Norwegian students to participate in the experiment, and control that the various groups is heterogeneous in terms of sex, age and geographic. The students will receive 100 NOK each for participating as an incentive to participate. As an attempt to minimize response bias, we will prefer to include undergraduate students with less knowledge of marketing research methodology and marketing concepts, compared to graduate students. We find this technique suitable for our purpose because it gives us control over representation of the various groups and because generalization from sample to population is important. The sampling technique appears to be both reliable and valid, since both representative and enough participants are included.

3.3 Pre-test

A pre-test will be conducted in order to determine what attributes and benefits customers of Lerum and Lambi consider as brand-specific associations. These brand-specific associations will be used to define what manipulations to be used to test the four conditions. The test will be performed by using a survey, where a convenience sample will be employed. According to Hunt, Jr., and Wilcox (1982), there is a generally accepted importance of pretesting and it is especially useful in detecting defective questions in questionnaires. Therefore, a pre-test of the questions stated in the booklet to be used in the experiment will also be conducted.

3.4 Procedure

When participants arrive for the experiment, they will be randomly distributed to four classrooms representing the four conditions. Each group will at first be given a brief that the study is about either toilet paper- or lemonade consumption. Secondly, the participants will be given a booklet with information of the allocated brand, and the benefit or attribute found in the pre-test will be primed. Questions regarding consumption behavior will be required to answer.

Next, a thoroughly description of an invented category extension will be provided, which will differ in regards to conditions. In the conditions which include high relevance, the extended category will offer the same brand-specific associations as the parent brand, Lerum or Lambi. In the conditions which do not include high relevance, the extended category will not offer brand-specific associations, in order to create control groups. What manipulations will be used as relevant elements are based on what the participants in the pre-test considered as brand-specific associations. Furthermore, type of product category extension will also depend on answers from the pre-test. If we for example find that Lambi's customers prefer the brand due to softness, we need to conduct an extension that can apply the same benefit, and find a way to display the extended product and the benefit in a suitable manner.

Subsequently, the participants will be asked to evaluate their purchase intention of the extended product, as well as rate the quality of the new product and their willingness to recommend the new product. Finally, questions regarding demographics will be asked.

3.5 Measurement and manipulation

Independent variables

The independent variables include two factors with two values each; high relevance/low relevance and food industry/no food industry, where type of industry moderates the relationship between relevance and customer's brand extension responses.

Dependent variable

The dependent variables will include quality perception of the brand extension, purchase intention of the extended product and willingness to recommend the extended product. As the dependent variables are strongly linked, the questions in the survey will be related to both H1a, H1b and H1c.

In the survey, participations will be asked detailed questions regarding expected consumption and perception of the brand extension. All items in the survey will be measured on a 7-point Likert scale. A typical question may be "*To what extent do you find the extended category bad/good, positive/negative, favorable/unfavorable etc.*"

Before answering the survey, participant will be asked about their general willingness to try new products. The question will be asked first in the survey, in order to avoid that participants evaluate their willingness based on their answers regarding the new product in the experiment. A comparison of how the participants evaluate their willingness to try new products, and their actually willingness to try the new product in the experiment will be done.

4.0 Discussion

We will conduct a 2x2 between-subjects design (*Level of Relevance X Industry*) ANOVA on the quality perception to test our hypotheses. According to the prediction of the interaction between the independent variables and the hypotheses statements, we expect an disordinal (non-crossover) interaction (figure 3). Next, we predict that there will be main effects for both relevance and industry. We expect that the subjects will generate favorable quality perception in both industries when relevance is high. The same effect on quality perception can also be expected if fit is high, even though relevance is low, for the food category.

Hence, we predict that high relevance is less important in food category when fit is good. When similarity is high, relevance is less important for fit in brand extensions in food category. Moreover, we expect that the role of relevance is higher in a non-food category.

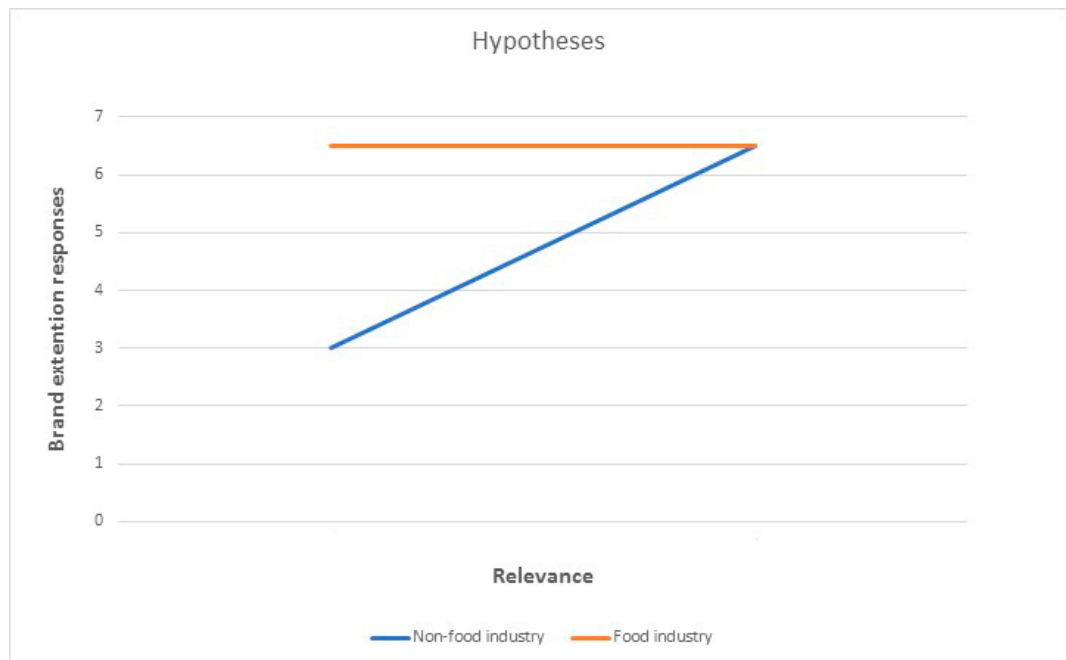


Figure 3: Estimated interaction plot

In the non-food industry, the figure illustrates the big difference in brand extension responses between the importance of relevance in brand extension. Participants in the non-food condition will respond more negatively to brand extensions with low relevance than to extensions with high relevance, whereas

participants in the food category condition will be indifferent to the role of relevance. As hypothesized, the insignificant role of relevance in a brand extension within the food industry will be obtained.

5.0 Managerial Implications

Consumer package goods are products that are sold quickly and at relatively low cost and represent a market that will always have consumers. Consumer packaged goods in the food industry are highly competitive for reasons such as low consumer switching costs and high market saturation. Managers of such brands need to find new innovative solutions to stay tuned with the competition. As a solution, brand extensions have shown to be a good way to leverage the existing customer base and brand loyalty, in order to increase profit with a new product offering.

This study will explore how managers of consumer package goods can ensure successful brand category extensions in the food industry. Managers in this industry will get a greater understanding of how relevance moderates the effect of brand extension on quality perception of Norwegian retailers. Managers of retailers in the food industry will also learn that relevance is not the most important driver for brand extension success, hence, not an area they should devote too much resources to. More specifically, the results will show that in the process of establishing brand extensions, managers should focus equally on both drivers; similarity and relevance, and create a brand that is perceived as a good fit on both terms.

6.0 Limitations and Further Research

The limitations of this study are to be discussed next. First, the method in use represent a limitation. Despite the precise control of the variables one gets from the use of laboratory studies, it is impossible to control *absolutely all* variables. There might be significant variables which we, the experimenters, are unaware of and do not take into account. Moreover, one cannot fully control the mental world of participants of a study. Another disadvantage of lab experiments is artificiality. The situation presented in a laboratory is not typical of a real life situation and can lead the participants to behave in a misrepresented way.

Next, another limitation of this study is the question of generalizability which becomes an important issue as the study was conducted in Norway, using Norwegian subjects and Norwegian brands. One can therefore argue that the results are only applicable in Norway or in countries with similar buying patterns. Therefore, researchers should conduct the experiment in other countries with dissimilar buying pattern and cultures, hence improving the generalizability of this study.

Further, other factors besides relevance may affect the relationship between industry and brand extension responses. Both brands are highly used and well-known by most of Norway's population. It is therefore wise to examine whether other variables such as what type of benefit, functional, experiential, or symbolic, and prior experience, can better explain the outcome of the study. Lastly, it must be noted that the use of only two brands can be seen as a limitation, which we would recommend to be improved in future studies.

As we expect that relevance has a less important role in the food industry, other factors such as similarity should be examined in further research to understand what drives fit in this industry. As there still will be a lack of research of the role of fit in the food industry, other researchers should examine how fit can be optimized in this industry in order to help managers improve their brand extensions even further.

7.0 Progress plan

Action	Deadline
Hand in preliminary research report	16.01.17
Choice of brands and possible benefits	01.01.17
Experiment preparation and pretest	February
Data collection	February
Improving model and further data collection	March
Literature review	March, April
Data analysis	April, May
Conclusion	June
End version	01.09.17

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