

BI Norwegian Business School – Thesis

- The Impact of Brand Extension Fit,  
Extension Strategy and Product Exposure  
on Attitudinal Responses to Brand  
Extensions -

Date of submission:  
03.09.2012

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Campus:  
BI Oslo

Examination code and name:  
**GRA 19003 Master Thesis**

Programme:  
Master of Science in Strategic Marketing Management

*"This thesis is a part of the MSc programme at BI Norwegian Business School. The school takes no responsibility for the methods used, results found and conclusions drawn."*

## **Acknowledgments**

It is with great sense of pride that we now submit this thesis and finish a long journey at BI Norwegian Business School. Though the weather during the journey has at times been quite challenging, the experience and wisdom we are left with is highly valued, and makes it all worth it.

Many valuable contributions have been received from others. First and foremost, we want to express our deepest gratitude to Professor Bendik Meling Samuelsen. As our supervisor, he has been helpful with his eminent knowledge in the field of marketing and research methodology, along with his sparkling passion in the project. He has motivated us to do our best and willingly guided us with thought-provoking ideas and questions, as well as constructive criticism that has driven our thesis forward.

We would also like to thank Doctorial Candidate Tarje Gaustad for all his guidance and instructions regarding the creation of the questionnaires. Lastly, we would like to thank the respondents that participated in the experiments. It goes without saying that without their voluntary help, we would not be able to produce such an insightful report.

BI Norwegian Business School, Oslo  
September 3<sup>rd</sup>, 2012

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## **Abstract**

Brand extensions have for decades been one of the most used strategies for growth, but the sad reality is that 8 out of 10 extensions fail, making the likelihood of failure unattractively high. In addition, competition and pressure on margins increases as retailers' power improves due to proliferation of private labels. As a result, managers are eager for new innovative strategies that can differentiate their extension and improve likelihood of success. The purpose of this paper is therefore to present an innovation in the brand extension field, enabling managers to introduce extensions with greater chances of success. More specifically, the paper will investigate how extensions in alliance with retailers can create benefits that would otherwise be impossible for the manufacturer to obtain alone. These alliances can yield important benefits such as attractive shelf-space, shared introduction costs, shared risk, and increased likelihood of being one of very few extension successes. In addition, these collaborations might result in closer retailer-relationships that may benefit other products in manufacturers' portfolio.

To test these new strategies, two studies with an experimental research design were created. The first study examined how extension strategy affects the relationship between brand extension fit and attitude towards the extension product. Though main effects of fit and store image were confirmed, it was not possible to conclude that the effect of brand extension fit on attitude toward extension product was moderated by extension strategy. This does not mean that managers can disregard how extension strategies affect fit. Grocery stores' image might not yet inhabit enough product-specific attributes to affect an extension product more positively. However, as it was found that extending to a category with a high-end retailer did not detract consumers' attitudes such alliances might be beneficial when risk of extending alone is perceived as high.

In many cases, the only available retailer that a manufacturer can partner up with is a low-end retailer. In these instances, it is important for managers to know how they can improve attitudes toward extension products, given these circumstances. The second study investigates how increasing exposures of a low fit extension can result in more favorable attitudes, making such extension strategies more successful. The analysis showed that in the no repeated exposure condition, a significant difference between low- and high fit exists. In the repeated exposure condition however, no such difference exists. Consequently, managers should increase frequency of marketing activities when promoting a low fit extension product co-produced with a low-end retailer in order to increase the likelihood of favorable attitudes and success.

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## 1.0 Introduction

Brand extensions as marketing strategy have received much attention in previous research, especially in the fast moving consumer goods (FMCG) area. The focus has usually been devoted to extension strategies where national brands seek to extend to categories that resemble the brands' image and products. However, as the way to consumers' wallets is through grocery stores, manufacturers feel pressured to adhere to the laws of the retailer. As a result, new types of extensions are emerging.

According to Nielsen (2010) the Norwegian grocery market reached NOK 134,2 billion in 2009. Although manufacturers grab a big piece of that pie, power lies in the hands of retailers. This is especially the case in Norway, where this paper originates. With the oligopoly in the grocery industry in Norway a few merchandisers have large control of the prices and distribution, causing manufacturers to feel pressured to abide by the rules of retailers. The increased share of stores own labels (private labels) adds to this power struggle in favor of retailers. Private labels' share increased by 20,1% in 2009 which equals 11,1% share of the total grocery market (Nielsen, 2010). Experts on the retail industry in Norway predict that the share of private labels will increase to 35% in 2020 (Evensen, 2010). As this ever intensifying competition puts pressure on margins and market share, manufacturers are now in need of new strategies that deal with this challenge. Lincoln and Thomassen (2009) argue that manufacturers need to stop viewing retailers' own brands as a threat, and more as a business opportunity. Consequentially, this report investigates collaboration between manufacturers and retailers in producing an extension product and how such strategies could be beneficial when manufacturers seek to extend brands in an overcrowded market.

Traditional brand extensions are one of the marketing strategies that are most widely used by manufacturers to grow market share and share of wallet (Loken and John, 1993). Using an already established brand to introduce a new product significantly increases the rate of success, as consumers are already familiar with the brand (Aaker and Keller, 1990). However, 80 percent of all new extensions fail in the market (Ernst & Young and ACNielsen, 1999; Marketing, 2003) making it crucial for manufacturers to get it right. In order to improve the likelihood of extension success, researchers have established that perceived fit,

parent brand quality, parent brand conviction, marketing support, and retailer acceptance are among the most important factors (Aaker and Keller, 1990; Völckner and Sattler, 2006). However, as these traditional extensions are increasingly more often competing with retailers' own private labels, it has become a challenge to enter the market and gain retailer acceptance and support. One way of overcoming the intense competition existing in many product categories is to co-produce an extension product with a retailer. This may enable manufacturers to gain benefits that would otherwise be difficult to obtain alone. By developing, marketing and distributing such a co-produced extension product manufacturers can split the costs with the retailer and gain easier access to shelf space and in-store promotion. As the retailer also would be reaping benefits from the co-produced product it would willingly support the product in order to assure its success.

A co-produced extension with a retailer might also be a solution for manufacturers looking to extend to categories that are distant from the ones they are present in. Due to the pursuit of high market share and high margins, manufacturers often seek to extend their brand into categories that consumers perceive as incongruent or low fit. Many researchers have investigated how communication and advertising strategies can improve consumers' perception of fit (e.g. Bridges, Keller and Sood, 2000). Others have researched extensions co-produced with other manufacturers that can lend favorable associations that will be beneficial in the category one extends to (e.g. Washburn, Till and Priluck, 2004). In situations where there is low fit between the parent brand and the extension category, it could be beneficial to collaborate with a partner that will bring the necessary associations that increases perceptions of fit and thus consumer acceptance. However, collaborating with another manufacturer that possesses these associations might not be possible as they might be direct competitors and already established in the category. Therefore, collaborating with a retailer that does not already have private labels in the extension category might prove to be highly beneficial, especially if the collaboration yields retailer acceptance and support. To the authors' knowledge, none/few have investigated how such an extension product produced and marketed by an alliance between a manufacturer and a retailer might be accepted by consumers. This is the main purpose of this study.



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### *1.1 Research Questions*

The market of FMCG is changing, resulting in new and uncommon types of extension strategies for national brands seeking to extend. This paper's contribution to the extension literature is therefore to elevate the understanding of and insight into these new types of extension strategies, which involves collaborating with retailers to co-produce extension products. This type of extension strategy will be examined and compared to the strategy of extending to a category alone. The first goal is therefore to investigate the interaction between extension strategy and brand extension fit when a national brand extends to a new category.

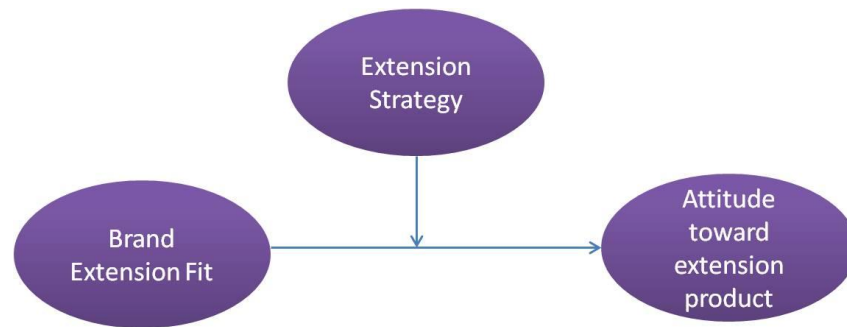
A company can extend its brand by either entering the new category alone or in an alliance with a partner. Entering an alliance alone means leveraging the brand equity of that single brand. Extending to a new category with in an alliance however enables one to benefit from the equity of two brands (Rao and Ruekert, 1994), which might improve likelihood of success. Usually, the common choice of an alliance partner has been other actors on the same level in the value chain (e.g. another national brand). As previously mentioned, there are valuable reasons for selecting a retailer as partner instead. It is important not only to choose the right extension category, but also to choose the retailer with the right store image in order to increase likelihood of success. Little research has investigated how retailers as alliance partners might moderate level of fit between the manufacturer (national brand) and the extension category. As these types of collaborations might become more attractive or even necessary for national brands in the near future, it is important to investigate how consumers' attitudes toward extension products differ pending on retailer image and level of fit between the national brand and extension category. From a national brand's viewpoint, it will be important to examine the results of extending to a new category alone, in an alliance with a high-end – or a low-end retailer. It is also important to analyze how fit between the national brand and extension category is moderated by these alternative extension strategies. Thus, the following research question is defined:

*RQ1: How will extension strategy moderate the effect of brand extension fit on attitude toward extension product?*

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The following visual model represents the suggested relationships. These are derived from the research question above:

**Figure 1: Conceptual model depicting suggested relationships, study 1**



The second goal was inspired by expectations of the results from study 1. If the differences in choice of extension strategy resulted in one obvious worst alternative with a low score, is it possible for manufacturers to implement strategies that improved this attitude? The objective of study 2 is to examine how product exposure can improve attitude towards extension product when it is co-produced by an alliance between a national brand and a low-end retailer. It is expected that a low-end retailer will yield the lowest attitude score in study 1. Study 2 will thus investigate if differences in product exposure of a co-produced extension will moderate the effect of brand extension fit on consumer attitudes toward a co-produced extension product.

In some situations a national brand might not have the power or opportunity to co-produce an extension with a high-end retailer. It could be that there are few high-end retailers within a specific area or that only low-end retailers offer acceptable cooperation terms. As such, a low-end retailer might be the only choice at hand, and the manufacturer needs marketing strategies that can improve consumers' perceptions of such a collaboration. As fit is one of the most important determinants of brand extension success (Völckner and Sattler, 2006), literature suggests increasing exposure of the extension product in order to increase fit perceptions and create favorable evaluations (Lane, 2000). Increasing perceptual fluency by increasing frequency of exposure might result in consumers accepting a co-produced extension that they otherwise would disregard due to low fit. When "fluency" or ease of processing of the extension product occurs, consumers infer

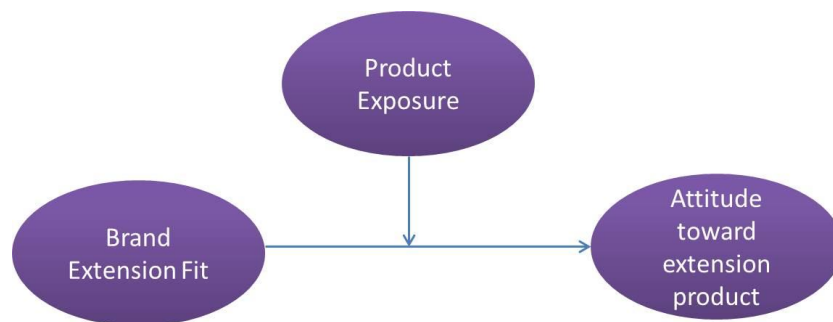
that they must like the product as it is easy to process (Bornstein and D'Agostino, 1994). As such, consumers might evaluate the fit of the extension more positive, resulting in more favorable attitudes toward the co-produced extension product.

Though it is still important for managers to develop advertising and communication content that is relevant and interesting to the target market, implementing simple strategies for increasing fit perceptions might yield similar or higher return on investment. Therefore, it is important to study whether increasing exposures of low fit extensions can result in more favorable attitudes, making such extension strategies more successful. Thus, the second research question is as follows:

*RQ2: How will differences in frequency of product exposure moderate the effect of brand extension fit on attitude toward extension product?*

The suggested relationships that emerge from this research question can be visualized in the following figure:

**Figure 2: Conceptual model depicting suggested relationships, study 2**



### *1.1.1 Overview of studies*

The two research questions presented each require one study. A total of two studies will be conducted for this paper. The first study will aim to establish the interaction effect that might be present between extension strategy and brand extension fit on attitude toward extension product. Firstly, this requires the selection of a national brand that has the desired awareness and preference in the market, and secondly, the selection of two grocery chains with different store images to represent the alliance partners for the national brand. The second study

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will be developed based on the results from study one, and will only include the lowest performing extension strategy in terms of attitude score. The study will investigate how product exposure moderates the effect of fit when this specific extension strategy is in focus. As study two is based on study one the two studies will use similar design.

Two levels of brand extension fit and three levels of extension strategy will have to be manipulated in study one in order to investigate the research question. In study two, two levels of brand extension fit and two levels of exposure will be manipulated. The manipulations used in the two studies will show a graphic design of the fictitious brand extension package. The two levels of fit are each represented with a corresponding product that satisfy the criterion of either low fit or high fit with the national brand. The national brand is the same across all conditions in both studies. In study one; extension strategy will be manipulated by adding one retailer representing a high-end store and one representing a low-end store on the product package. In study two; product exposure will be manipulated by one exposure reflecting no repeated exposure versus three exposures reflecting repeated exposure. As a result, research question one will be answered by a 2 (brand extension fit: high versus low fit) X 3 (extension strategy: solo versus high-end alliance versus low-end alliance) between subjects design, whilst research question two will pursue a 2 (brand extension fit: high versus low fit) X 2 (product exposure: no repeated exposure versus repeated exposure) between subjects design.

In the following, a review of the theoretical background for the studies will be presented, followed by the two studies and their implications for managers and researchers.

## **2.0 Literature Review**

The theoretical focus of this paper includes the fields of brand extension, brand alliance, and the effects of store image. Reviews for each of these fields will be presented and discussed in the following.

### ***2.1 Brand Extension***

When a brand seeks to grow and capture more share of wallet it can use its established brand name to introduce a new product. This strategic move is referred to as brand extension and can be used to enter a new market segment in a brand's own product category (line extension), or by using the brand name to enter a completely different product category (brand extension) (Aaker and Keller, 1990). The latter will be the focus of this research.

At first, it may seem as a good solution to launch a new brand when a company wants to enter a category. However, leveraging a strong brand name instead of introducing a new one can significantly increase the rate of success as consumers are already familiar with and have knowledge of the brand (Aaker and Keller, 1990). Consumers can identify the producer and recall past experiences and knowledge. Thus, if they have past experiences that are positive, the familiarity of the brand acts as a risk reducer and increases the likelihood of trying (Keller, 1993; Holden & Vanhuele, 1999). The knowledge consumers have about the brand also acts as a search cost reducer as it simplifies the decision making process. It signals quality and the promises and value propositions the brand stands for. As such, using an already established brand name will foster greater extension acceptance among consumers, increasing likelihood of success.

In addition to customer-focused advantages, the manufacturer will also benefit from lower costs. Introducing a new brand is associated with high costs due to brand development, brand awareness, distribution access etc (Tauber, 1988; Keller and Aaker, 1992; Morein, 1975; Kapferer, 1997 Chowdhury, 2002). Hence, introducing a new product under an established brand costs less as one leverages the equity of an already existing brand. Further, Morrin (1999) found that successful brand extensions might have a desired effect on strengthening parent brand memory structures and facilitate the retrieval processes. Thus, brand

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extensions have positive feedback effects on the parent brand as they make it easier for consumers to retrieve the parent brand information. Balachander and Ghose (2003) investigated reciprocal spillover effects, and found that consumer choice of a parent brand was positively affected by the advertising of a “child” extension. Current brand extensions can also facilitate future brand extensions, functioning as stepping stones towards other desirable categories. For instance, if a brand is too far from a desired category, it can introduce an extension product in a category between, and further down the road enter the desired category as perceived fit would be high enough when associations needed are established.

As the extensive literature suggests, brand extensions are one of the most used branding strategies when introducing new products (Loken and John, 1993). It is estimated that approximately 80 to 90 percent of all new products are some type of extension (Farbrot, 2010). However, few of them are successful. Failure rates of new extension products are high, especially for FMCG with a failure rate of 80 percent (Ernst & Young and ACNielsen, 1999; Marketing, 2003). As such, it is imperative to understand determinants of brand extension success.

Many researchers have investigated factors influencing the success of brand extensions. It was early established that original brand quality perceptions, product category fit, perceived difficulty of the extension, as well as the interaction between quality and fit are the most important determinants of extension success (Aaker and Keller, 1990; Broniarczyk and Alba, 1994; Dacin and Smith, 1994; Park, Milberg, and Lawson, 1991; Bottomley and Doyle, 1996). More recent research in the extension field have also found parameters such as marketing support, retailer acceptance, parent brand conviction and parent brand experience to be important for the success of brand extensions (Völckner and Sattler, 2006). Hence, these are important factors to understand and utilize correctly when planning a brand extension. Although these are all important drivers of extension success, the most crucial and impacting factor is found to be the fit between the parent brand and the extension product (e.g. Aaker and Keller, 1990; Völckner and Sattler, 2006; Buil, Chernatony and Hem, 2008).

### 2.1.1 Brand fit

It is argued that consumers base their perception of fit on several parameters, making it not only a crucial component of extension success, but also a somewhat complex construct. It is important to note that fit is a perceptual concept where “consumers perceive the new item to be consistent with the parent brand” (Tauber, 1988). Beyond Tauber’s definition of consistency, there are several explanations regarding the process of how consumers evaluate fit. Aaker and Keller (1990) argue that consumers’ perception of fit can be based on three concepts: *complementarity* (degree to which consumers view the two categories as complements), *substitutability* (degree to which consumers view the two product categories as substitutes), and *transferability* (degree to which consumers perceive the ability of the firm making the product in the first category to make a product in the second category.) Park, Milberg and Lawson (1991) argue that in addition to the notion of *product similarity*, some extensions can be perceived to belong to the same category if consumers understand them to share a concept. This concept might be reflected by more than just visual similarity, such as usage context. Ratneshwar and Shocker (1991) found that products are perceived to be similar if they function as substitutes in use or represented in the same category structure based on similarity or typicality. Bridges, Keller and Sood (2000) on the other hand, proposed that *any* parent brand association, including category, brand concept, or brand-specific associations, can connect the parent brand with an extension and serve as basis of fit. The common understanding is that the higher degree of fit, the easier it is for consumers to perceive the extension product as credible, resulting in higher acceptance and purchase intention. In contrast, if fit is perceived to be low, it might cause skepticism. Not only does this reduce willingness to buy, it also has a damaging effect on the parent brand and other products marketed under that brand (Aaker and Keller, 1990).

However, most definitions of fit fail to include theories of processing fluency to explain the mechanism behind consumers’ perceptions of fit. According to Lee and Labroo (2004) the model of processing fluency states that “advertising exposures enhance the ease with which consumers recognize and process a brand”. Fluency is divided into perceptual and conceptual fluency, where perceptual fluency reflects enhanced processing of physical features of a stimulus; whilst conceptual fluency reflects enhanced processing of meanings (Lee and

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Labroo, 2004). When consumers are repeatedly exposed to a stimulus (either perceptual or conceptual) it is more accessible in memory enhancing ease of processing (Jacoby and Dallas, 1981). Consumers then misattribute the ease of processing as familiarity and/or preference for the stimulus and infer that it is better liked (Bornstein, 1989; Bornstein and D'Agostino, 1994). Consequently, when a brand extends to a new category with a package design similar to one already used it might enhance consumers' perceptual fluency of that extension resulting in more favorable attitudes toward the product. As such, perceptions of fit might stem from the fact that consumers are previously exposed to a stimulus that enhances the ease of processing the extension product.

Few researchers have investigated if perception of fit can be moderated by the extension strategy. As previously defined, fit is determined by consumers' perception of the similarity between the parent brand and the extension product. This fit might be based on category-specific knowledge-structures that use similarity as perception of common and distinct features the objects share, and typicality as perception of product features shared with all members of the category (Ratneshwar and Shocker, 1991). As fit is contingent on these category structures, it would be reasonable to argue that collaborating with a retailer, that in some way or another currently operates in the extension category, might increase perception of fit.

## ***2.2 Brand Alliance as Extension Strategy***

As Rao and Ruekert (1994) phrased it: "Joint branding represents an alternative to in-house development of a brand name. Joint branding may be an efficient alternative to traditional brand-extension strategies." Joining forces with another well-known brand when introducing an extension product might be highly beneficial, as one would combine and utilize the brand equity of two brands. Such cooperation between two (or more companies) is often referred to as "brand alliance", "co-branding", "brand bundling", or "joint branding" (Rao, Qu and Ruekert, 1999; Simonin and Ruth, 1998). Adopting Simonin and Ruth's (1998:30) definition, a brand alliance is a "short- or long-term association or combination of two or more individual brands, products, and/or other distinctive proprietary assets." Following the definition, there are multiple ways of combining brands



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into a joint venture. Researchers have defined alliances into three types of relationships: *joint promotion activities*, where partner brands are presented in a complementary fashion; *dual branding*, where two brands (e.g. restaurants) share the same facilities while providing consumers with the opportunity to use either one or both brands; or *co-branding*, which involves physical integration combining the two brands into a single product (Levin and Levin, 2000; Washburn, Till and Priluck, 2004). Examples of brand alliances are Apple and Nike, Samsung and Armani, Sony and Kodak, and IBM and Intel.

### 2.2.1 *Spillover effects*

Why do well-established brands such as Nike and Apple join forces when they individually have considerable brand equity available to utilize? Alliances are formed because it is expected that the relationship will enhance some aspects of performance, such as access to new distribution channels, access to new segments, brand equity improvement by spillover-effects, knowledge-sharing, risk-reduction, network development, or improved competitiveness (Heide and Stump 1995). Each brand in a brand alliance will bring their associations to the cooperation. These associations will affect consumers' understanding of and attitude towards the alliance. Hence, it is important to comprehend how associations affect attitude formation when consumers evaluate information from two brands together (James, 2005). These potential spillover effects are perhaps the strongest reason for entering brand alliances. The preferred and expected outcome is that alliance partner A will bring favorable associations to the partnership that increases chances of alliance success, and that these associations will be transferred to alliance partner B, and vice versa (Simonin and Ruth, 1998).

When a manufacturer has determined to use an alliance as extension strategy, the focus should shift to selection of the right partner. Yet again, the notion of fit has been determined to be an important determinant of success. In the alliance context, fit refers to the similarity between the partners. More specifically, the higher the level of perceived similarity between the partnering brands, the greater the chances are of success (Simonin and Ruth, 1998). When a national brand seeks to extend, but lacks the associations needed to be evaluated as a trustworthy supplier in a category, an alliance partner can use its associations to improve fit

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(Broniarczyk and Alba, 1994). For instance, if an ice cream brand wants to extend to the dry snack category it can enter an alliance with a cookie brand to lend the needed associations to increase perceived fit. As such, the alliance partner can function as signal of quality that reassures consumers about the quality of the product (Rao, Qu and Ruekert, 1999).

### 2.2.2 *Brand quality as a signal*

In an alliance, there is often one brand more visible to consumers, acting as the primary brand, and one brand less visible acting as the secondary brand. According to Rao and Ruekert (1994) a primary brand is one that seeks a partner that can support its quality, as well as offer a significant and unique attribute. A secondary brand on the other hand is a brand that has a favorable reputation to offer, but needs an important attribute. The two types of brands complement each other and each brings valuable assets to the partnership. As such, the brand names of each partner are valuable assets that can be combined in an alliance to create benefits that the brands cannot obtain individually (Rao and Ruekert, 1994).

A brand alliance involves two brands supporting the product and signaling and reassuring consumers of its quality. The benefits of signaling quality, however, depends on consumers' preference for quality in regards to the product, as well as their ability to successfully evaluate the quality. Previous research in the extension literature has found that parent brand quality is important for an extension's success (Aaker and Keller, 1990). Thus, it is reasonable to assume that signals of quality will also be important for a co-produced extension. Consumers' ability to evaluate a products quality depends on the type of product. For instance, the quality of experience goods (e.g. a book) is difficult to evaluate prior to purchase as one has to experience it (read) before evaluation (Nelson, 1974; Wright and Lynch, 1995). As observable quality is hard to evaluate consumers tend to rely more on unobservable quality signaled from the brand name (Rao, Qu and Ruekert, 1999). As such, an alliance can enhance consumers' quality perceptions of the co-branded extension product, reducing perceived risk of buying.

The mechanism behind a brands ability to communicate signals of unobservable quality is complex. Signaling theory stems from the field of information

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economics, and proposes that a brand that makes false claims about its quality stands to suffer financial losses, such as reputation investments and future profits, as new and repeat purchases will halt (Erdem and Swait, 1998). As a result, consumers will infer that most claims about unobservable quality must be true as false claims are to detrimental to a brands' future (Tirole, 1988). Thus, a brand name has the ability to signal unobservable quality. Rao, Qu and Ruekert (1999) proposed that signaling power arises from dissipative or nondissipative signals. A dissipative signal may reflect a reputable brand that has already spent resources that will be forfeit if it offers low quality; whilst a nondissipative signal reflects a reputationless brand that can signal quality through the notion that it will lose money in the future if it offers low quality. A brand that lacks the reputation and a priori investments to be able to signal unobservable quality alone can therefore enter an alliance with a partner that has this signaling power. Entering an alliance where quality perceptions of a brand extension will increase is thus a valid argument for choosing alliance as an extension strategy.

### 2.2.3 *Co-branding extensions*

Some research has been conducted in the field of brand alliances focusing on co-branded extensions. For instance, Thompson and Strutton (2012) proposed that co-producing extensions are especially beneficial when the alliance partner possesses associations that can improve a perceived low fit originating from extending into a category that is far from the parent brand's current position. However, the focus of most studies has been the pairing of two brands that are equal in the value chain such as two FMCG brands (e.g. Washburn, Till and Priluck, 2004). Some have also responded to the growth of private labels by investigating alliances between a private label and a national brand (Vaidyanathan and Aggarwal, 2000). Few have however investigated effects of an alliance between actors on two different levels in the value chain, such as a manufacturer and a retailer. Consumers usually have a different set of associations toward retailers, dealing more with retailer image. It is thus important to investigate how these alliance partners may influence the acceptance of and attitudes toward co-produced brand extensions.

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Grocery stores evoke more store specific associations such as assortment, store atmosphere, layout and prices (Hatman and Sprio, 2005) than associations linked to product-specific attributes. On the other hand, grocery stores might bring forth quality perceptions from their store image that can improve attitude toward a co-branded extension product. As parent brand quality, in addition to fit, is found to be one of the most important determinants of brand extension success (e.g. Sunde and Brodie, 1993; Chowdhury, 2007), a store's quality image can contribute to the extension product by bringing these associations into the alliance. Product-specific attributes might also originate from the notion that consumers might perceive retailers to already be present in the extension category as they offer manufacturers' products. Furthermore, retailer image can be highly salient as the retailer sets the context and environment for the shopping experience. The purchased products might then be viewed in this specific retailer context. Consequently, associations related to the products in store might transfer to the retailer image. Perhaps more important, many retailers carry private labels with product-specific attributes that might transfer to the retailer image, enabling the retailer to hold associations that may be beneficial in a brand extension.

In other cases, the retailer might have had successful campaigns in the past that builds up certain useful associations. For instance, the Norwegian grocery chain Rema 1000 has for the past two years launched successful campaigns during summer-season promoting their expertise in quality barbeque beef and other barbeque products. Due to its established associations to barbeque, a manufacturer wanting to enter the beef category could benefit from partnering with Rema 1000. This year, the retailer has lent their brand name in the context of this barbeque campaign to products produced by other manufacturers, such as Mills and their potato salad. This is a typical example of a marketing alliance. It might however easily been a co-produced product in the eyes of consumers as they are faced with both brand names sharing space on the same product. The visual difference between co-branding and marketing alliances is often very small. However, as this marketing campaign is only one of few such examples in the Norwegian market it might be difficult for consumers to see a proper link between a retailer's image and a co-produced extension product.

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Völckner and Sattler (2006) found retailer acceptance to be an important determinant of extension success. Hence, by choosing a retailer as an alliance partner, a national brand could gain easy acceptance from the retailer as they also would benefit from the success of the extension. With intense competition for shelf space in grocery stores, a manufacturer can leverage the cooperation to gain shelf space for their co-produced extension. In addition, this collaboration might result in a closer relationship with the retailer such that other brands produced by the same manufacturer might also be granted more shelf space or other benefits. The retailer would also be more inclined to share costs such as marketing expenditures to help increase the product's success. Most often, a manufacturer pays a yearly sum to retailers that is earmarked to retailer marketing. It is this cost, amongst others, that can be reduced. Nonetheless, the failure rate of extensions is high, and possible negative spillover effects are therefore threatening to a brand's equity. Thus, it will be important to choose a retailer with the correct store image that might spark positive spillover effects.

### ***2.3 Store Image***

The quality, style and texture of national brand products are in most cases exactly the same across different retail stores within a particular geographical area (Reda 2002). Customers can therefore choose from many different stores to shop in and still buy the same product. This creates a competitive environment important for retailers to stand out in, i.e. use a differentiation strategy. One such strategy is to improve store image in order to improve attitude toward the store's products.

Extensive literature exists on store image as a research field. Store image is defined by Mazursky and Jacoby (1986: 147) as: "a cognition and/or affect (or a set of cognitions and/or affects), which is (are) inferred, either from a set of ongoing perceptions and/or memory inputs attaching to a phenomenon (i.e., either an object or event such as a store, a product, a 'sale,' etc.), and which represent(s) what that phenomenon signifies to an individual". I.e., store image is based upon individuals' perception of several attributes. A consumer's evaluation of shopping pleasantness, store atmosphere, salesclerk service, location convenience, merchandise quality, pricing and assortment are some of the factors that will affect store image perception (Hildebrandt, 1988). Store name is also believed to

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have an effect on store image. For example, the Norwegian retailer name Bunnpris suggests low price and medium quality of merchandise, hence a low-end store. The name Meny on the other hand (also a Norwegian retailer) portrays an image of wide assortment and high prices, attributes that are closely related to a high-end store (Grewal et al., 1998).

### *2.3.1 Effect of store image on quality perception*

Much research conducted in the field focuses on the effect of store image on quality perception (Gardner and Siomkos, 1985; Olson, 1977; Zeithaml, 1988). Since quality perception is an important facet of total attitude towards a brand (Sood and Keller, 2012), research in this topic is of great importance to the current study. Consumers rarely use a comprehensive evaluation process when buying low involvement products, such as groceries. Therefore, the image of a store helps customers in judging quality. Champion, Hunt and Hunt (2010) found that store image affects quality perceptions regardless of level of involvement, indicating that store image plays an important role in the decision making process. Furthermore, consumers perceive products to be of higher quality if they are purchased from a store they feel has a high-end image (Wheatley and Chiu, 1977). The opposite path of the relationship, from perceived quality to store image, has also been confirmed by several authors (e.g., Hildebrandt, 1988; Mazursky and Jacoby, 1986). Therefore, Olshavsky (1985) suggested that there is a reciprocal relationship between store image and quality perception.

### *2.3.2 Effect of store image on purchase intention*

The Theory of Reasoned Action contemplates a strong link between attitude and behavioral intention (Fishbein, 1975). It is therefore interesting to analyze the relationship between store image and purchase intention. As store image is associated with product quality perception, it is expected that store image will influence consumers' purchase intention (Champion, Hunt and Hunt, 2010). If a consumer thinks a store has low image and therefore carries low quality products, purchase intention will decrease. On the other hand, stores perceived to be of high-end standards automatically portray a signal of trust. Though products may be more expensive, consumers are often confident that products are of high quality and thus worth the price. Experience will strengthen confidence of making

quality purchases when buying products from high-end stores. Other authors have also confirmed the effect of store image on purchase intention. Grewal et al. (1998) used two stores with either high or low image in their experiment, and found that store image had a direct positive effect on purchase intention.

### 2.3.3 Antecedents of store image

Conceptualizing store image is extremely difficult (Burt, Johansson, and Thelander, 2007). The concept is built on consumer perception, which in turn is based on attitude and opinions. These factors depend on situation and experience, which may vary across regions, markets and store formats. The antecedents can contain both tangible and intangible factors, and can have psychological or functional attributes (Champion, Hunt and Hunt, 2010). Hartman and Spiro (2005) provide a summary of the most important antecedents that have been used to measure store image. The authors conclude that store image needs to be conceptualized by several items in order to obtain the total impression represented in memory. Table 1 presents some of the factors that have previously been used to differentiate low from high image stores. These factors are only an extraction of the extant literature that exists on store image. Nonetheless, the summary provides a solid indication of the most common items that have been used by researchers. The factors that are of special importance to this study are price, store design and quality of merchandise.

**Table 1: Summary of store image literature**

<b>Items</b>	<b>Author(s)</b>
<ul style="list-style-type: none"> <li>- Price</li> <li>- Service</li> <li>- Store Design</li> <li>- Variety</li> <li>- Parking</li> <li>- Location</li> <li>- Specific Products</li> <li>- Other</li> </ul>	<i>Francis Buttle (1985)</i>
<ul style="list-style-type: none"> <li>- Layout</li> <li>- Merchandise</li> <li>- Service</li> </ul>	<i>Semeijn, van Riel and Ambrosini (2004)</i>
<ul style="list-style-type: none"> <li>- Price of merchandise</li> <li>- Quality of merchandise</li> <li>- Assortment of merchandise</li> <li>- Fashion of merchandise</li> <li>- Sales personnel</li> <li>- Location convenience</li> <li>- Other convenience factors</li> <li>- Services</li> </ul>	<i>Kunkel and Berry (1968)</i>

<ul style="list-style-type: none"> <li>- Sales promotion</li> <li>- Advertising</li> <li>- Store atmosphere</li> </ul>	
<ul style="list-style-type: none"> <li>- Appearance</li> <li>- Products</li> <li>- Prices</li> <li>- Service</li> </ul>	<i>Menezes and Elbert (1979)</i>
<ul style="list-style-type: none"> <li>- Ambient factors</li> <li>- Design factors</li> <li>- Social factors</li> </ul>	<i>Baker et al. (1994)</i>
<ul style="list-style-type: none"> <li>- Sales personnel</li> <li>- Merchandise suitability</li> <li>- Post-transaction satisfaction</li> <li>- Store atmosphere</li> <li>- Value for price</li> <li>- Store services</li> <li>- Location</li> <li>- Advertising</li> </ul>	<i>McDougal and Fry (1974)</i>
<ul style="list-style-type: none"> <li>- Employee service</li> <li>- Product quality</li> <li>- Atmosphere</li> <li>- Convenience</li> <li>- Prices/Value</li> </ul>	<i>Chowdry et al. (1998)</i>

#### ***2.4 Summary of Theories***

Brand extensions have been one of the most widely used marketing strategies for increasing growth, and will likely be used more often as manufacturers are faced with increased competition from private labels. By leveraging a brand already in the marketplace manufacturers can reduce cost of launching new products as distribution and retailer acceptance is already in place. In addition, an established brand image facilitates consumer acceptance. As such, a brand extension capitalizes on the equity that is built in the core brand (Aaker and Keller, 1990), increasing the likelihood of success. If the brand extension is successful, it can have positive feedback effects on the parent brand (Tauber, 1981; Tauber, 1988). Successful brand extension can create associations that facilitate future extensions as consumers' frame of reference has been altered. However, few brand extensions are truly successful. A failed brand extension might possibly dilute the original brand (Loken and John, 1993) making it imperative for managers to carefully plan and implement strategies that facilitates success.

One of the most important factors determining a brand extension's success is consumers' perception of fit between the core brand and the extension category (e.g. Aaker and Keller, 1990; Grime, Diamantopoulos, Smith, 2002; Völckner and Sattler, 2006). When consumers perceive fit they will more easily accept the



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extension. Degree of fit is a result of the type of extension managers decide to implement. For instance, a line extension, where the brand is used to enter a new market segment in the manufacturer's current product category, will most likely be perceived as high fit. On the other hand, a brand extension where the brand is leveraged to enter a completely different product category will most likely be perceived as an extension with a lower level of fit. Thus, it is important for managers to consider what category they wish to extend to.

If a category far from the core brand is appealing then the strategic option to co-produce the extension with another brand might increase the likelihood of success. In addition, by collaborating with a partner a brand can share marketing and distribution expenses as both parties are responsible for the product's success. Shocker (1995) pointed out that extension products need to differentiate themselves in a new category. However, if that category is dissimilar to the brand's current imagery then it will be difficult to even be considered as a natural member of the category, let alone rise to the top. Partnering with a brand ally might legitimize the new product extension for consumers as an alliance partner has the potential of bringing favorable associations that the current brand lacks (Keller 2003). Brand alliance combines the equity of two brands which might create synergies that a single brand cannot achieve alone (Rao and Ruekert, 1994). Rao, Qu and Ruekert (1999) argue that a brand ally might benefit an extension by signaling "unobservable" and "observable" quality. Quality of a product is not always easy for consumers to observe before purchase, for instance with products categorized as "experience goods" where one has to experience the product before it can be evaluated (Nelson, 1974; Wright and Lynch, 1995). The brand name and its inherent imagery can communicate signals of unobservable quality to consumers and function as insurance (Rao, Qu and Ruekert, 1999). Co-producing an extension might therefore be a preferable strategy when wanting to enhance quality perceptions or obtain favorable associations to differentiate the product in a new category.

Choosing the right partner is of great importance when a manufacturer seeks to enter a brand alliance. A manufacturer can choose to work with other brands that have the desired category-specific attributes. This alliance-strategy is more common than choosing a retailer, which in fact is on a different level in the value

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chain. The benefit of using a retailer is that it can bring quality associations or associations that increase level of fit when a brand decides to enter a category that is perceived to be far from its core products. Favorable associations from private labels may be transferred to the retailer, which in turn can be transferred to the alliance. Still, a retailer will most likely have more non-product specific associations linked to its imagery, associations that revolve around store image such as store layout, assortment, prices etc. It is therefore important to evaluate retailer's store image before selecting an alliance partner. This is especially important as brand alliances might result in loss of control, brand dilution and lack of brand focus (Keller, 2003).

A retailer's store image is based on individuals' perception of several attributes connected to the store (Mazursky and Jacoby, 1986), such as evaluation of store atmosphere, sales personnel, convenience, assortment, product quality and pricing (Hildebrandt, 1988). Previous research has found that a store's image can affect consumers' quality perceptions and thus aid them in their decision making process (Champion, Hunt and Hunt, 2010). As quality perceptions are an important part of consumers total attitude towards a brand (Sood and Keller, 2012), it is important to choose a retailer that has the right store image. By choosing a retailer with a high-end image an extension product might benefit from positive association transfer, as consumers tend to perceive products sold in high-end stores with higher quality (Wheatly and Chiu, 1977). As such, a retailer's store image can spill over to co-produced extensions enhancing favorable consumer evaluations.

### **3.0 Study 1**

In the first study, the research focus is related to differences in choice of extension strategy and product category when launching a brand extension. More specifically, the study will analyze differences in brand extension fit between the national brand and the extension category when extending solo, with a high-end retailer or a low-end retailer. The premise of the study is that neither the brand nor the alliance partners are present in the extension category with their own products. In the following, hypotheses, methodology and results of study 1 will be presented.

### ***3.1 Hypotheses***

Little research in the fields of brand alliance, brand extension and co-production has investigated extensions co-produced with a retailer. Thus, the main purpose of study 1 will be to establish an understanding of how an extension product will be evaluated pending on whether a solo strategy, or alliance strategy (high-end – or a low-end store alliance) is used. The study will also investigate how these three extension strategies differ pending on the level of fit between the parent brand and extension category.

#### *3.1.1 Brand extension fit*

As previously mentioned, fit has been determined by many to be one of the most important determinants of brand extension success (e.g. Aaker and Keller, 1990; Sunde and Brodie, 1993; Bottomley and Holden, 2001; Völckner and Sattler, 2006). Although fit is a result of a brand manager's decision it is of perceptual nature; a perception that consumers hold in their minds regarding the evaluation of similarity between the extension product and the parent brand (Tauber, 1988). The common understanding is that higher perceived fit between parent brand category and extension category results in higher probability of success.

Perception of fit is argued to emerge from consumer's perception of how natural the extension seems to be in comparison to the brands' current product portfolio (Völckner and Sattler, 2006). More specifically, the more a consumer can in some way perceive the two product categories involved to be consistent with each other, belong or "hang" together, the more likely it is that he will form favorable attitudes toward the extension product (e.g. Park, Milberg and Lawson, 1991). One of the underlying mechanisms affecting this perception might be processing fluency. When an extension product builds on previously established brand values or familiar packaging design (higher degree of fit) the new extension product becomes easier to process causing fluency effects to occur. This fluency effect results in a high fit extension being perceived as more likeable (Bornstein and D'Agostino, 1994), while this effect is lacking for low fit extension as the brand elements presented are different from what has previously been used.

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Park, Milberg and Lawson (1991) also found that perception of fit is determined by consumers' beliefs about the brand's ability to produce the extension product. If a consumer cannot perceive a match between existing products in the category and the product extension, nor between the brand's other products and the product extension, he might be skeptical of that brand's capability of producing such a product, thus not perceiving a fit (Aaker and Keller, 1990). This lack of similarity might therefore cause negative expectations and evaluations of the extension.

Degree of fit is usually specified as either low or high (Völckner and Sattler, 2006), which will be the case for this study. The higher the level fit is perceived to be, the easier it is to transfer parent brand quality to the extension product (Aaker and Keller, 1990). When a brand is extending to a category perceived to be similar to the brand's category, quality perceptions will most likely be transferred to the extension product, facilitating acceptance and positive evaluations. Consequently, there will be a difference in attitude toward a product extended to a category perceived as high fit and a low fit.

Thus,

*H1: High brand extension fit between parent brand and extension category will generate more favorable attitudes toward a product extension than will low brand extension fit*

### *3.1.2 Extension strategy*

With the proliferation of private labels, market conditions for many manufacturers have changed to the worse. This makes it important for managers to make the right choice of extension strategy. A brand can choose to introduce the extension product alone, or with an alliance partner. Washburn, Till and Priluck (2004) indicated that simply pairing up with a brand ally might increase the brand equity ratings of the partners in the alliance. Thus, the mere act of collaborating with an alliance partner might add additional information and benefits to consumers, thereby increasing the perceived value of the extension product.

Many alliance researchers have focused on the benefits of pairing with a brand that can bring the necessary associations needed to enter the extension category

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successfully (Rodrigue and Biswas, 2004; Washburn, Till and Priluck, 2004).

Retailers might have the potential of bringing such needed associations from their store image. As previously discussed, grocery stores might in some cases hold product specific associations that can be beneficial to an extension product. These product specific associations might originate from retailers' own private labels or the argued notion that consumers might perceive retailers to already be present in product categories as they offer manufacturers' products at. As such, the potential existing product specific associations might increase attitudes toward the co-branded extension.

Parent brand quality is found to be a highly important success-factor for a brand extension (e.g. Sunde and Brodie, 1993; Chowdhury, 2007). A retailer might also be perceived as the "parent" to the extension product, and hence, a store's quality image might transfer to the alliance contributing to a more favorable attitude toward the extension product. For instance, products sold in a high-end retailer with a spacious store layout, helpful service personnel and wide selection of high quality merchandise might be perceived in the light of that retailer's image. The products can therefore benefit more from a high-end store location than a low-end store location. Thus, a retailer might contribute to the perceived value of a co-produced extension product, resulting in more favorable attitudes.

In the Norwegian market, however, very few private labels use the retailers' brand name. Consequentially, some consumers might not be aware that a certain private label is in fact private label. They might perceive it to be a traditional national brand. Thus, the association transfer from the private label to the retailer image is lost resulting in consumers' inability to see a natural link between a retailer and a co-produced extension product. Retailers' quality image might therefore not contribute as much as the national brand's quality image, as consumers do not consider a retailer as a natural "parent" yet. Consequently, joining forces with another manufacturer, one which has attractive product-specific associations connected to the brand, will in some instances be a better option than collaborating with a retailer.

Further, a low-end store is different from a low-equity brand as was the case in Washburn, Till and Priluck's (2004) research. A low-end store will have specific

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and negative associations in consumers' minds (e.g. bad store layout, too crowded, bad selection of groceries etc.) instead of simply having a lower equity rating. It is therefore argued that an alliance with a low-end retailer will more likely result in unfavorable attitudes cancelling out potential "ally effects". Consequently, it is argued that extending to a new product category solo will result in more favorable attitudes than extending with a low-end store. On the other hand, a high-end retailer might transfer positive associations to the alliance that will benefit the alliance product. This effect is however argued to not result in higher attitude ratings than the solo strategy as it is believed that retailers do not yet inhabit enough product-specific associations to improve attitude ratings. Therefore, significant differences between a solo strategy and a high-end store alliance strategy are not expected. The same logic follows between a high-end and a low-end strategy.

Thus,

*H2: A solo extension strategy will generate more favorable attitudes toward the extension product than a low-end store alliance strategy. However, no significant difference between a solo strategy and a high-end store alliance strategy will exist. Furthermore, there will be no differences in attitude towards extension product between a high-end and a low-end alliance strategy.*

### *3.1.3 Interaction between brand extension fit and extension strategy on attitude toward extension product*

Although much research has investigated the effects of fit on consumers' attitudes toward an extension product, few have combined this with testing the moderating effects of extension strategy. As previously discussed, an alliance partner can contribute favorably to consumers' attitudes toward a co-produced extension product. However, it is not believed that an alliance with a retailer will result in significantly more favorable attitudes toward an extension product than the parent brand will alone.

Extending the brand to a new product category solo will result in the same effect as argued in hypothesis one. Choosing an extension category that is perceived as high fit with the parent brand will therefore result in more favorable attitudes

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toward the extension product than when a category perceived as low fit is chosen (Völckner and Sattler, 2006). In an alliance with a high-end store it is argued that the same results will occur. Although a high-end retailer has a high quality image that could have altered the results it is argued that due to the lack of product-specific attributes the alliance partner will not affect the relationship between high and low fit. Consumers will accept the high fitted extension based on the parent brands own merits, resulting in more favorable attitudes than the low fit extension. In the low-end alliance however, it is argued that the negative and unfavorable image of a low-end retailer will cause consumers' fit perception to become less salient such that they evaluate the extension product more on the basis of the low-end alliance partner and "forget" the perceptions of high fit. As such, the low-end alliance partner detracts focus from the fit perceptions causing no difference in attitudes between the high - and low fit extension.

Following the discussion above, the following hypothesis is proposed:

*H3: There will be a two-way interaction between level of brand extension fit and type of extension strategy. More specifically, in the solo extension condition, high brand extension fit will generate more favorable attitudes towards the extension product than will low brand extension fit. Under the condition of high-end store alliance, the same relationship will exist. In the low-end store condition, however, only minor differences in attitude between low fit and high fit will exist.*

## **3.2 Methodology**

### *3.2.1 Overview and design*

An experiment was deemed the most appropriate design as it will help assess whether one treatment causes one outcome to occur. Since we are interested in a cause (levels of fit in an extension and types of extension strategy) and effect (attitude towards the extension product) relationship, internal validity is an important objective. Experimental design is a preferred choice when internal validity is of great importance (Mitchell and Jolley, 2004). Researchers on the topics alliance, extension and attitude change have mostly used experiments as the preferred choice of research design (Haugtvedt and Wegener, 1994; Park, Jaworski and MacInnis, 1986; Simonin and Ruth, 1998; Aaker and Keller, 1990).

The experiment has two independent variables, brand extension fit containing two levels and extension strategy with three levels. Thus, the design is a 2 (brand extension fit: high versus low fit) by 3 (extension strategy: solo versus high-end alliance versus low-end alliance extension strategy) between subject design with a total of 6 conditions (table 2). Since the design consists of two factors, each with discrete levels, and since the experiment assesses possible combinations of these levels across both factors, the design can be characterized as a full factorial design (Malhotra and Birks, 2007). The dependent variable is attitude towards the extension product.

**Table 2: Design of study 1**

		Extension strategy		
		Single	Alliance – High end	Alliance – Low end
Brand Extension Fit	High fit	<i>Condition 1</i>	<i>Condition 2</i>	<i>Condition 3</i>
	Low fit	<i>Condition 4</i>	<i>Condition 5</i>	<i>Condition 6</i>

The measurement tool used to create and distribute the questionnaire was an online service called Qualtrics. The link was distributed through Social Media, specifically Facebook, and through e-mail. There are several advantages using an online tool such as Qualtrics. First, it makes it easier to collect data as one does not need to manually collect responses. Second, it denies the possibility to flip backwards, which potentially could reduce internal validity. Third, there is no need to manually insert all data in a statistical software (e.g. SPSS) as this is done automatically by the program. This makes data transfer safer and more efficient. However, an obvious limitation is that one has little control over who the respondents are and the environment that surrounds them when answering. A laboratory experiment reduces these limitations. Nonetheless, due to time constraints and facilitation issues, an online survey distribution was deemed most convenient and efficient.

### 3.2.2 Pre-tests

Several pre-tests were conducted to ensure that the manipulations would work as intended. A total of four pre-tests were conducted before the final measurement



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was designed. The purpose of the first round of pre-tests was to decide on the national brand that would be used to create a brand extension scenario.

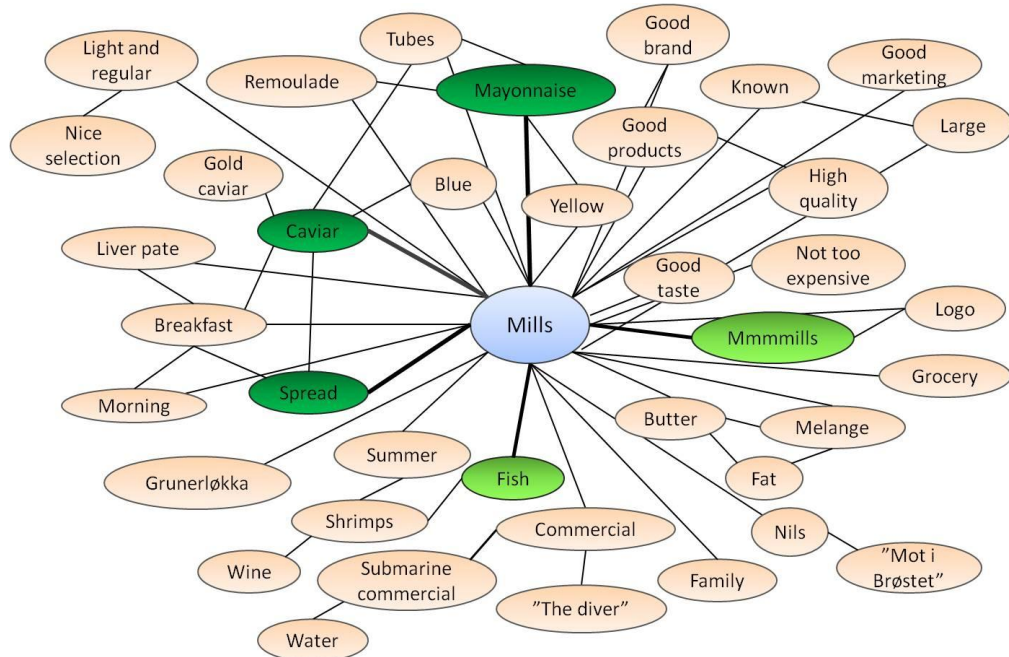
Two important qualifications for the target brand to possess were high awareness and average preference. In order to answer questions regarding their attitude towards an extension product produced by a national brand, respondents needed to be familiar with the brand. It was also important that they on average did not have too strong feeling towards the brand. Respondents that had strong feelings towards a brand could accept an extension product without a representative (/true) consideration. It has been found that consumers that have a strong brand relationship quality tend to accept proposed extensions regardless of extension category similarity and brand benefit typicality (Park, Kim and Kim 2002). Another prerequisite was that the national brand was primarily connected to one or few categories. This is because companies that seem to expand to everything (e.g. Virgin) can be perceived by consumers to be of high fit with all categories.

After brainstorming on several brands, Mills was chosen as the national brand. This was due to the availability of secondary research, which showed that the company has an awareness of 95% and a preference of 70% (appendix 1). As such, Mills was deemed a good choice as it is a brand consumers are familiar with and have knowledge about, without being highly attached to. In addition, very few consumers know that Mills is present in other categories than caviar, mayonnaise and liver pate, thus satisfying the last requirement.

After deciding on the national brand, an association-test was conducted. It was important to know the associations to Mills before deciding on a low fit and high fit extension category. The associations would later be used as indications of high – and low fit product categories. It was important to assure that the extension categories chosen were developed on the basis of the respondents associations and not the authors, even though it became clear that the two were not very distinct. The pre-test was conducted by asking four groups of undergraduate business students about their associations to Mills. A total of 19 respondents were asked the questions: What are your associations to Mills? An overview of the associations is presented below (figure 3). The strongest associations that surfaced in the group discussions were mayonnaise, caviar, fish, etc. Secondary researched

conducted by Mills shows that the associations from the group discussions were not different from those obtained by Mills (appendix 2), thus validating our results. This made it possible to precede to generation of possible extension categories.

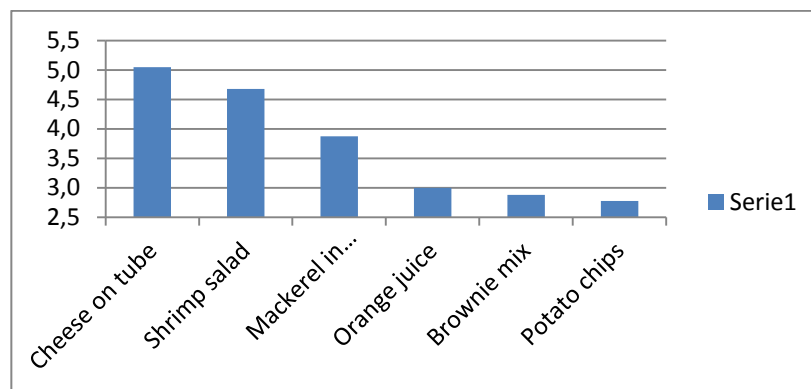
**Figure 3: Results from pre-test 2**



The two levels of fit needed to be tested in advance, before commencing the experiment. Based on the association map, the authors came up with three alternatives for each degree of fit. The high fit product category consisted of mackerel in tomato sauce, cheese on tube and shrimp salad while the low fit product category was made up by brownie mix, potato chips and orange juice. Three different alternatives for each degree of fit were used in order to assure that the results would produce the necessary difference between high and low fit. Mills was tested against all categories by asking the questions “How likely is it that you would buy [product X] from Mills”, “How well does your impression of Mills fit with the product category [X]” and “To what extent do you agree that Mills and [product category X] is a good match” (Semeijn, van Riel and Ambrosini, 2004; Kunkel and Berry, 1968; Menezes and Elbert, 1979; Fry and McDougal, 1974; Chowdry, Reardon and Srivastava, 1998). The items were translated into Norwegian to accommodate the participants. Each respondent answered either to the low fit product categories or the high fit product categories.

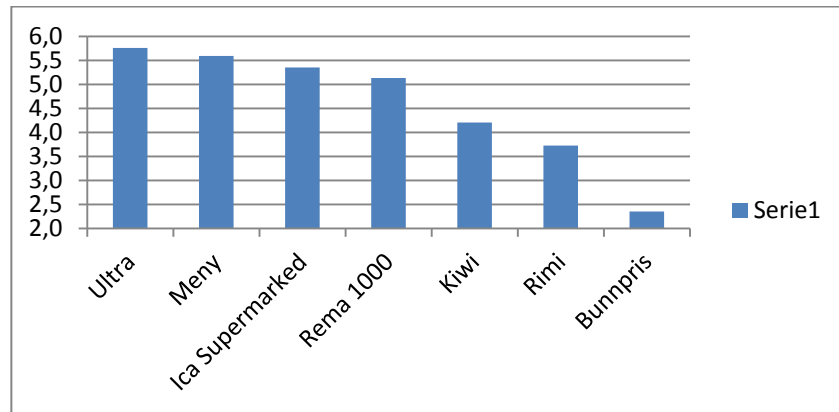
Respondents provided their answers on a 7-point scale. A total of 50 respondents, grouped as either high fit or low fit, answered the questionnaire. The results (see table 3 for respective means) showed that the product categories were grouped correctly as mackerel in tomato sauce, cheese on tube and shrimp salad were all perceived to be of higher fit than brownie mix, potato chips and orange juice. The most notable difference was observed between the high-fit product category cheese on tube ( $M_{\text{Cheese on tube}}=5$ ) and the low-fit product category potato chips ( $M_{\text{Potato chips}}=2.8$ ). Therefore, based on the assumption that high – and low fit can be measured by the three items presented, these categories were chosen to represent the two levels of fit.

**Table 3: Result from pre-test 3**



The purpose of the last pretest was to test the image of the alternative alliance stores. In order to be sure that the chosen stores in the experiment had the right image, a questionnaire with three items was developed. The statements [Store x] has a wide selection of products, [Store x] has products of high quality and [Store x] has spacious stores (Fry and McDougal, 1974; Chowdry, Reardon and Srivastava, 1998; Kunkel and Berry, 1968; Semeijn, van Riel and Ambrosini, 2004), were meant to differentiate the low-end stores from the high-end stores. A 7-point scale was used to collect the data, and all items were translated into Norwegian. A total of 50 respondents answered the survey. The results (see table 4 for respective means) show that Bunnpris scored the lowest ( $M_{\text{Bunnpris}}=2.35$ ), making it perfectly suitable to be the low-end store in the experiment. Regarding the high-end store, Ultra proved to be the store with the highest score ( $M_{\text{Ultra}}=5.76$ ). However, due to the chain's very limited distribution and reach (only five stores), Meny was chosen as the high-end store ( $M_{\text{Meny}}=5.59$ )

**Table 4: Result from pretest 4**



Implementing the chosen product categories and stores provides the following research design:

**Table 5: Study 1, product categories and stores inserted**

		Extension strategy		
		Single	Alliance – High end	Alliance – Low end
Brand Extension Fit	High fit	<i>Mills Cheese on tube</i>	<i>Mills-Meny Cheese on tube</i>	<i>Mills-Bunnpris Cheese on tube</i>
	Low fit	<i>Mills Potato chips</i>	<i>Mills-Meny Potato chips</i>	<i>Mills-Bunnpris Potato chips</i>

*3.2.3 Participants*

Due to the design of the study and the number of variables used in the experiment, a minimum of 180 respondents needed to be acquired in order to achieve statistical significance. Hair et al (2006) argue that there should be between 25 and 50 respondents in each cell. However, a common rule of thumb is to have 30 respondents per cell. For this study, a total amount of 202 respondents were randomly assigned to the six groups. In terms of gender, 73 males and 129 females participated in the experiment. Average age of the respondents was 28.

The survey was distributed using Facebook and email, the first being far more effective, presumably. This created some challenges that need to be addressed. In order to receive the survey-link on Facebook, the respondents had to be a member of the site. In addition, they needed to be either friends with or acquaintances of the authors in order to be exposed to the advertising of the survey. Several friends re-posted the survey-link on their networks, making it possible to reach a greater

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audience. However, since many of the respondents were either direct or indirect friends of the authors, the sample can be characterized as a convenience sample. This may lead to reduced external validity (Arslan and Altune, 2010) as the sample may not be similar to the population. Internal validity can also be affected as the friends who answered the questionnaire may have a specific attitude towards one of the stores, thus skewing the results. Nonetheless, by using filter questions that screen the answers, outliers can be removed. Furthermore, the respondents recruited by email were or had been students of BI Norwegian Business School. Using a student sample can be a limitation as the respondents may not represent the population. However, Kuhberger (1998) found that student samples do not provide misleading results, thus being representative for the population. This is in accordance with Kardes (1996) comments stating that students provide remarkable useful data.

Using an online survey makes it impossible to control for the environment surrounding the respondents when they take the survey. Therefore, it is difficult to estimate how many were exposed to the survey. What we do know is that 389 respondents clicked on the survey-link and started the experiment, while 220 finished the whole survey (ca. 57%). Out of those, several filters were used to remove unwanted respondents. Participants that never ate either potato chips or cheese on tube, or never bought Mills' products were removed. Careless respondents were also excluded. Respondents that ticked off the same value on all items were identified as careless, and removed. This left us with a data set of 202 respondents that was used in the analysis.

#### *3.2.4 Manipulation of independent variables*

The purpose of the manipulation was to expose the respondents to one level of fit and one level of extension strategy. This was done by presenting a picture of the product pack. Respondents in the high fit condition saw a cheese on tube-pack while the low fit respondents were exposed to a potato chips-pack. Extension strategy was manipulated by altering the text on the pack. The participants in the two solo extension conditions read the text "Mills cheese on tube/ Mills potato chips" while the respondents in the four alliance conditions read "Mills cheese on tube/potato chips, in cooperation with Meny/Bunnpris" (appendix 3).

The six product packs were designed in a way that would make it easy for the respondents to envisage them on the shelf in the store. However, by presenting a realistic design compared to if only sketches were presented, respondents may start evaluating and forming attitudes towards the design instead of the text on the pack. No other text than what was visible on the product pack was included in the manipulation. Also of importance was the use of colors. It was chosen not to use the colors that arose from the association test (blue and yellow) as this could increase perceived level of fit, and potentially affect internal validity. Respondents were informed of the setting for the extension in a cover story. The manipulations are presented in appendix 3.

### *3.2.5 Measurement of dependent variable*

The dependent variable in the study was attitude towards the extension product. Since attitude is often measured by analyzing different aspects such as purchase intention and quality perception, we developed items that specifically targeted these variables. This was done in addition to implement items that directly measured attitude. These items were adopted from Haugtvedt, Petty and Cacioppo (1992). Three traditional seven-point bipolar semantic differential scales were used (table 6). To measure quality perception, three 7-point item scales were implemented (Völckner and Sattler, 2006; Aaker and Keller, 1990; Bottomley and Doyle, 1996; Broniarczyk and Alba, 1994; Klink and Smith, 2001). Purchase intention was measured by a single item asking specifically whether the respondents would buy the product if it was available at a reasonable price (Grewal et al., 1998).

**Table 6: Dependent variable measurement, Condition 2**

<b>Item no.</b>	<b>Text</b>	<b>Scale width</b>	<b>Anchor points</b>
1	What is your impression of Mills-Meny cheese on tube?	1-7	Bad/ Good
2	What is your impression of Mills-Meny cheese on tube?	1-7	Negative/ Positive
3	What is your impression of Mills-Meny cheese on tube?	1-7	Unfavorable/ Favorable
4	How do you think the total quality of Mills-Meny cheese on tube will be?	1-7	Very low/ Very high
5	To what extent do you agree with this statement: Mills-Meny cheese on tube will be amongst top three products in the cheese on tube category when it is launched?	1-7	Strongly disagree/ Strongly agree

6	How do you think the total quality of Mills-Meny cheese on tube will be compared to competitors in the cheese on tube category?	1-7	Below average / Above average
7	How likely is it that you would buy the product when it enters the market at a competitive price?	1-7	Very unlikely/ Very likely

All seven items were merged into one variable, meant to constitute the dependent variable attitude towards the extension product.

### 3.2.6 Manipulation checks

Manipulation checks were also included in the experiment. This was done in order to be sure that the manipulation would work as intended (Mitchell and Jolley 2004). Both store image and product category fit were tested. The questions used to test store image were roughly the same as in the pretest (table 7). The only difference made was the wording of the item “[Store x] has spacious stores”. Due to uncertainty regarding respondents’ understanding of the item, it was changed to “[Store x] has a layout and design of high quality”. However, it is not believed that this change created big differences in the results compared to the pre-test.

**Table 7: Store image items**

Item no.	Text	Scale width	Anchor points
1	To what extent do you agree with this statement :Meny has a wide assortment of products	1-7	Strongly disagree/ Strongly agree
2	To what extent do you agree with this statement: Meny’s stores have a layout and design of high quality	1-7	Strongly disagree/ Strongly agree
3	To what extent do you agree with this statement: Meny has products of high quality	1-7	Strongly disagree/ Strongly agree

Also of importance was the perceived fit between Mills and the extension category. In order for the manipulation to produce the hypothesized effects, the respondents had to perceive cheese on tube as high fit and potato chips as low fit to the Mills brand. The questions used in the pre-test to test fit were also used in the experiment (table 8).

**Table 8: Fit items**

Item no.	Text	Scale width	Anchor points
1	To what extent do you agree with this statement: Mills fits well in the cheese on tube category	1-7	Strongly disagree/ Strongly agree
2	To what extent do you agree with this statement: There is a good match between Mills and the cheese on tube category	1-7	Strongly disagree/ Strongly agree
3	How likely is it that you would buy the product when it enters the market at a competitive price?	1-7	Very unlikely/ Very likely

The manipulation check was included after the dependent variable items in order to prevent respondents from being biased when answering the items regarding attitude towards the extension product. The respondents in the first and fourth condition only answered the manipulation check pertaining to fit as these groups were not exposed to the two stores.

### *3.2.7 Procedure*

The respondents launched the experiment by clicking on the survey-link. The first page showed a typical welcome-text thanking them for their participation and establishing a set of rules. The next three pages collected pre-attitude measures for Bunnpris, Meny and Mills, along with other companies that acted as covers to mask the companies that were of interest. At this stage, it was important not to reveal the companies in the study. By collecting data before the manipulation, we could compare pre – and post-effects of the exposure. A seven-point bipolar differential scale (good/bad, positive/negative, favorable/unfavorable) was used (Haugtvedt, Petty and Cacioppo, 1992).

After these questions, the respondents were automatically randomly grouped in one of six conditions. From this point, many of the questions differed from one condition to another due to the use of different alliance-partner or no partner and different extension categories. The first page after the grouping of respondents provided a cover story of what the purpose of the study was. This was done in order to stimulate cognition and set the right “environment” for being exposed to the manipulation (Harmon-Jones, Amodio and Zinner, 2007). Subsequently, the respondents were presented with the product pack. Each group was exposed to



one picture, and to our knowledge, none of participants were aware that other manipulations existed. Following this, the respondents answered the previously discussed seven attitude measures that constituted the dependent variable.

In order to assure that the proposed relationship between the factors and the dependent variables was not caused by variables outside the model, covariates were used. A covariate is a secondary variable that is not of primary interest, but that can affect the relationship between variables (Malhotra and Birks, 2007). Since the firms used in this study already exist in the market, consumers will be steered by previous attitudes towards Mills and the stores when participating in the experiment. Previous attitude towards Mills and alliance store could inflate or deflate positivity towards the extension product. A consumer that would buy anything from Mills without hesitation will most likely be very positive towards the extension product. To control for this effect, questions pertaining to attitude towards Mills and the alliance stores were implemented. Participants in the no alliance condition (condition 1 and 4) did not answer the store-attitude questions. Six seven-point bipolar differential scale (good/bad, positive/negative, favorable/unfavorable) were used to measure attitude towards Mills and store (Haugtvedt, Petty and Cacioppo, 1992).

In addition, frequency questions were included in order to remove respondents that never bought products from Mills, never shopped at either Bunnpris or Meny, or never ate either cheese on tube or potato chips. The latter filter was especially important as those not eating cheese on tube/potato chips would skew the results negatively.

The next section included questions pertaining to the manipulations checks. This was followed by questions regarding the participants' demographics such as age, gender and education. The last page thanked the respondents for their participation in the experiment. A disclaimer was also included stating that the portrayed scenario was fictitious and that the manipulations created were for research purposes only.

### ***3.3 Results Study 1***

The next section will discuss the results of study 1. Before the results are presented and discussed in light of the hypotheses, the data preparation method will be presented followed by the results of the manipulation checks.

#### *3.3.1 Data preparation*

All the data that was collected through the online survey service Qualtric.com was extracted and transferred to IBM SPSS Statistics 19, the statistical program that was used for all subsequent analyses.

Many of the variables used were measured by several items. Before these items could be collapsed into one construct, it was important to test if the items meant to measure the same variable were interrelated. To do so, a Cronbach's alpha test was conducted. A satisfying interrelation between items has a Cronbach's alpha above .7 (Robinson, Shaver and Wrightsman, 1991). The three items meant to measure attitude towards Mills were interrelated (Cronbach's alpha = .74). The test also showed that both Bunnpris and Meny's items were highly interrelated (respective Cronbach's alpha = .91 and .90). As such, the pre-attitude items were collapsed to represent total pre-attitude towards either Mills, Bunnpris or Meny. The seven items meant to measure the dependent variable attitude towards extension product were also tested for interrelatedness. The analysis showed that a satisfying relation between the items was present (Cronbach's alpha = .91). A factor analysis with principal component extraction showed a one-factor solution explaining 64% of the variance in the attitude towards the extension product. The items were therefore collapsed into one variable. Lastly, the manipulation checks also proved to satisfy the interrelatedness criterion (Cronbach's alpha: store image = .95, fit = .72), and thus, these items were collapsed.

#### *3.3.2 Manipulation checks*

Manipulation checks were performed to test if the manipulations worked as intended. All participants received questions pertaining to fit between Mills and extension category. However, it was only the alliance groups (condition 2,3,5,6) that answered questions about the image of either Bunnpris or Meny.

An ANOVA was used to test whether there was a significant variation in means between low – and high-end store. Fit and store image was used as the independent variables while the three store image manipulation items were collapsed and used as the dependent variable. The analysis showed a significant difference between the groups,  $F(1,133) = 376, p < .001$ . The respondents in the high-end store condition perceived Meny to be significantly more high-end,  $M_{\text{Store image Meny}} = 6.01$ , than what the participants in the low-end store condition perceived about Bunnpris,  $M_{\text{Store image Bunnpris}} = 2.44$ . These results confirmed that the correct stores had been chosen to represent high – and low-end.

Fit between Mills and extension category was also tested. A necessary requirement for the manipulation to work was that participants perceived cheese on tube as high fit and potato chips as low fit. An ANOVA with fit and entry strategy as independent variables and the fit manipulation check measure as dependent variable was used to check for differences. The test revealed a significant difference between the groups,  $F(1,202) = 85.2, p < .001$ . Hence, the respondents in the high fit group perceived cheese on tube to be significantly more high fit,  $M_{\text{high fit}} = 4.17$ , than what the respondents in the low fit condition perceived about potato chips,  $M_{\text{low fit}} = 2.53$ . The results are approximately the same across all conditions of entry strategy, confirming the appropriateness of using cheese on tube as the high fit extension category and potato chips as the low fit extension category

As all the variables were thoroughly tested before the experiment, the results of the manipulation check were as expected. Since the tests confirmed our prediction of store image and fit, the manipulations deemed appropriate for testing the hypotheses.

### *3.3.3 Test of hypotheses*

A full factorial ANCOVA was used to test the different hypotheses. Brand extension fit and extension strategy were the factors used as independent variables while attitude towards the extension product was the dependent variable. Attitude towards mills acted as the covariate. As previously stated,  $H_1$  predicted a main

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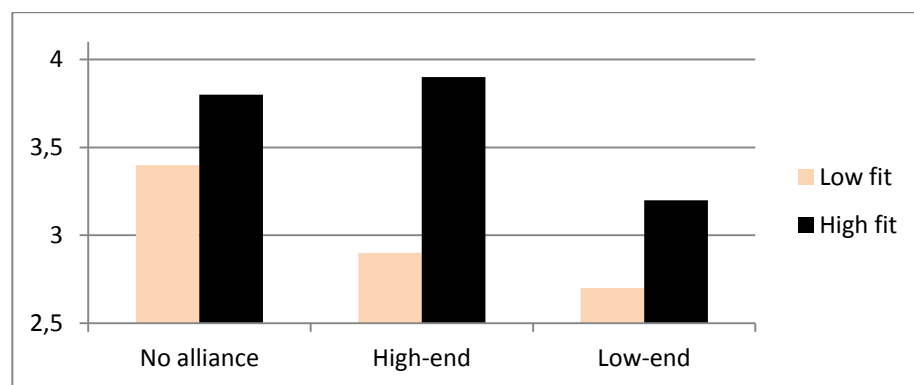
effect of brand extension fit. More specifically, high fit between Mills and the extension category would generate more favorable attitudes towards the extension product than low fit. Results from the test showed a significant main effect for brand extension fit,  $F(1,202) = 17.9$   $p < .001$ , thus confirming  $H_1$ . Respondents had a significantly more positive attitude towards the extension product when there was high fit between Mills and the extension category,  $M_{\text{high fit}} = 3.63$ , than when the fit was low,  $M_{\text{low fit}} = 3.01$ .

$H_2$  hypothesized a direct effect of extension strategy. It was predicted that extending to a new category would generate more favorable attitudes if the manufacturer used a solo strategy compared to if it was to extend in an alliance with a low-end store. Small differences between solo and high-end, and high-end and low-end were expected. The ANCOVA showed significant differences between the groups,  $F(2,202) = 6.7$ ,  $p < .005$ . Planned comparisons using Tukey's post-hoc test revealed that the significance was caused by the difference in attitude between the solo extension strategy and the low-end extension strategy,  $p < .05$  ( $M_{\text{alone}} = 3.5$ ,  $M_{\text{low end}} = 2.9$ ). As predicted, there was no significant difference between these two levels of extension strategy and the last level high-end store,  $M_{\text{high-end}} = 3.2$ .  $H_2$  is therefore confirmed.

The third hypothesis proposed an interaction effect between brand extension fit and extension strategy on attitude towards the extension product. It was argued that in the solo extension condition, high fit would generate more favorable attitudes towards the new extension product than low fit. The same effect was expected in the high-end entry strategy condition. In the low-end condition however, only minor differences would exist. The ANCOVA presented insignificant results for the interaction effect as  $F(2,202) = 1.79$ ,  $p > .05$ . The difference in means between the two no alliance condition ( $M_{\text{noalliance low fit}} = 3.34$  and  $M_{\text{no alliance high fit}} = 3.77$ ) was almost identical to the difference in means between the two low-end store conditions ( $M_{\text{low-end low fit}} = 2.72$  and  $M_{\text{low-end high fit}} = 3.25$ ). Figure 4 shows that it is in the high-end store condition fit tends to differ,  $M_{\text{high-end low fit}} = 2.9$ ,  $M_{\text{high-end high fit}} = 3.9$ . However, the difference is not strong enough, and  $H_3$  is therefore not supported. The covariate attitude towards Mills proved to be significant,  $F(1, 202) = 18.9$ ,  $p < .001$

**Table 9: Estimated marginal means, study 1**

		Extension strategy			Marginal means
		Single (n=69)	Low-end (n=65)	High-end (n=68)	
Brand Extension Fit	Low (n=108)	3.34	2.72	2.93	3.00
	High (n=94)	3.77	3.25	3.89	3.63
	Marginal means	3.58	3.43	2.90	

**Figure 4: Estimated marginal means, study 1**

### 3.3.4 Discussion of results

As the variable brand extension fit has been investigated by many researchers in the past, and found to be one of the most important elements in a brand extension success (e.g Aaker and Keller, 1990; Völckner and Sattler, 2006), it was anticipated that hypothesis 1 would be supported. Thus, for the Mills brand, extending to a category that consumers perceive to be similar and “matching” to their current parent brand results in more favorable and positive attitudes than when extending to a category that consumers perceive to be dissimilar. The first pre-test revealed that consumer associate caviar and mayonnaise with the manufacturer. Extending to the cheese on tube category was therefore perceived to be close to these categories. This may have something to do with the type of packaging that is being used. The tube used for mayonnaise and caviar is almost identical to cheese on tube. Consumers can therefore easily draw a link between these products. Cheese on tube is also similar to caviar and mayonnaise with regards to use. All three are meant to add taste to a slice of bread.

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Potato chips was perceived by the respondents to be of low fit, as expected.

Though Mills has potato products in their portfolio, it does not seem that consumers associate the manufacturer with this product category. The pre-test did not reveal any associations to their range of potato mash and cream au gratin potatoes. It is therefore reasonable to assume that the respondents did not form any links from this category to the potato chips category, and hence, no similarity was found between the manufacturer and the extension category. In line with previous research (e.g. Aaker and Keller, 1990; Völckner and Sattler, 2006), this resulted in a difference in attitude between low – and high fit extension categories, as hypothesis 1 was confirmed). While the respondents in the high fit conditions easily could relate the new extension category with Mills' existing product, the low fit respondents were not able to see a match between the two, making it difficult to use previously held information to accept the new extension product. Consequently, significant differences between high – and low fit exists.

Hypothesis 2 was also confirmed, indicating that pairing with a low-end retailer results in significantly lower and more unfavorable attitudes than extending solo. When entering an alliance, it is important to be aware of the associations connected to the partner. These associations will be transferred to the extension product, and possibly the manufacturer itself. Bunnpris possesses specific associations that are in disharmony with Mills, resulting in a mismatch when co-producing a product. When Mills extends alone however, it is only their associations that are transferred to the extension, and as these are positive, attitude is significantly better than when Bunnpris is an ally. Since Meny, categorized as a high-end store, has some favorable associations that are in compliance with the associations of Mills, there is no difference in attitude between the two extension strategies. I.e., if a manufacturer finds it necessary or beneficial to enter an alliance with a retailer, a high-end store should be the choice of preference as such cooperation does not risk creating negative attitude towards the extension product.

The third hypothesis states that there will be an interaction effect between extension strategy and brand extension fit. The results showed that this was not the case. There were no differences in attitude within fit across the three extension strategies. It was believed that in solo entry strategy, high fit would generate significantly more positive attitude than. The same relationship was expected in

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the high-end condition. However, no difference between fit in the low-end condition was hypothesized. A significant difference in the high-end condition was expected based on the argument that high fit creates strong links between the manufacturer and the extension category, thus makes it difficult for the retailer to affect the attitude. Though figure 4 shows a tendency of this effect, it is not strong enough to be significant. A possible explanation could be related to the association transfer from Meny to the extension product. Although the store is perceived to be high-end it does not possess strong product specific associations that can be used to increase fit. One of the explanations is that private labels are not as prominent in Norway as in many other countries, such as in the U.S. Many consumers are not aware that private labels are in fact retailers own products, thus the transfer of product specific associations back to the retailer is lost. The hypothesis may therefore have overestimated Meny's ability to transfer associations that improves fit, even though the result shows a trend that should trigger future researchers to further test this relationship.

In the Norwegian grocery market, it is the low-end stores that have the highest market shares. Stores like Kiwi, Rimi and Rema 1000 are all popular grocery stores that are located almost at every street corner. A great business opportunity is therefore lost when manufacturers cannot cooperate with these retailers. Though the first hypothesis was confirmed, a manufacturer might still benefit from entering an alliance with a low-end retailer. Specific communication strategies that can be used to improve attitude towards an extension product co-produced by a manufacturer and a low-end retailer will be analyzed in study 2.

## **4.0 Study 2**

Study 2 draws on the results from study 1 and focuses more on a managerial approach to improve these results. The research question deals with how managers can improve attitudes toward a co-branded extension by implementing advertising strategies. More specifically, the study will investigate how fit perceptions can be increased, pending on number of exposures. As it was found that a low-end alliance could produce negative attitude towards the extension product, the scope of this study only focuses on low-end store alliances. This is the premise of this study. In the following, hypotheses, methodology and results of study 2 will be presented.

#### ***4.1 Hypotheses***

The main objective of study 2 is to confirm the belief that favorable attitudes toward a co-produced extension can be improved with increased exposures, especially beneficial in a low fit condition. Different from study 1 is that extension strategy is no longer manipulated, but instead hold constant at low-end store. Furthermore, as hypothesis 1 tested and confirmed that fit affects attitude toward extension product, this study will not present the main effect of this variable.

##### *4.1.1 Improving attitudes with increased product exposure*

In the pursuit of increasing attitudes toward an extension product there are different strategies managers can implement. Previous research has found several strategies that improve perception of fit, thereby enhancing their attitudes and evaluations of the extension. According to Bridges, Keller and Sood (2000) fit can be increased by establishing explanatory links in communication messages. Lane (2000) found that repeated ad exposures to incongruent extensions led to higher fit perceptions and attitude evaluations. As previously presented, this can be explained by theories of processing fluency. Increased exposure to the co-produced extension product will enhance consumers' processing fluency, resulting in more favorable attitude evaluations (Jacoby and Dallas, 1981; Bornstein and D'Agostino, 1994). Increased processing fluency might also have been the case in Bambauer-Sachse, Hüttl and Gierl's research (2011). They found that by simply measuring respondents perceived fit directly before they evaluated the extension actually increased their perception of fit. As such, fluency effects does not depend on consumers understanding the stimulus presented but instead occurs simply because they become more familiar with the stimulus as they have previously been exposed to it (Bornstein, 1989).

Although Lane's (2000) findings are limited to brand extensions from a single brand, it is reasonable to argue that an extension co-produced in an alliance between a manufacturer and a retailer would obtain similar results. By increasing exposure of a co-produced extension consumers will experience enhanced processing fluency (either perceptual or conceptual), which in turn will result in



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more favorable attitude evaluations. It is therefore argued that a co-produced extension will benefit with increased frequency of exposure.

Thus,

*H4: Repeated exposure of the co-produced extension product will generate more favorable attitudes toward the new extension product than single exposure.*

#### *4.1.2 Interaction between brand extension fit and product exposure on attitude toward extension product*

Although there seems to be a consensus around the notion that brand managers should be careful to extend into categories far from their brand's existing position, there might exist situations where one would want to do so. For instance, some categories might have unfulfilled needs, and being the first one in the category might yield first-mover advantages. Or, extending to a category far from a current position might be a part of a long-term re-positioning plan. In that case, strategies for improving low fit will be important in order to increase the likelihood of success.

As Lane (2000) found that by increasing exposure of an incongruent extension would result in more favorable fit perceptions, it is argued that the relationship between fit and attitude towards extension product will be moderated by exposure frequency. However, fluency effect is argued to be more significant for a co-produced extension that is perceived to fit poorly with the parent brand than one perceived to fit well. This is in line with Lane (2000) and her findings of incongruent extensions. The logic builds on the notion that high fit will generate more favorable attitudes than low fit, but low fit extensions can be improved by increasing exposure to the point where perceived fit has increased resulting in acceptance of the product. Following the fluency theory, when frequency of exposure to a low fit extension increases, consumers might perceive it as more congruent because they became more familiar with it. The disbelief of a brand producing a product perceived to be far from their brand might wear off after increased repetition. This wear-off effect explained by fluency might therefore improve attitudes more for low fit than high fit extensions. An extension that is already perceived to be high fit will not benefit as much from increased exposure,

as it is in fact already perceived as high fit. Consequently, when exposure is increased to three, perceptions of a low fit extension will have increased to the point where a high fit extension is no longer superior in favorable attitudes.

Thus,

*H5: There will be a two-way interaction between level of brand extension fit and exposure frequency. More specifically, as the number of exposures increase, the differences in attitudinal responses to high vs. low fit will decrease.*

## **4.2 Methodology**

### *4.2.1 Overview and design*

This study also called for an experiment as it was important to analyze the relationship between cause and effect of the chosen variables. More specifically, it enables the use of brand extension fit and exposure as treatments and attitude towards the extension product as effect. Most researchers in the field of fluency have used experiments to test the effect of presenting a treatment several times (e.g. Lee and Labroo, 2004). Thus, this research design was deemed appropriate.

In order to draw comparisons between the two studies, not much was changed in terms of design. However, an important distinction is the inclusion of exposure and the exclusion of extension strategy as a variable. As previously mentioned, the study tests the effect of exposure and brand extension fit of a product produced in alliance with a low-end store. Extension strategy is therefore not a variable in itself, but sets the premise for the study. Thus, the design is a 2 (high versus low fit) by 2 (single versus three exposures) between subject design with a total of 4 conditions (table 10). The dependent variable remains unchanged, and is still attitude towards the extension product.

**Table 10: Design of study 2**

		Exposure	
		Single	Three
Brand Extension Fit	High fit	<i>Condition 1</i>	<i>Condition 2</i>
	Low fit	<i>Condition 3</i>	<i>Condition 4</i>

#### *4.2.2 Participants*

By following the rule of thumb, the design of study 2 required a minimum of 120 respondents. Complying with Hair's et al. (2006) proposal of 25-50 respondents in each cell, a total amount of 160 respondents was required. These were randomly assigned to the four groups. In terms of gender, 45 males and 115 females participated in the experiment. Average age of the respondents was 27.

The respondents were recruited through the same channels as in study 1. However, an important distinction was that friends of the authors became more important in distributing the survey-link to friends of friends through Facebook. This is due to the fact that there was a strong likelihood that friends of the authors had participated in the first experiment. Since it was important to keep these two groups separated, friends were told not answer the second survey, but they were encouraged to share the link in their networks.

A total number of 250 respondents clicked on the link. Of these 176 finished the survey, resulting in a response rate of 70%. A possible explanation why the response rate was higher in the second survey compared to the first may be due to the reward the respondents could receive. Participants that finished the whole survey and entered their email at the end would be contesting for a NOK 500 value gift-card. This was done only in the second study as the respondents were not friends of the authors. Also, due to time-constraints, it was necessary to recruit respondents promptly. It was therefore important to offer an incentive for participation. Research shows that rewards make it easier to recruit respondents (Johansson et al. 1997). As was the case in this study, it is expected that this kind of imbursement will increase the response rate.

After using the same screening filters as in study 1, the data-set used in the analyses comprised a total of 160 respondents.

#### *4.2.3 Manipulation of independent variables*

Since study 2 was an extension of study 1, not many elements of the manipulation were changed. The design itself was kept constant as study 2 was an extension of

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study 1. The imperative change though was the inclusion of exposure as a variable. This created a set of four conditions. The two high fit groups were exposed either once or three times to the product pack of cheese on tube while the two low fit groups were exposed either once or three times to the potato chips-pack. Since the study only focused on an extension in alliance with a low-end store, variants of extension strategy were not included. All the participants were therefore exposed to the same text on the pack; “Mills Cheese on tube/Potato chips, in cooperation with Bunnpris”.

The aim of the study was to explore if frequency of exposure would affect attitude towards co-produced extension products. To do so, a cover story was created to mask the true intention of the study. The statement that was given informed the respondents that the authors were interested in the attitude towards different product orientations, i.e. whether they liked the product horizontal, vertical or diagonal. This “excuse” enabled us to present the product pack several times without revealing the true intention. Participants in condition 1 and 3 were shown the product picture only once, while the participants in condition 2 and 4 were exposed to the picture three times, each time with a different orientation. Those in condition 2 and 4 were exposed to only one picture at a time. Appendix 4 shows the different orientations used.

#### *4.2.4 Measurement of dependent variable*

The dependent variable was kept constant across both studies, thus the variable “attitude towards extension product” was also used in the second study. Likewise, the same seven items that constituted the dependent variable (adopted from Haugtvedt, Petty and Cacioppo, 1992) were implemented in study 2. The respondents in condition 1 and 2 were asked about their attitude towards cheese on tube while respondents in condition 3 and 4 were asked about their attitude towards potato chips.

As the true intention of the study needed to be disguised, items pertaining to attitude towards different orientations were developed. Though unimportant to the statistical analyses, the items acted as distractions to mask the exposure variable. They also increased the time the respondents were exposed to the manipulation In

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the eyes of the respondents, the dependent variable was “Attitude towards product orientation”. A seven-point likert scale was used to measure the item “On a scale from 1 to 7, how well do you like the orientation on the product picture above”.

#### *4.2.5 Manipulation checks*

The first study included manipulation checks that dealt with fit between extension category and Mills, and the image of the alliance stores. In this study however, only manipulations regarding fit were included. This is because store image was not a variable that was tested. As previously explained, it was of the study’s interest to analyze how a national brand could improve attitude towards the extension product if it was in alliance with a low-end store. Given this setting the two variables brand extension and exposure were the only variables that were tested in study 2.

Moreover, the items used to test if cheese on tube was perceived as high fit and potato chips as low fit were the same as in the first study. Respondents in condition 1 and 2 answered manipulations checks pertaining to high fit while respondents in condition 3 and 4 answered low fit questions.

#### *4.2.6 Procedure*

A welcome page was shown after the first click on the survey-link. This was succeeded with pre-test measures on Bunnpris, Meny and Mills, along with other companies that acted as covers to mask the companies that were of interest. A seven-point bipolar differential scale (good/bad) was used (Haugtvedt, Petty and Cacioppo, 1992). The two other items that measured the same concept (positive/negative and favorable/unfavorable) in study 1 were removed. Since many respondents from the first study did not understand that they answered three different questions, and statistics showed that many respondents dropped the rest of the questionnaire when presented with these rather similar questions, it was decided to reduce the number of items. A factor analysis revealed that good/bad was the item that measured the concept best.

Before the manipulation was presented, a cover story informed participants of the context of what they were about to see. Why product orientation was of

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importance to the study was explained to the respondents. This was done in order to act trustworthy and minimize suspicion of the true intention behind the study. After presenting the manipulation and asking questions regarding product orientation and attitude towards extension product, respondents were presented with questions pertaining to their attitude towards Mills and Bunnpris. This was measured by 3 seven-point bipolar differential scales (good/bad, positive/negative, favorable/unfavorable) (Haugtvedt, Petty and Cacioppo, 1992). As in the first study, these questions acted as covariates. Respondents were also asked to indicate how often they consumed potato chips/cheese on tube. Those that never ate one of these products (depending on which group they were in) were removed.

After manipulation checks, same demographical questions as in study 1 were asked. Lastly, respondents that wanted to be included in the raffle of a gift-card with a face value of NOK 500 needed to state their email address.

### ***4.3 Results***

The results of study 2 will in the next section be presented. Data preparation, manipulation checks and test of hypothesis 4 and 5 will all be discussed.

#### *4.3.1 Data preparation*

Some variables in the analysis were measured by several items. It was therefore important to check for interrelatedness. By using the rule of Cronbach's alpha above .7, several variables were checked (Robinson, Shaver and Wrightsman, 1991). As in the first study, the dependent variable attitude towards extension product was comprised of seven items. Analysis showed that these items were related at a satisfactory level (Cronbach's alpha = .87). A factor analysis with principal component extraction showed a two-factor solution where the first factor explained 58% and the second explained 14% of the variance in attitude towards extension product. Since the first factor explained over half of the variance, the items were collapsed into one variable. The covariates attitude towards Mills and Bunnpris were comprised of three items each. These were checked for interrelatedness, and were strongly related (Respective Cronbach's alpha = .94 and .93). Lastly, the three manipulation check items meant to measure fit also satisfied

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the interrelatedness criterion, and were thus collapsed into one variable (Cronbach's alpha =.73).

#### *4.3.2 Manipulation checks*

The intention of the manipulation check was to analyze if the manipulated low fit and high fit between Mills and the extension category was perceived as intended. Even though this was done in the first study, it was important to reconfirm the assumptions of fit as this was a new group of participants. Furthermore, all respondents answered the same questions. However, only respondents in condition 1 and 2 answered questions pertaining to cheese on tube. Respondents in condition 3 and 4 answered the low fit questions, i.e. potato chips.

An ANOVA with fit and exposure as the independent variables and the manipulation check item fit as the dependent variable was used to check for differences in the groups. The analysis showed a significant difference between the two levels,  $F(1,160) = 49.4$ ,  $p < .001$ . Respondents in the high fit group perceived cheese on tube to be significantly more high fit,  $M_{\text{high fit}} = 4.23$ , than what the respondents in the low fit condition perceived potato chips to be,  $M_{\text{low fit}} = 2.86$ . Within each group of fit, the results were very similar across the levels of exposure, therefore not significant,  $F(1,80) = 2.97$ ,  $p > .05$ . The  $M_{\text{low fit one exposure}}$  scored 2.67 while  $M_{\text{low fit three exposures}}$  scored 3.06. For high-fit even smaller differences existed,  $F(1,79) = .63$ ,  $p > .05$ . The  $M_{\text{high fit one exposure}}$  scored 4.11 while  $M_{\text{high fit three exposures}}$  scored 4.35. These results show that fit between manufacturer and extension category is not affected by number of exposures, and thus confirms the choice of using cheese on tube as the high fit extension category and potato chips as the low fit extension category

#### *4.3.3 Test of hypotheses*

A full factorial ANCOVA was used to test the two hypotheses. Brand extension fit and exposure were the factors used as independent variables while attitude towards the extension product was the dependent variable. Attitude towards Mills and Bunnpris acted as the covariate. As previously stated,  $H_4$  predicted a main effect of exposure. It is believed that three exposures will generate more favorable attitudes towards the extension product than one exposure. The results showed a

significant main effect for exposure,  $F(1,160) = 4.7, p < .05$ . Respondents had a significantly more positive attitude towards the extension product when the product picture was shown three times  $M_{\text{three exposure}} = 3.5$ , than when it was presented once,  $M_{\text{one exposure}} = 3.0$ .  $H_5$  is thus supported.

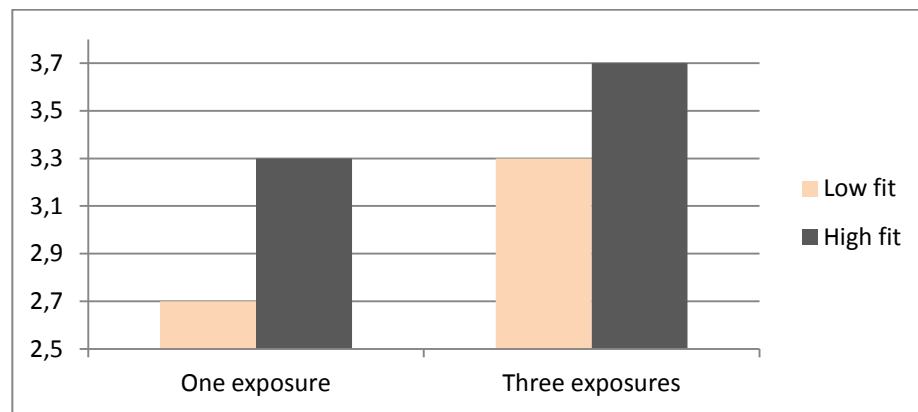
The final hypothesis checks for an interaction effect. More specifically, it predicts that exposure affects the relation between fit and attitude towards the co-produced extension. The ANCOVA revealed a significant interaction between brand extension fit and exposure, and attitude towards extension product,  $F(1,160) = 5.6, p < .05$ . Figure 5 shows that there is a significant difference between low- and high fit in the one exposure condition, since  $M_{\text{one exposure low fit}} = 2.7$  and  $M_{\text{one exposure high fit}} = 3.3$ . A simple one-way ANOVA based on the one exposure data shows that this difference is significant,  $F(1,80) = 9.4, p < .005$ . In the three exposure condition, low fit increases and almost approaches the score of high fit, equaling the difference.  $M_{\text{three exposures low fit}} = 3.3$  and  $M_{\text{three exposures high fit}} = 3.7$ . A simple one-way ANOVA based on the three exposure data was conducted to test for differences, and scores show an insignificant result,  $F(1,79) = 3.43, p > .05$ . The means are presented in table 11. The covariates attitude towards Mills and Bunnpris were both significant (Mills:  $F(1,161) = 24.8, p < .001$ , and Bunnpris:  $F(1,161) = 38.8, p < .001$ )

It is also interesting to see that the difference in the high fit condition between one and three exposures is not significant. A simple one-way ANOVA using high fit cases shows an insignificant difference,  $F(1,79) = 3.36, p > .05$ . Such difference is only present in the low fit condition. A new simple one-way ANOVA was conducted, now with the low fit cases. The test shows a significant result,  $F(1,80) = 12.33, p < .005$ , i.e., there is a difference between one exposure and three exposure in the low fit condition. Based on these results,  $H_5$  is supported.

**Table 11: Estimated marginal means, study 2**

		Exposure		Marginal means
		One (n=81)	Three (n=80)	
Brand Extension Fit	Low (n=81)	2.7	3.3	3.0
	High (n=80)	3.3	3.7	3.4
	Marginal means	3.1	3.7	



**Figure 5: Estimated marginal means, study 2**

#### 4.3.4 Discussion of results

The fourth hypotheses claimed a main effect of exposure on attitude towards extension product. I.e., the more often one is exposed to the product, the easier it is to form positive attitude. The results from this study confirmed the hypothesis; being exposed several times is better than a single exposure. This can be due to several reasons. Bornstein and D'Agostino argue that when a stimulus is easily retrievable in memory, it can sometimes be automatically liked (1994). A stimulus can be readily accessible in memory when one has frequently been exposed to it (Jacoby and Dallas, 1981). Seeing the cheese on tube pack three times made it easy for the respondents to retrieve it when they answered questions pertaining to their attitude towards the extension product. Though Lane (2000) argues that it is preferable with longer pauses between each exposure than what was done in this study, the results show that the respondents were more positive when it was easy to retrieve the information. A longer time-period between each exposure might strengthen this effect. A simpler reason is that it is easier to like something that one is used to. A respondent that has been exposed to potato chips three times will to some degree get used to the idea that Mills is present in this product category. A single exposure respondent however has not been given the same opportunity to be familiar with this extension, and thus it becomes more difficult to react with a positive attitude. (Klink and Smith, 2001)

The last hypothesis stated that there would be an interaction between fit and exposure. As the number of exposures increase, the differences in attitudinal responses to high vs. low fit will decrease. The hypothesis was supported,

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indicating a significant interaction. In the one exposure condition, significant differences in attitude between low – and high fit were found. In the several exposure condition however, this relationship was not present. I.e., the low fit product in the several exposures condition benefited from being exposed several times. The high fit product however did not. This can be reasoned by the fact that when a product is incongruent, the potential of increasing fit with repeated exposures is much higher compared to a congruent product (Lane, 2000). As a high fit extension is already congruent, repeated exposures do not increase familiarity or similarity. Consumers already accept that there is a match between the extension category and the manufacturer, and their attitude can therefore not be improved simply by increasing frequency of exposure. To do so, other communication strategies are necessary.

## 5.0 Discussion

### 5.1 Main Discussion

This section discusses the results of the studies in relation to the research questions. Two studies were conducted to test how the relationship between fit and attitude towards the extension product is moderated by either brand extension strategy or exposure. To reiterate, the first research questions was as follows:

*RQ1: How will extension strategy moderate the effect of brand extension fit on attitude toward an extension product?*

The results clearly show that both extension strategy and brand extension fit have a direct main effect on attitude towards the extension product. Contrary to these main effects, little research has been dedicated to test the moderating role of extension strategy on the relationship between brand extension fit and attitude towards extension product. It was therefore important to establish a link between these two fields of research. Such knowledge would give managers a tool for choosing the right extension strategy pending on fit with extension category. Unfortunately, this relationship could not be established by the current research as the results were insignificant. Interesting insight can still be extracted as it was shown that the high-end store condition tended to differ across level of fit, indicating that the tendency can be strengthened if it is tested industries where

store image plays a more important role, such as in the furniture industry.

Nonetheless, the results from this study were insignificant, and should only be used to further test this link.

The second study aimed at testing how frequency of exposure could affect the relationship between brand extension fit and attitude towards extension product. Based on Lane's (2000) results and theories of processing fluency, it was believed that as the number of exposure increased, the difference in attitudinal responses to high vs. low fit would decrease. The following research question was formulated:

*RQ2: How will differences in frequency of exposure moderate the effect of brand extension fit on attitude toward extension product?*

In addition to the main effect of exposure, the study confirmed the interaction effect that was hypothesized. The effect of several exposures is more prominent when a brand extends to a low fit category. This is in line with findings of Lane's (2000) research. Although Lane focuses on increased elaboration as the mechanism behind the more apparent mechanism in this study is argued to be effects of processing fluency. The manipulations were not advertisements with claims etc such as in Lane's research, but merely pictures of the product package. Thus, it is prominent to focus on fluency theories that states that the easier the stimulus is retrieved in the minds of the consumers, the more likely consumers will have positive attitudes towards it (Jacoby and Dallas, 1981).

The two studies together provide important guidelines to follow for managers wanting to implement new extension strategies. The study reveals that there is no difference in attitudinal responses between solo – and high-end store alliance extension strategy. A manufacturer should therefore not be skeptical to collaborate with a high-end retailer as this will not affect consumer's attitude negatively. As such, one can gain important benefits, such as close relationship with the retailer, shelf-space, retailer-acceptance, without risking consumer reactions. And even though one finds it necessary to collaborate with a low-end store, there are simple communication strategies that can decrease negative consumer reactions, as study 2 revealed.

**Table 12: Hypotheses and Conclusions**

	Hypotheses	Result	Conclusion
H <sub>1</sub>	High brand extension fit between the parent brand and the extension category will generate more favorable attitudes toward the new product extension than will low brand extension fit	F(1,202) = 17.9, p < .001	Supported
H <sub>2</sub>	Solo extension strategy will generate more favorable attitudes than entering the product category in a low-end store alliance. No significant difference between solo- and high-end strategy. No differences between a high-end and a low-end alliance strategy.	F(2,202) = 6.7, p < .005	Supported
H <sub>3</sub>	Two-way interaction: In the no alliance condition, significant differences in fit exist. The same for high-end condition. In the low-end condition, only minor differences exist.	F(2,202) = 1.79, p > .05	Not supported
H <sub>4</sub>	Repeated exposure of the co-produced extension product will generate more favorable attitudes than single exposure.	F(1,160) = 4.7, p < .05	Supported
H <sub>5</sub>	Two-way interaction: As the number of exposures increase, the differences in attitudinal responses to high vs. low fit will decrease.	F(1,160) = 5.6, p < .05	Supported

### ***5.2 Limitations and Future Research***

The current studies have some limitations that may act as a starting point for future researchers in the field of brand extensions and alliances. The research may have limitations in regards to external validity as the two studies only investigated grocery chains as retailers and groceries as products. Since the study has been conducted in the grocery industry, one should be careful in generalizing the results to different industries. Future research is advised to test if the results from this study can be applied to other industries, retailers and products. It could also be interesting to test other types of products, such as experience goods where evaluation of quality is difficult before consumption. An alliance may assure consumers of the quality and make the product easier to trust.

With regards to internal validity, the use of social media as a channel and friends and friends of friends as sample may have skewed the results. Due to the snowballing effect, many respondents might have the same negative/positive attitude towards a store, making the results either too positive or negative.

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However, as previously explained, the use of screening questions have minimized these effects and made the results more reliable.

The choice of using Bunnpris as the low-end store could have skewed the result as many respondents have too negative attitude towards the store. The pre-attitude measures showed that Bunnpris scored lower than most other retailers. It could be interesting to see if other medium/low-end stores would generate the same results.

The perceived fit between retailer and extension category was not pre-tested. An assumption was made that no strong relationships existed between these two. The researchers therefore only took the manufacturers standpoint when testing level of fit. This was done to limit the comprehensiveness of the study. A possible consequence could be that effects could be caused by reasons not accounted for in the model. An alliance with Meny could be perceived as very positive just because the store is perceived to be strongly linked to e.g. potato chips. This effect is however believed to be more prominent in countries where private labels have a stronger presence, such as in the U.S. In these circumstances, the retailer might have stronger product-specific associations. It would therefore be of great interest to test this effect in countries where private labels have a stronghold.

Further, the categories deemed as high fit were perhaps not as high as anticipated by the results of the pre-tests. It could be that "true" high fit would only have been achieved by investigating line extensions, but then the premise of the study would have been broken as it was important to investigate an extension where the manufacturer was currently not present.

Lastly, the study only investigated increased exposure of the product itself, not an advertisement of a product. Usually, a new product would be launched in an advertisement campaign that also includes some slogan or benefit explanation. However, we were interested in examining if the fluency theory could explain just the product itself, thus higher internal validity. For future research, it could be interesting to see how these results would be when adding other advertising elements such as benefit claims etc.

### ***5.3 Managerial Implications***

Innovation is often thought of as product related. Managers can create line extensions, brand extensions or something as simple as an incremental change. Very few think of alliances when trying to come up with the next big innovation. Managers need to rethink the options present for product extension. The habitual thinking of extending alone needs to be reformed as it is becoming increasingly difficult to gain shelf-space for new products. Companies are extending faster than the time it takes for consumers to adopt. This creates an overflow of new unwanted products, which at the end are withdrawn and stamped as failures. Since the failure-rate of extensions is very high, the need of new solutions is undoubtedly present.

The current research has presented a new type of product extension; an extension co-produced with a retailer. As of today, few such relationships exist. This opens up for manufacturers to use the first-mover advantage and gain benefit from close relationships with retailers. These relationships can create great advantages for the manufacturer's entire product line. One such important advantage is the competition with private labels. Since manufacturers are now increasingly competing against other manufacturers *and* private labels, it is important to find strategies that reduce the intensity of rivalry. If one decides to extend into a new attractive category where private labels has no presence, alliance with retailers will reduce the likelihood of that retailer extending into the same category with his own product. This advantage is important for managers to benefit from as private labels are growing and have done so for many years. The rest of the manufacturers product line might also benefit from an alliance with a retailer as the close relationship might make it easier to gain shelf space and financial support for in-store promotions.

This research complies with much of the previous research on fit. When extending, managers need to be aware that the likelihood of success decreases with stretch. The longer a brand stretches from its current categories (low fit), the more difficult it becomes for consumers to associate the product with the brand. It also becomes difficult to act as a trustworthy supplier of that product. However, this is not to say that low fit extensions are doomed to fail. Though not directly comparable, Nokia went from producing rubber to becoming one of the biggest

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mobile phone producers in the world. The point to be made is that a low fit extension *can* be successful. The likelihood of that happening is however much smaller than for a high fit extension.

Store image has proven to be an important factor to be aware of when choosing to extend. It plays a vital role in the success of an alliance extension with a retailer. When choosing to start an alliance with a retailer, the current research shows that the probability of creating positive consumer attitude towards the extension product is higher for a high-end store than for a low-end. It is therefore imperative than manufacturers are careful in choosing alliance partners. The image of the store should be one of several factors that are evaluated and used as decision criteria for choosing the best suited alliance partner.

A manufacturer may find it necessary to start an alliance with a low-end store. It could be that there is only one attractive retailer within a geographical area or that the terms offered are so beneficial that managers are willing to overlook the fact that it is a low-end store. Whatever the reason may be, communication can overcome the low-end image obstacle. The present research shows that presenting the product more than once will create positive attitude. I.e., managers must make sure that consumers are exposed to the ad at least three times in order to be more positive towards the extension product. The significant difference in attitude is in disfavor of very low-budget marketing campaigns that only allows for minimum possible frequency.

#### ***5.4 Theoretical Implications***

Much research has been dedicated to investigate brand extensions in the past resulting in important findings that guide subsequent research. Among these is the notion that consumers perceived fit is crucial to an extensions success (e.g Aaker and Keller, 1990; Völckner and Sattler, 2006). This paper confirms previous research underscoring that fit is important. Some recent research has also investigated new extension strategies and their effect on extension acceptance. However, since extensions co-produced with retailers are a relatively new phenomenon little research has been devoted to investigate such products and their projected success in the marketplace. This research therefore contributes to

the alliance field, but most importantly to the brand extension field. As an overwhelming amount of traditional brand extensions fail in the marketplace this research contributes with insight into how brand extensions co-produced with a retailer might be a beneficial alternative. The anticipated interaction between fit and extension strategy was not found. However, entering an alliance with a high-end retailer did not result in more unfavorable attitudes. This type of extension strategy could therefore become increasingly interesting in the future as retailers' images evolve and includes more product specific associations more helpful to a co-produced extension. As such, this research contributes with a framework for investigating such extensions.

Perhaps more interestingly, as study two showed, theories of perceptual and conceptual fluency can be applied to the extension literature to explain how poorly evaluated co-produced extensions can be increased by repeated exposure. Lane (2000) found that increased ad exposure could increase attitudes towards incongruent extensions, but used theories from elaboration likelihood model instead of theories of processing fluency to explain her findings. As such, this research shows that the same beneficial effects can be achieved without using advertisements as the manipulation context, and thus no need for elaboration needs to exist in order for the effects to occur. Instead by mechanisms of processing fluency low fitted extensions in alliance with low-end retailers can receive more favorable attitude ratings by increasing their exposure. This is a new found use of processing fluency that will hopefully encourage future researchers to implement processing fluency both as an explanation for consumers' perception of fit, and also for how repeated exposure can benefit an extension product co-produced with a retailer that has initially received poor attitude evaluations by consumers.



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# Appendix

## List of appendices

1. Mills awareness and preference numbers
2. Mills associations map
3. Manipulations study 1
4. Manipulations study 2
5. Questionnaire study 1
6. Questionnaire study 2
7. Preliminary Report



## Appendix 1: Mills awareness and preference numbers

Dybdekjennskap	2010	2011	2012
Top of Mind	58 %	53 %	60 %
Uhjulpen kjennskap	73 %	70 %	75 %
Hjulpen kjennskap (kjenner til*) *Mindshare	88 %	94 %	<b>95 %</b>
Total vurdering av merket (preferanse*) *Mindshare	41 %	65 %	<b>70 %</b>



### Appendix 3: Manipulations study 1

Our six manipulations for study 1 are presented in the following.

*High fit – solos strategy*



*High fit – high-end alliance strategy*



*High fit – low-end alliance strategy*



*Low fit – solo strategy*



*Low fit – high-end alliance strategy*



*Low fit – low-end strategy*



## Appendix 4: Manipulations study 2

In the following, manipulations of our four conditions for study 2 are presented.

*High fit – one exposure/first of three exposures, diagonal*



*High fit – second of three exposures, vertical*



*High fit – third of three exposures, horizontal*



*Low fit – one exposure / first of three exposures, diagonal*



*Low fit – second of three exposures, vertical*



*Low fit – third of three exposures, horizontal*





På en skala fra 1 til 7, der 1 tilsvarer negativt og 7 tilsvarer positivt. Hva er ditt inntrykk av...

	1: Negativt	2	3	4	5	6	7: Godt
Rimi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Rema 1000	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Kavli	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Toro	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mills	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tine	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stabburet	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bunnpris	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meny	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

På en skala fra 1 til 7, der 1 tilsvarer ugunstig og 7 tilsvarer gunstig. Hva er ditt inntrykk av...

	1: Ugunstig	2	3	4	5	6	7: Gunstig
Rimi	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Rema 1000	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Kavli	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Toro	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mills	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tine	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Stabburet	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bunnpris	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meny	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Nytt produkt!

Mills ønsker å dra nytte av sitt etablerte merkenavn til å gå inn i en ny produktkategori. For å stille bedre rustet i det tøffe dagligvaremarkedet har de valgt å ta med seg dagligvarekjeden Meny som samarbeidspartner for å produsere et nytt produkt. Dette produktet skal kun selges i Meny sine butikker.

Mills er i den forbindelse svært opptatt av forbrukernes oppfatninger av det nye produktet. På neste side vil produktet bli presentert. Ta en titt på det, og gjør deg opp noen tanker om Mills sin nysatsning. Videre vil du bli bedt om å besvare en del spørsmål angående dine umiddelbare reaksjoner og holdninger vedrørende det nye produktet.





**Hvor stor sannsynlighet er det for at du vil kjøpe produktet når det kommer på markedet til en konkurransedyktig pris?**

- |                       |                       |                       |                       |                       |                       |                       |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 1: Svært usannsynlig  | 2                     | 3                     | 4                     | 5                     | 6                     | 7: Svært sannsynlig   |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
- 

**Vennligst skriv i tekstboksen nedenfor det som gikk gjennom hodet ditt da du vurderte produktet på forrige side.**

---

**Hva er ditt inntrykk av Mills?**

- |                       |                       |                       |                       |                       |                       |                       |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 1: Dårlig             | 2                     | 3                     | 4                     | 5                     | 6                     | 7: Godt               |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

- |                       |                       |                       |                       |                       |                       |                       |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 1: Negativt           | 2                     | 3                     | 4                     | 5                     | 6                     | 7: Positivt           |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

- |                       |                       |                       |                       |                       |                       |                       |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 1: Ugunstig           | 2                     | 3                     | 4                     | 5                     | 6                     | 7: Gunstig            |
| <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
- 

**Hvor ofte kjøper du produkter fra Mills?**

- 3 eller flere ganger per uke
  - 1-2 ganger per uke
  - 1-2 ganger per måned
  - Sjeldnere
  - Aldri
-



### Hvor enig er du i utsagnene...

	1: Svært uenig	2	3	4	5	6	7: Svært enig
Meny har et bredt utvalg av varer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meny-butikkene har en utforming og et design preget av høy kvalitet	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Meny har produkter av høy kvalitet	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

---

Helt til slutt vil vi gjerne stille noen kjappe spørsmål om deg.

#### Alder

#### Kjønn

- Kvinne
- Mann

#### Høyeste fullførte utdanning

- Høyere utdanning 6 år eller lenger
  - Høyere utdanning 4-5 år
  - Høyere utdanning 1-3 år
  - Videregående skole
  - Grunnskole
- 

Har du noen kommentarer til undersøkelsen?





---

**Hvordan tror du den totale kvaliteten til Mills-Bunnpris skinkeost vil være?**

1: Svært lav      2      3      4      5      6      7: Svært høy  
                                   

**Hvor enig er du i utsagnet: Mills-Bunnpris skinkeost vil være blant topp tre produkter i tubeost kategorien når den blir lansert?**

1: Svært uenig      2      3      4      5      6      7: Svært enig  
                                   

**Hvordan tror du den totale kvaliteten til Mills-Bunnpris skinkeost vil være i forhold til konkurrerende produkter i tubeost kategorien?**

1: Under gjennomsnittet      2      3      4      5      6      7: Over gjennomsnittet  
                                   

**Hvor stor sannsynlighet er det for at du vil kjøpe produktet når det kommer på markedet til en konkurransedyktig pris?**

1: Svært usannsynlig      2      3      4      5      6      7: Svært sannsynlig  
                                   

---

**Vennligst skriv i tekstboksen nedenfor det som gikk gjennom hodet ditt da du vurderte produktorienteringen på forrige side.**





---

Helt til slutt vil vi gjerne stille noen kjappe spørsmål om deg. Husk å fylle inn det siste spørsmålet på denne siden med mailadressen din dersom du vil delta i trekningen av et gavekort på 500 NOK.

**Alder**

**Kjønn**

- Kvinne
- Mann

**Høyeste fullførte utdanning**

- Høyere utdanning 6 år eller lenger
- Høyere utdanning 4-5 år
- Høyere utdanning 1-3 år
- Videregående skole
- Grunnskole

For å kunne delta i trekningen om å vinne et gavekort på 500 NOK trenger vi en måte å kontakte vinneren på, og ber deg derfor om å fylle ut mailadressen din under.

Etter undersøkelsen er avsluttet vil vi trekke ut en heldig vinner som blir kontaktet via mail for å kunne sende gavekortet hjem i posten. Lykke til!

---

**Har du noen kommentarer til undersøkelsen?**

**Appendix 7: Preliminary Thesis Report**

BI Norwegian Business School – Preliminary  
Thesis Report

Private Label Meets National Brand:  
Who Should Communicate?

Hand-in date:  
15.01.2012

Campus:  
BI Oslo

Examination code and name:  
GRA 1902 Master Thesis

Programme:  
Master of Science in Strategic Marketing Management

Supervisor:  
Bendik Meling Samuelsen

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## 1 – Introduction

An important reason why the Norwegian grocery retail industry is characterized by intense competition is due to the growing share of private labels. Nielsen (2010) estimates that the share of private labels increased by 20.1% in 2009, which equals a market share of 11.1%. The growing importance of private labels is also apparent in the prediction that such products will account for 35% of the total market share by 2020 (Evensen 2010). This makes the field of private labels highly interesting both for retailers and brand managers.

The presented figures show an interesting trend; consumers are starting to appreciate the economical gains private labels offer relative to many national brands. It also shows that retailers are now more eager to introduce private label versions of national brands in almost all product categories in the retail grocery industry. Aliwadi, Pauwels and Steenkamp (2008) present three reasons for retailers' desire to invest in private labels: Higher retail margins, negotiation leverage with national brands, and higher consumer store loyalty. The focus of this article is on the second topic, competition between national brands and private labels.

With the oligopoly in the grocery industry in Norway where few merchandisers have a large control of the prices and distribution, manufacturers feel pressured to adhere to the "laws of the retailer". The increased share of private labels adds to this power struggle in favor of retailers. Therefore, several manufacturers are becoming increasingly aware of the eminent threat private labels constitute. Realizing that the increased competition puts pressure on margins and market share, manufacturers are now in need of new strategies that deal with this challenge. Some academics argue that manufacturers need to stop viewing private labels as a threat, and more as a business opportunity (Lincoln and Thomassen 2009). Consequentially, this report argues that collaboration between manufacturers and retailers will in many cases prove to be more profitable than intense competition between the parties. This will enable them to gain benefits that would otherwise be difficult to obtain individually. Such cooperation entails that the manufacturer and the retailer enters an alliance regarding the development, marketing and sales of a private label product. The narrow focus of this report only includes issues pertaining the marketing of a private label alliance.

Interesting questions that need to be answered in order to successfully market the alliance are: is it the retailer or the manufacturer that should be most prominent in marketing materials? Will store image have an effect on the success? How will this affect quality perceptions of the product?

This study's purpose is to advance previous research on private labels by analyzing how national brands can be used as co-partners in the production, marketing and sales of a product. To our knowledge, few researchers have investigated the emerging field where brand alliance meets private labels. Specifically, no one has examined how store image moderates the effect of brand prominence on quality perceptions. Consequently, this gap in the literature defines the purpose of this study. The objective of the study is to gain insight into Norwegian consumers' attitudes toward private labels that result from a brand alliance between a manufacturer and a retailer, and how these attitudes are affected depending on brand prominence and store image. Thus, the following research question is defined:

*How will store image moderate the effect of brand prominence on quality perception of a private label produced and marketed by a manufacturer-retailer alliance?*

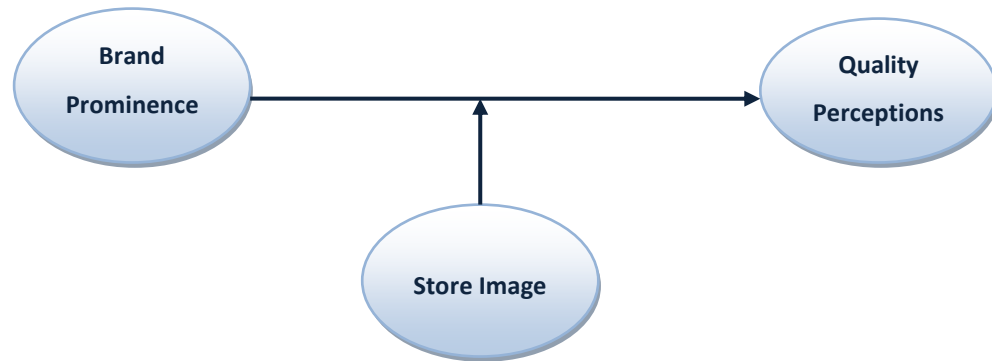
This study is organized as follows: First we provide the theoretical background on private labels, brand alliance, brand prominence and store image, which includes the developed hypotheses. A description of the methodology follows, encompassing participants, procedures, priming and measurement. The thesis progression plan is part the methodology. A discussion of the expected results and managerial implications are then discussed before limitations and directions for future research are presented.

## **2 – Theoretical Background**

Alliances between manufacturers and retailers that intend to co-create a new product have, to our knowledge, not been studied by other researchers. Even though private label is a field of growing interest, no research has been conducted on the moderating effect of store image on the relationship between brand prominence and quality perception. It is important to understand which factors

influence consumers' perceptions of quality, as perceived quality is one of the key variables determining the success of a corporation (Peters and Waterman 1982). In the following, previous research concerning our conceptual model (figure 1) will be discussed. This forms the basis for our hypotheses.

*Figure 1: Conceptual Model*



### **2.1 – Private Labels**

“Store brands”, “private brands”, and “retailer brands” are all synonyms to the term private labels, defined by The Private Label Manufacturer Association (2011) as: “all merchandize sold under a retailer’s brand. That brand can be the retailer’s own name or a name created exclusively by that retailer. In some cases, a retailer may belong to a wholesale group that owns the brands that are available only to the members of the group”. Although private labels are not present in all product categories, they have existed for a long time and extensive research has been conducted to understand their impact (e.g., Pandya and Joshi 2011; Lincoln and Thomassen 2009; Burton et al. 1998).

Private labels are often subjected to more scrutiny in terms of their quality, especially since they have traditionally been economically beneficial alternatives to national brands tailored to the price-consciousness consumer (Burger and Schott 1972; Rothe and Lamont 1973). When consumers often use price as a proxy for quality it is inherent that private labels run the risk of inhabiting a lower quality perception in the eyes of the consumer, particularly those seeking high quality products (Ailawadi, Neslin and Gedenk 2001). This is however subjective as consumers’ quality perceptions are individual judgments of the objective quality, and will therefore differ from consumer to consumer (Yang and Wang 2010).

---

Although retailers can invest in improving and building a stronger brand image to foster greater quality perceptions, increased investments in marketing will inhibit the retailer from offering the product at the low price that private labels are known for. Another remedy could therefore be to develop a brand alliance with a national brand to benefit from spill-over effects that will increase quality perceptions without the high financial risks of a large marketing budget.

In the world of brand proliferation, private labels today are more than just economically beneficial substitutes to national brands. Premium private labels are being introduced, and they compete on both value and quality (Nielsen 2010). However, this is still limited in scope and based on existing research this paper will hold true to the assumption that most consumers will still associate lower quality with private labels than national brands.

## ***2.2 – Brand Alliances***

Brand alliances have for several years been used by companies as a consumer brand marketing strategy. Examples of brand alliances are Apple and Nike, Samsung and Armani, Sony and Kodak, and IBM and Intel. The reason why alliances are formed is because it is expected that the relationship will enhance some aspects of performance, such as access to new distribution channels, access to new segments, brand equity improvement by spillover-effects, knowledge-sharing, risk-reduction, network development, and improved competitiveness (Heide and Stump, 1995).

Researchers and brand managers use several terms to discuss a brand marketing cooperation between two (or more) companies; co-branding, joint branding, brand alliances. Simonin and Ruth (1998: 30) define brand alliance as “short- or long-term association or combination of two or more individual brands, products, and/or other distinctive proprietary assets”. Even though private labels often are called “no-brand products”, the aforementioned definition justifies the use of brand alliance as a concept that encompasses cooperation between private labels and national brands since it discusses the relationship between “two brands” (e.g. a national brand and a private label).



---

Vaidyanathan and Aggarwal 2000 argue that since private labels are assumed by consumers to have lower brand equity than national brands, there is a risk of brand dilution. This is especially the case when there is a big dispersion between the brands. However, the authors continue to argue that since private labels are becoming more attractive as alternatives to national brands, an alliance between the two will boost future growth and may prove to be a competitive advantage that competitor will not be able to copy. The ability to create resources that are difficult to imitate is key in sustaining competitive advantage (Peteraf 1993). Furthermore, there is also evidence suggesting that for ingredient branding, a national brand can benefit from being associated with private labels (Vaidyanathan and Aggarwal 2000). It will therefore be interesting to examine whether a private label – national brand alliance also could positively influence consumers' quality perceptions.

### ***2.3 – Effect of Brand Prominence on Quality Perceptions***

Markings signifying ownership or producer origin has existed for centuries, for instance when ranchers in the Wild West branded their cattle with a mark of their ranch to keep track of their stock. Today, refined logos are placed on various items to signal a brand and its image. Brands following different branding strategies will have a varied visibility of their brand. For instance, it was found that luxury brands charge more for products that display the brand less prominently – e.g. Bottega Veneta with their no-brand strategy to create a highly exclusive circle of “those in the know” (Han, Nunes and Dreze 2010). This degree of visibility and eminence of a brand is a recently developed construct, and defined, to our knowledge, only by Han, Nunes and Dreze (2010); “The extent to which a product has visible markings that help ensure observers recognize the brand”.

Since the construct is a relatively new concept, literature is scarce. To our knowledge, there exists no research investigating the effect brand prominence has on perceived quality. Neither have we found research connecting this construct to private labels alone, or in the context of a private label – national brand alliance. Nonetheless, the construct of brand prominence is important for brand managers. According to Aaker (1992) perceived quality provides value by differentiating the brand, giving reasons to buy, supporting price premiums, or forming basis for

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extensions. Visible markings of a brand enables these effects brand equity has on perceived quality, and different brand strategies will decide how prominent the brand should be presented, which in turn will result in different quality perceptions.

For brands following the same exclusive strategy such as the luxury Bottega Veneta hand bags, the less prominent the marking, the more exclusive and favorable quality perceptions associated. In contrast, for fast-moving consumer goods the opposite is often true. In the grocery industry a no-brand strategy is often pursued by private label brands, which in most cases signals lower quality perceptions compared to national brands.

In relation to a proposed private label and national brand alliance, we therefore argue that a more favorable quality perception will be produced from an ad where a national brand is more prominent than a private label brand. The reason is apparent in how consumers have been found to evaluate private labels as of lesser quality than national brands (e.g., Richardson et al. 1996). Disregarding the few premium private labels that are emerging in the market, a national brand in the grocery setting will in most cases evoke higher quality perceptions compared to a private label.

*H1: Prominence of national brand in an advertisement will generate more favorable quality perceptions of the new product than prominence of private label.*

#### ***2.4 – Effect of Store Image on Quality Perceptions***

The quality, style and texture of national brands are similar across different retail stores within a particular geographical area (Reda 2002). Customers have therefore many choices in terms of which department store to shop in. In this competitive environment, it becomes important for managers of retailers to use a differentiation strategy. One such strategy is to improve store image in order to enhance quality perception.

Extensive literature exists on store image as a research field. It is defined by Mazursky and Jacoby (1986: 147) as: “a cognition and/or affect (or a set of

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cognitions and/or affects), which is (are) inferred, either from a set of ongoing perceptions and/or memory inputs attaching to a phenomenon (i.e., either an object or event such as a store, a product, a 'sale,' etc.), and which represent(s) what that phenomenon signifies to an individual". The reason why store image is important in this context is due to its role as a source of cues that can affect evaluations of quality perception (Gardner and Siomkos 1985; Olson 1977; Zeithaml 1988). More specifically, Wheatley and Chiu (1977) found that a store which is perceived as prestigious will often transfer quality associations to the products it keeps. Since consumers rarely use a comprehensive evaluation process when buying groceries, the image of a store helps customers in judging the quality of products. Other authors have found a two-way relationship of image transfer between store image and product quality (e.g., Hildebrandt 1988; Mazursky and Jacoby 1986). Hence, products of high quality may improve the image of a store, while it may at the same time also be that stores of high-end image transfer positive quality associations to the products it keeps.

A store with low-end image (e.g. stores with bright lighting, messy organization of products and few service people (Baker, Grewal and Parasuraman 1994)) will not be effective in transferring quality associations to the products it keeps compared to a store with high-end image (e.g. stores with low-level lighting, muted but fashionable colors and thick carpeting (Baker, Grewal and Parasuraman 1994)). It is argued that store image will influence how consumers perceive the quality of a product formed by an alliance between a private label and a national brand.

*H2: High-end store image in an advertisement will generate more favorable quality perceptions of the new product than low-end store image.*

### ***2.5 – Interaction of Brand Prominence and Store image on Quality Perceptions***

Based on the argumentation supporting hypothesis one and two, we also argue that there will be an interaction effect between brand prominence and store image. More specifically, it is argued that store image will moderate the effect brand prominence has on perceived quality. The reasoning behind is that store image represents the brand of the retailer and brand prominence the brand of the manufacturer, hence mixing both brands in an alliance product will result in

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evoking associations to both brands simultaneously. Depending on the prominence level of the manufacturer brand and the level of store image, there will be different results on consumers' quality perceptions of the new product. For instance, in a high-end store image condition the prominence of a national brand will produce more favorable quality perceptions than a private label prominence. Contrary, in a low-end store image condition, even though a national brand evokes higher quality associations than a private label brand, the retailer brand might have lower quality associations so that it moderates the effect of the national brands more favorable quality perceptions.

However, it is expected that the prominence of the national brand will still produce more favorable results in both high-end and low-end conditions, but that the favorable results will be moderated slightly in a low-end condition.

*H3: There will be a two-way interaction between level of brand prominence and type of store image in an advertisement. More specifically, in high-end store image conditions, national brand prominence will produce more favorable quality perceptions of the new product than will private label prominence. In low-end store image conditions, there will only be minor differences in quality perceptions across levels.*

### **3 - Methodology**

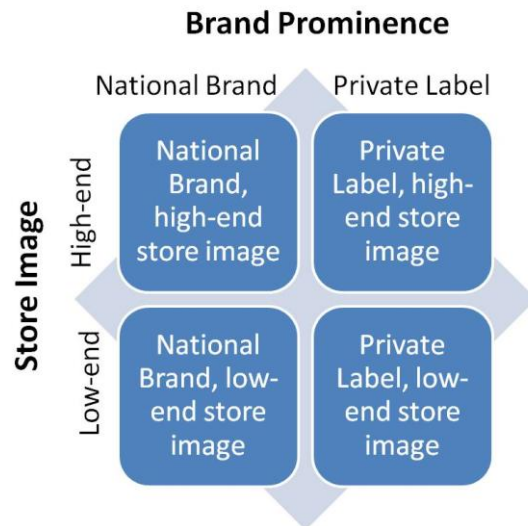
#### ***3.1 - Experimental Design***

The purpose of this study is to test the claims that in an advertisement promoting an alliance between national brand and private label, (H1) the prominence of a national brand will generate more favorable quality perceptions than the prominence of a private label, and that (H2) high-end store image will generate more favorable quality perceptions than low-end store image. Moreover, it is expected that (H3) store image will moderate the effect brand prominence has on quality perceptions.

A 2 (Brand Prominence: private label versus national brand)  $\times$  2 (Store Image: high-end versus low-end) between-subjects factorial design will be used. Below is a matrix depicting the different conditions in the experiment. An orthogonal

experimental design will be followed to develop an equal number of cases in each cell (Malhotra 2010).

**Figure 2 - Matrix of conditions**



To investigate the effect brand prominence and store image has on perceived quality perceptions of a new alliance product, several contexts could have been used (e.g. commercials, packaging design etc). In this study newspaper advertisements are chosen as the context, as it is a familiar means of communication that consumers form perceptions from. The alliance will have to market their new product to consumers, and due to limited marketing funds it is important to understand how brand prominence and store image affects perceived quality of the new product, in order to communicate effectively. Newspaper ads are also less costly than TV commercials. Each condition will be represented by an advertisement testing the different hypotheses.

Chocolate has been selected as the object to test the dependent variable perceived quality. It is a fast-moving-consumer-goods common for both high-end and low-end image retailers, as well as it is a product category most consumers are familiar with.

### **3.2 - Participants**

To satisfy the often used rule of thumb of 30 respondents per condition and account for a 75% acceptance rate, 150 undergraduate students will be invited to participate in the experiment. As an incentive to participate, the students will be

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given 200 NOK each for 50 minutes participation, as well as being entered in a raffle after the experiment to win an iPad. Undergraduate students are preferred over graduate students as they tend to have less thorough knowledge about marketing research methodology and marketing concepts thereby limiting response bias resulting from applying this knowledge. Student samples are criticized for their lack of generalizability; however, due to time constraints and limited funds they represent a convenient sample.

Further, in recruiting the respondents a qualifying criterion will be used to make sure only Norwegian students participate. This is to ensure that respondents have the minimum amount of knowledge required about the brands used in the experiment.

### ***3.3 - Procedures***

Upon arrival students will be randomly distributed to four classrooms representing the four conditions. They will first be given a brief that the study is about chocolate consumption, before receiving a booklet with the manipulations, stimuli and measures. When opening the booklet, questions about their chocolate consumption behavior (e.g., occasion, place and purchase amount) will be requested to answer. This will serve as a primer activating the respondents' memory about the object of this study (Samuelson & Olsen 2010).

Next in the booklet the respondents will be briefed in text about the place of purchase of the product (moderator), which will be grocery retailers in Norway. Depending on which condition the respondents belong to it will be either Meny or Bunnpris. Meny is chosen as the high-end image store as it is a premium retail chain often known for a wide variety of assortment and quality products. Bunnpris is selected as the low-end image store, as it is a convenience retail chain often associated with low prices and lower variety assortment. Since these retailers are well known in Norway it is assumed that participant will easily recognize their different store image.

Then, depending on the treatment, respondents will be exposed to an ad with brand prominence either by Nidar or First Price. Nidar is a leading chocolate manufacturer selected to represent the national brand level, whilst First Price is a

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leading private label in Norway produced by NorgesGruppen selected to represent the private label level. In the experiment, brand prominence is manipulated by the logo of the prominent brand and number of times the brand name is stated in the ad text.

Subsequently, the students will be asked to rate the perceived quality of the chocolate, as well as indicate how much they are willing to pay. Finally, questions pertaining to demographic variables will be asked.

### ***3.4 - Manipulations and Measurement***

#### *3.4.1 - Independent variables*

To reflect both brand prominence and store image four ads will be developed, one for each condition. In the first condition the prominence of, inspired by Han, Joseph and Dreze (2010), the two factors logo and number of times the prominent brand is cited in the ad text will be manipulated to reflect prominence of either the national brand (Nidar) or the private label (First Price). The text in the ad that introduces the chocolate will cite the prominent brand 4 times, while the non-prominent brand will only be cited once. To further distinguish between the levels of prominence, a logo of the prominent brand will be placed on the right bottom corner. The non-prominent brand logo will not be displayed. To keep the ads equal in all aspects, besides aforementioned brand prominence factors, pictorial background, font type and size, and amount of information were thus controlled for. We will also use the same brand attributes and claims in both ads.

After the respondents have viewed the ad, a page showing the description of the store will be present. In order to manipulate store-image, respondents must be given information regarding image. Store descriptions pertaining to price, product quality, assortment, spaciousness, and number of service people will be provided.

#### *3.4.2 - Dependent variable*

Quality perception will be measured with two seven-point semantic differential scales with instructions and scale anchors, such as: “To what extent do you find the chocolate in the ad.....bad/good, negative/positive, unfavorable/favorable ” (see, e.g., Meyers-Levy and Tybout 1997). Another three measurements will be

used in order to measure quality perceptions. “To what extent do you agree with the following statements.....strongly disagree (1) /strongly agree (7)” (see, e.g., Dodds, Monroe and Grewal 1991; Yoo, Donthu and Lee 2000) (Appendix 3)

### ***3.5 - Pre-test***

A pre-test will be conducted in order to determine whether Bunnpris and Meny truly possess a low-end/high-end store image. New stores will be tested if this is not the case. The test will be performed by using a survey, where a convenience sample will be employed. Pretests will also be conducted to ensure that the ads and the prominence of the brands in the two ads are equally perceived by the participants.

### ***3.6 - Progress plan***

<b>Action</b>	<b>Deadline</b>
Hand in preliminary thesis report	15.01.12
Choice of product category, private label and national brand	01.02.12
Experiment preparation and pre-test	February
Data collection	February
Improving model and further data collection	March
Literature review	March, April
Data analysis	April, May
Conclusion	June
End version	01.09.12

## **4 - Discussion**

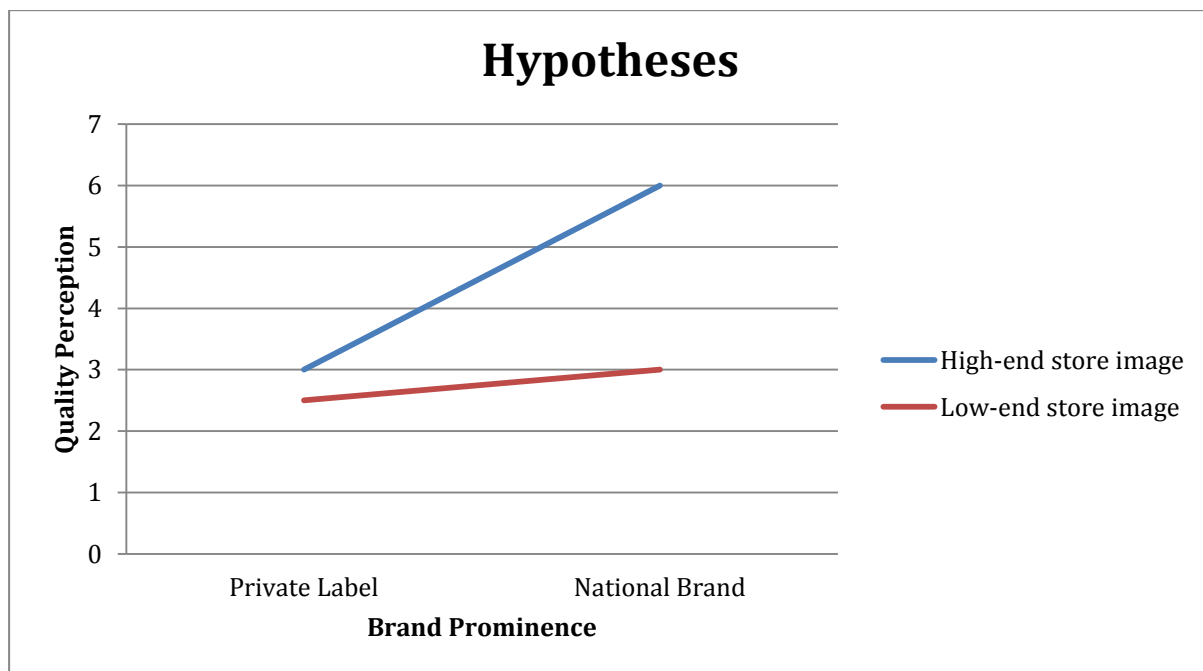
A 2 (Brand Prominence) X 2 (Store Image) between-subjects ANOVA on the quality perception will be used to test our hypotheses. For the main effects, we predict that the subjects will generate more favorable quality perceptions when the national brand is more prominent. The same effect on quality perceptions can also be expected when the store has a high-end image.



Moreover, we expect the interaction results of the study to show that the choice of brand prominence will make a substantial difference in influencing quality perception of the new product, especially under high-end image condition.

Participants in the high-end store image condition will respond more favorably to national brand prominence than to private label prominence, whereas participants in the low-end store image condition will be indifferent to brand prominence. As hypothesized, support for brand prominence by involvement interaction on quality perception will be obtained. According to the hypotheses statements and estimated projection of the interaction between the independent variables (figure 3), we expect an ordinal interaction effect. In the high-end store image condition, the figure illustrates the big difference in quality perceptions between national brand and private label. It also shows that under low-end store image conditions, small quality perception differences exist.

*Figure 3 – Estimated Interaction Plot*



As the ads were similar in all aspects except the framing of brand prominence, there is no obvious reason why one brand prominence level should be better in producing positive quality perceptions than the other. This indicates that the quality image associated with many national brands will be transferred to the new alliance product. Lastly, though not part of the hypotheses, we expect the relative importance (omega squared,  $\omega^2$ ) of brand prominence to be higher than store image.

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## **5 - Managerial Implications**

The competition in the Norwegian grocery market, which includes the fight between national brands over shelf-space and the fight between national brands and private labels, has for many years been fierce. As previously explained, private labels are growing their market-share, which results in increased competition in the market. Managers of both retailers and manufacturers need to find new innovative solutions to stay tune with the competition. An alliance between a national brand and a private label can be such a solution.

This study will explore how managers of both retailers and manufacturers can take advantage of an alliance. Managers will gain a deeper understanding of how store image moderates the effect of brand prominence on quality perceptions. By providing knowledge of whether the alliance should be presented in a high-end and/or low-end store, and whether the national brand or the private label should be most prominent, managers can determine where the product will have the highest probability of success. More specifically, the results will show that if the new product is sold at the high-end grocery retailer, managers should highlight the national brand. During negotiations between the manufacturer and the retailer, this knowledge will make it easier to agree upon the rational choice of promoting the national brand more prominently than the private label if the product is sold in a store with high-end image.

## **6 - Limitations and Future Research**

In discussing the limitations of this study, the question of generalizability becomes an important issue. The study was conducted in Norway, using Norwegian subjects, two Norwegian brands and two Norwegian stores. It is also believed that Norwegian consumers are somewhat more loyal to national brands than other consumers. One can therefore argue that the results are only applicable in Norway or in countries with similar buying patterns. Researchers should therefore conduct the experiments in other countries with different cultures and buying pattern, thus improving the generalizability of this study.

To only use chocolate as the product category to test the hypotheses is another limitation of this study. However, as the field of manufacturer-retailer alliance is fairly new, the goal of this study is to provide future researchers with the tools

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they can use to further enlighten this emerging field of research. It is therefore not necessary with a large experiment encompassing several product categories. Also, the use of only one manufacturer, retailer and private label represents another limitation, which should be improved in future studies. Lastly, other factors than store image can affect the relationship between brand prominence and quality perception. It is therefore wise to examine whether variables such as level of involvement, level of risk, prior experience with manufacturer or retailer, and type of benefit, i.e. functional, experiential, and symbolic can better explain the relationship.

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