

# **Factors influencing successful brand extensions**

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# **Factors influencing succesful brand extensions**

## **Abstract**

Organisations frequently follow brand extension strategies. This paper investigates the impact of category similarity, brand reputation, perceived risk and consumer innovativeness on the success of brand extensions in FMCG, durable goods and services sectors. A set of hypotheses were developed and tested in a study amongst 701 consumers. The findings show that extensions into categories more similar to the original brand tend to be more readily accepted. Likewise, the reputation of the original brand is an important factor influencing the success of the extension. These findings are consistent across FMCG, durable goods and services brands. However, perceived risk about the extension category was only found to enhance acceptability of extensions for durable goods and services brands. Innovative consumers are more positively disposed towards service brand extensions than FMCG and durable goods brand extentsions.

*Key words:* brand extensions, similarity, reputation, perceived risk, innovativeness

## **Introduction**

Launching new products can be an attractive growth strategy, however this is not without risks. Some estimate that 30-35% of all new products fail (Montoya-Weiss and Calantone 1994; Booz, Allen, and Hamilton 1982) while others (e.g. Crawford 1977) are even more pessimistic, citing that only two out of ten new launches succeed. Due to factors such as high advertising costs and the increasing competition for shelf space, it has become more difficult to succeed with new products (Aaker 1991; 1996). An increasingly popular approach to reducing risk when launching new products is to follow a brand extension strategy. This is followed in as many as eight out of ten new product launches (Ourusoff, Ozanian, Brown, and Starr 1992).

Managers assume they can exploit the equity of a well known brand when entering new markets, capitalising on recognition, goodwill, and any positive associations. Case studies abound of successful brand extensions. For example, Bic, with its ballpoint pen origin, successfully extended into disposable lighters and razors; Caterpillar, successfully extended from heavy machinery into shoes, clothing and handbags. However, caution needs exercising. For example Bic's extension into perfume was unsuccessful as it moved too far from its core values (Keller 2000).

Given the importance of brand extensions, a better understanding of this topic is needed. Researchers have predominantly investigated brand extensions amongst tangible goods, as we show later in table 1. By contrast few have investigated the service sectors (Ruyter and Wetzels 2000; van Riel, Lemmink, and Ouwersloot 2000), a surprising finding given the significant economic importance of services (Berry 1999). Notable brand extension activity has taken place in services, for example, Virgin moving into radio stations, airline, financial services, and bridal services (Keller 1998). Likewise the Disney company, which in the 1950s

signified world-class animation, has extended into services such as television, publishing, software, Internet portals, theme parks, hotels and cruises, (Court, Leiter, and Loch 1999).

Many brand extension studies have used laboratory experiments with students and fictitious brands (see table 1). The external validity of these studies has been questioned and criticisms levelled against generalisability (Lynch 1999; Winer 1999; Klink and Smith 2001). The methodology used is a further reason for the conflicting finding between studies (Smith and Park 1992; Docin and Smith 1994). We sought to more closely replicate market behaviour and focused on consumers, using existing brands.

By understanding some of the variables that influence consumers' perceptions about the acceptability of brand extensions, marketers should be better able to develop more effective strategies. Researchers (e.g. Aaker and Keller 1991) have argued that greater similarity between the parent and extension category should encourage successful brand extensions, yet Smith and Park's (1992) findings did not support this. When presented with unfamiliar brands, the reputation of the parent brand is a helpful evaluative cue (Wernerfelt 1988) and as it is important to appreciate how this influences brand extension perceptions, we investigated this variable. Purchasing new categories provokes greater perceived risk amongst consumers, yet reliance on known brand names is a favoured way of reducing perceived risk (Derbaix 1983). We therefore investigated the impact that perceived risk of different categories has on brand extensions. Finally we sought to understand how the personality variable, innovativeness, influenced consumers' views about brand extensions.

The purpose of this paper is therefore twofold. First, to empirically test whether there are differences in consumers' evaluations between brand extensions in (a) FMCG (Fast Moving Consumer Goods), (b) durable goods, and (c) services sectors. Second to investigate how the antecedents of similarity, reputation, perceived risk and innovativeness influence consumers' evaluations of brand extensions.

This paper opens with a short review of the brand extension literature. We then consider how similarity, reputation, perceived risk and consumer innovativeness may affect the acceptability of brand extensions. Thereafter we report the research methodology used to test the hypotheses about these four variables. Finally, we present the findings and discuss their implications.

## **Brand Extension Literature**

Ever since the first article on brand extension (Boush, et al. 1987) researchers have investigated several antecedents and consequences. In Table 1, we illustrate the focus of, and limitations of, existing work.

SEE TABLE 1

This table does not claim to be a comprehensive overview of all possible brand extension research. The studies are included because they are published in major scholarly journals and thereby have influenced this field of research. They are also selected because of their relevance to the present study.

When investigating the 20 studies the following conclusions can be drawn. (1) Only one study addressed the importance of brand extensions in the services sector (Ruyter and Wetzels 2000). While Aaker and Keller (1990) included McDonald's as a service brand, they did not make any analytical distinctions between FMCG and services. (2) Only one study compared brand extension judgements between FMCG and durable goods (Broniarczyk and Alba 1994). Interestingly this showed equivalent effects of brand specific associations across the two sectors. (3) As many as nine studies used fictitious brands. Among these is the services study of Ruyter and Wetzels (2000). (4) The majority are laboratory experiments and

only two use a survey design. (5) Only five studies were undertaken with consumers, the rest were with students. These observations reinforce the need for an evaluation of brand extensions across FMCG, durable goods, and services that should be valid, reliable and generalizable.

## **Research Hypotheses**

In this section we focus on the acceptance of brand extensions for FMCG, durable goods, and services. Specifically, we focus on perceived similarity, reputation, perceived risk and innovativeness as factors influencing the acceptability of brand extensions.

### **(1) Similarity**

Referent product–extension product similarity (hereafter referred as similarity) is the degree to which consumers perceive the extensions as similar to other products affiliated with the brand (Smith and Park 1992). From table 1 it is evident that the most frequently considered antecedent of brand extensions is the level of perceived similarity between the original and extended brand. Several studies reported that the greater the similarity between the original and extended category, the greater the transfer of positive (or negative) affect to the extended brand (cf. Boush, et al. 1987; Aaker and Keller 1990; Park, et al. 1991; Boush and Loken 1991; Dacin and Smith 1994; Herr, et al. 1996; Keller and Sood 2001/2). This finding is based on the assumption that consumers will develop more favourable attitudes towards extensions if they perceive high congruence between the extension and the original brand (see Boush, et al. 1987 for theoretical discussion). However, all these studies were amongst student samples and in the only non-student sample, Smith and Park (1992) did not find a positive relationship. They provided no exploration for their finding and encouraged others to investigate this.

Research into category similarity and brand extension has not been undertaken in services categories. Typically researchers have focused on FMCG product sectors such as beer, shampoo, soap, etc, or investigated durable goods, such as wristwatches, computers, TV and HDTV (see table 1). We anticipated that the findings about brand extensions from the FMCG and durable goods sectors would be similar for services brands. We could not find any theoretical reason as to why FMCG, durable goods, and services should differ when it comes to the impact that perceived similarity has on brand extension evaluations. Therefore, we posit:

**H<sub>1</sub>: Extensions into categories perceived as more similar to the category of the parent brand are more likely to be accepted compared to extensions into less similar product categories. This should be true for brands in FMCG, durable goods, and services sectors**

## **(2) Reputation**

A basic premise underlying the use of brand extensions is that stronger brands provide greater leverage for extensions than weaker brands (e.g., Aaker and Keller 1992; Smith and Park 1992). As can be seen in the widely noted definition of brand equity, brand strength has been articulated implicitly in terms of consumers' predispositions towards the brand (Keller 1993).

In the context of brand extension research, brand reputation has been defined in terms of consumer perceptions of quality associated with a brand (Aaker and Keller 1990; Barone, et al. 2000, p. 390). It has been reported that high perceived quality brands can be extended further and receive higher evaluations than low perceived quality brands (cf. Aaker and Keller 1990; Keller and Aaker 1992; Sunde and Brodie 1993; Dacin and Smith 1994; Bottomley and Doyle 1996). Reputation of a brand in these studies is considered as the outcome of product quality, the firm's marketing activities and acceptance in the market place, i.e. more akin to the views of Fombrun and van Riel (1997).

Brands with higher perceived reputation should provide consumers with greater risk relief and so encourage more positive evaluations than brands of lower reputation. This notion should be true for FMCG, durable goods, and particularly for services. When a new brand is launched in the services sector, consumers have neither experience, nor concrete attributes, to judge its quality. Consequently, consumers rely heavily on cues such as brand reputation (Wernerfelt 1988; Zeitham, Berry, and Parasuraman 1996). Conversely, with goods, consumers can obtain useful information about quality through visual inspection and thus the importance of inferences based on brand reputation may be reduced. These observations suggest that the evaluations of brand extensions could be even higher for brands extending in services than for goods. Therefore, we postulate:

**H<sub>2</sub>: The higher the perceived reputations of the parent brand, the more favourable should be evaluations of the brand extensions. This should be true for brands in FMCG, durable goods, and particularly in the services sectors**

### **(3) Perceived risk**

Perceived risk is a multi-dimensional construct (e.g., Gemünden 1985; Roselius 1971) which implies that consumers experience pre-purchase uncertainty regarding the type and degree of expected loss resulting from the purchase and use of a product (Bauer 1960; Cox 1967). Perceived risk is usually conceptualised as a two-dimensional construct (e.g., Bauer 1960; Derbaix 1983; Gronhaug and Stone 1995; Mitchell 1999) i.e.:

- (a) uncertainty about the consequences of making a mistake;
- (b) uncertainty about the outcome.

The literature shows that a recognised brand is often relied upon by consumers as a mean of coping with perceived risk (Cox 1967; Roselius 1971; Rao and Monroe 1989). A brand which is extended into a new product category offers a new alternative to consumers, but also

impacts on consumers' perceptions of risk. We believe, based on the literature, that a well-known brand is a risk reliever and enhances the likelihood of product trial. Berlyne (1970) argued that novel stimuli (cf brand) tend to be highly arousing and trigger aversive reactions. As a person gains familiarity with a brand through repeated exposure, perceived risk tends to decline and positive affect tends to increase (Baker, et al. 1986; Obermiller 1985).

Dowling and Staelin (1994) draw a distinction between product category risk and product risk. They define the first type of risk as "the person's perception of the riskiness buying an average product in the product class" (p. 119), while the second type of risk reflects the perceived risk of the specific alternatives being considered. When consumers evaluate a brand extension both types of risk are relevant. We focused on the perceived risk of the product category into which the brand was extended. When extending a well-known brand into a product category perceived as risky, the brand can serve as a credible risk reliever, signal an acceptable quality level, and thus increasing its likely acceptance.

It could also be argued that there is a distinction between goods and services when it comes to perceived risk. Services are associated with greater degrees of intangibility, simultaneity of production and consumption, provider-consumer contact and, non-standardisation (Zeithaml, Parasuraman, and Berry 1985). In view of these characteristics, the amount and quality of comprehensible information for consumers is diminished, and thus the level of perceived risk is anticipated to be elevated (Cox 1967; Murraray and Schlacter 1990). Reliance on a recognised brand is a popular way of reducing risk (Derbaix 1983). Thus in services brand extensions, we would anticipate that as perceived risk increases when buying a newly extended services brand, so there should be greater reliance on the parent brand.

While there is necessarily some degree of risk which accompanies all purchases, it is predicted that more risk is associated with services than with goods (Zeithaml 1981; Mitra, Reiss, and Capella 1999). However, this perspective from the literature overlooks the high

level of perceived risk associated with durable goods due to the possibility of the expected financial loss being substantial. We therefore postulate:

**H<sub>3</sub>: The higher the perceived risk associated with the extension category, the more positive will be evaluations of the brand extensions. This should be particularly true for brands in durable goods and services**

#### **(4) Innovativeness**

Innovativeness is a personality trait related to an individual's receptivity to new ideas and willingness to try new practices and brands. The importance of innovativeness has been examined extensively in the literature on diffusion of innovation (Rogers 1983) and consumer behaviour (Engel, et al. 1990). However, there has been limited research into the effects of consumer innovativeness on brand extension evaluations. Some work was undertaken by Keller and Aaker (1997), albeit briefly, and more recently by Klink and Smith (2001). A common observation is that individuals high in innovativeness are more venturesome and more willing to try new brands (e.g., Stenkamp and Baumgartner 1992). The response differences between highly innovative and less innovative consumers (cf early and later adopters) reflects, to some extent, differences in risk-taking propensity. Innovators tend to be less risk averse than other consumers. According to Rogers (1983), one of the most salient traits of consumer innovators is the comfort they gain from taking risk. As such we postulate that

**H<sub>4</sub>: The higher consumers' innovativeness, the more positive will be the evaluations of extended brands**

Table 2 summarises the postulated hypotheses.

SEE TABLE 2

# Method

## Design and data collection

In order to test the hypotheses, data was gathered using a consumer survey. This was conducted as follows:

*Stimuli:* The parent brands were selected on the criteria of consumer familiarity, positive reputations and not having been broadly extended (cf Aaker and Keller 1990). Existing, rather than fictitious, brands were chosen. Six brands were the focus for a pilot study to assess the extent to which they met the selection criteria. The 30 participants were students on an evening course, with an average age of 34 years. They answered several questions about the six possible parent brands. The pilot study parent brands were Maarud snack (FMCG), Hansa beer (FMCG), IBM computers (durable good), Ford cars (durable goods), DnB bank (services) and Telenor telecommunications (services). Hansa was rejected as it received mixed responses on attitude towards the brand and was not particularly associated with a positive reputation. DnB was associated with several extensions and since research suggests that the breadth of markets covered by an established brand influences evaluations of brand extensions (see Keller and Aaker 1992; Dacin and Smith 1994), DnB was excluded. IBM achieved low scores on the familiarity measures and was eliminated.

Based on the pilot study, one brand was chosen from the snacks, cars, and telecommunications sectors. Maarud is the leading brand of snack products (potato crisps) in Norway, being the country where the study was conducted. It has been available since 1936. For more than 50 years Ford, representing durable goods, has been one of the best selling car brands in Norway. Telenor, which provides tele-services, is the number one telecom company in Norway, and until the 1<sup>st</sup> of January 1998, was a monopoly supplier.

Each of the three parent brands were leveraged into 3 hypothetical extensions, providing in total 9 extensions (see Table 3). These 9 extensions had to be relevant and

logically connected to the parent brand, in addition to providing sufficient heterogeneity on the dimensions of similarity (to test  $H_1$ ) and perceived risk (to test  $H_3$ ). The participants in the pilot study answered several open-ended questions about the possible brand extensions to ensure their suitability for this study. Respondents' perceptions about the extent to which they have goods or services characteristics are shown in Table 3. This indicates that the selected extensions were significantly separated as regards goods and services property (Maarud and Ford extensions vs. Telenor extensions).

SEE TABLE 3

*Sample and data collection:* A questionnaire was constructed for each of the three parent brands and was tested in another pilot study, with a sample of 30 consumers. The questionnaire was structured in four parts with questions covering: (1) brand reputation, (2) individuals' innovativeness and perceived risk associated with the extension categories, (3) similarity between parent brand and the extensions, and (4) overall evaluation of the extensions.

The questionnaire was administered to people living in a major Norwegian city. The city was first divided into eight regions, of which four were randomly selected. One person per household was personally contacted in their homes, and asked to complete a questionnaire for one of the parent brands (Maarud snack, Ford car, or Telenor telecom). Respondents participated voluntarily without any compensation. Of the homes approached, 81% agreed to participate. They were asked to complete a questionnaire which should be ready for collection next day. When the researchers returned to collect the questionnaires, 84.6% of households had completed the questionnaires, a response rate across the total contact sample of 68.6%. Of the 760 questionnaires collected, 701 were satisfactorily completed.

## Measurement

**Dependent variable** - *overall evaluation of brand extensions*: Subjects' reactions towards a proposed brand extension was measured using behavioural and attitudinal statements following the established attitude research procedures (Fishbein and Ajzen 1975). We employed three Likert type items to measure attitudes to the brand extensions (see Table 4). Specifically these followed the questioning used by Keller and Aaker (1992), Broniarczykn and Alba (1994) and Muthukrishnan and Weitz (1991). Factor analysis revealed that all items loaded strongly on the same factor (eigenvalues greater than 2.21 in all cases, capturing a total variance greater than 73.1%). The dependent (and independent) variables were created by aggregating the scores and dividing by the number of items.

**Independent variables** - *similarity between the parent brand and the brand extension* (**H<sub>1</sub>**): Similarity was measured using three items, which have been frequently used in brand extension studies (Boush, et al 1987; Smith and Park 1992; Aaker and Keller 1990). Details about the items are shown in Table 4, and they captured different aspects of similarity between a parent brand and its brand extensions. Respondents evaluated similarity on a six-point scale anchored from "not at all similar" through to "very similar". Factor analysis revealed that all three items loaded strongly on the same factor (eigenvalue greater than 2.33 in all cases, capturing a total variance greater than 75.1%).

*Brand reputation* (**H<sub>2</sub>**): Perceived parent brand reputation was captured using three Likert type items similar to the ones utilised by Aaker and Keller (1990), Keller and Aaker (1992), Smith and Park (1992), Loken and John (1993), and Sunde and Brodie (1993), as shown in Table 4. Respondents assessed brand reputation on a six-point scale with the end-points "totally disagree" and "totally agree". Factor analysis revealed that all items loaded strongly on the same factor (eigenvalue greater than 2.56 in all cases, capturing a total variance greater than 85.5%).

*Perceived risk (H<sub>3</sub>):* In the literature a distinction is made between (1) uncertainty about the outcome of a choice, and (2) uncertainty about consequences of a choice (e.g., Derbaix 1983; Kapferer and Laurent 1993). In this study perceived risk was measured on six Likert-type items capturing these two perceived risk dimensions. Laurent and Kapferer (1985) and Kapferer and Laurent (1993) initially introduced these six items. Responses were measured on a six-point scale anchored by “totally disagree” through to “totally agree”. Factor analysis revealed a two-dimensional factor, reflecting uncertainty and outcome.

*Innovativeness (H<sub>4</sub>):* was measured using the five items procedure of Stenkamp and Baumgartner (1995). Items were selected according to their ability to capture innovativeness (see Table 4) and anchored by “totally disagree” and “totally agree”. Factor analysis revealed that all items loaded strongly on the same factor (eigenvalue greater than 3.86 in all cases, capturing a total variance in excess of 75.5%).

The reliability measures showed high values. For example, the reliability measures (Cronbach’s alpha) are all above .70 for both dependent and independent variables.

SEE TABLE 4

## **Results**

We first report descriptive statistics for the variables, then report the bivariate analyses, and finally multivariate analysis.

### **Descriptive statistics**

Table 5 reports the descriptive statistics from this study.

SEE TABLE 5

Inspection of kurtosis and skewness (not shown in Table 5) show that the variables are close to being normally distributed. The mean scores of the variables vary across the extensions. Both measures of perceived risk are lower in the snack sample than in the car and telecom samples. This could reasonably be expected, based on the characteristics of the chosen extension categories. Another observation is that subjects perceived the reputation of Ford to be lower than that of Maarud and Telenor.

### **Bivariate analysis**

Correlations ( $r$ ) between the variables are shown in Table 6.

SEE TABLE 6

This reveals positive correlation coefficients between similarity, reputation, perceived risk 1 (uncertainty), perceived risk 2 (consequences), and the overall evaluation of the brand extensions. The correlation coefficients between similarity and the overall evaluation of the brand extension are significant for the three samples, supporting  $H_1$ . The correlation coefficients between reputation and the overall evaluation of the brand extension are also significant supporting  $H_2$ . However, while all the correlation coefficients between perceived risk 1, perceived risk 2, and the overall evaluation of the brand extension are positive, they are not always significant. Thus, only limited support can be drawn for  $H_3$ . Likewise, with positive correlations between innovativeness and overall evaluation of extensions which are not always significant, only partial support can be drawn for  $H_4$ .

### **Multivariate analysis**

To more thoroughly test the hypotheses we employed multiple regression analysis. The rationale for this is that the scaling of the items, as well as the construction of the aggregated variables, are of a multiple nature. The findings from this analysis are shown in Table 7.

SEE TABLE 7

All models are highly significant and explain between 31% to 37% of the dependent variables' variance, suggesting a reasonable "model fit". Moreover, the standardised regression coefficients indicate significant relationships between some of the independent and dependent variables.

**Testing of  $H_1$ :**  $H_1$  postulates that consumers evaluate FMCG, durable goods, and services brand extensions more favourably as the similarity increases between the parent brand and the extension category. A significant positive main effect of similarity, on evaluations of all brand extensions, is seen in all samples (Snack sample:  $\beta = .50$ ;  $p < .01$ ; Car sample:  $\beta = .52$ ;  $p < .01$ ; Telecom sample:  $\beta = .52$ ;  $p < .01$ ). The relationship between similarity and evaluation of brand extensions are positive and significant for FMCG, durable goods, and services. Hence,  $H_1$  is supported.

**Testing of  $H_2$ :**  $H_2$  postulates that consumers evaluate brand extensions more favourably when the parent brand has a strong reputation. A significant positive effect of reputation on the evaluation of brand extensions is seen in all samples (snack sample:  $\beta = .12$ ;  $p < .01$ ; car sample:  $\beta = .19$ ;  $p < .01$ ; telecom sample:  $\beta = .08$ ;  $p < .05$ ). The relationship between reputation and evaluation of brand extensions is positive and significant for FMCG, durable goods, and services. Hence,  $H_2$  is supported.

**Testing of  $H_3$ :**  $H_3$  postulates that consumers evaluate brand extensions more favourably as the perceived risk of the new category increases. Risk 1 (uncertainty) is not significant for any of the extension categories. There is, however, a significant positive main effect of risk 2 (consequences) on evaluations of extensions in the car and telecom samples (car sample, risk 2:  $\beta = .10$ ;  $p < .01$ ; telecom sample, risk 2:  $\beta = .07$ ;  $p < .10$ ). As risk 1 is not significant in any

of the samples, whilst risk 2 is significant for durable goods and for service products,  $H_3$  is partly supported.

**Testing of  $H_4$ :**  $H_4$  postulates that the more innovative consumers are, so the more likely they are to evaluate brand extensions more favourably. Innovativeness is only significant for the telecom sample (telecom sample:  $\beta = .20$ ;  $p < .01$ ) and thus  $H_4$  is only partly supported.

## Discussion

This study adds to the growing body of literature on brand extensions by examining how perceived similarity, brand reputation, perceived risk, and consumer innovativeness impacts on evaluations of FMCG, durable goods, and services brand extensions. The present investigation has demonstrated that perceived similarity between the parent brand category and the category of the brand extension enhances the evaluations of FMCG, durable goods, and services brand extensions. Interestingly, perceived similarity seems to be equally important for the brand extension evaluations in all samples (the standardised beta coefficients are .50; .52; .52 for the snack, automobile, and telecom samples). These results differ from the study by van Riel, Lemmink and Ouwersloot (2000). Without providing any theoretical arguments, they “simply hypothesize that there is a difference between the mechanisms behind consumers’ evaluations of service brand and non-service brand extensions” (p. 578). They found some differences between services and goods with respect to correlations between the dependent variable and three different aspects of perceived similarity. Uses of single item measures has been criticised. This could explain the more reliable results of the present study compared with van Riel, Lemmink, and Ouwersloot (2000). However, even if the overall measures of perceived similarity are equally important across FMCG, durable goods, and services, it would be interesting to investigate how different aspects of similarity vary between the FMCG, durable goods, and services brand extension evaluations. One postulate

is that services brand extensions are evaluated more positively when there is greater perceived similarity between the original brand and the extension on an intangible dimensions, for example services quality. If, for example, Starbucks were to extend their brand into new categories, we would anticipate that service quality would be an important dimension used by consumers to evaluate similarity. As Starbucks founder, Howard Schultz (1997) stated:

“Our competitive advantage over the big coffee brands turned out to be our people. Supermarket sales are nonverbal and impersonal, with no personal interaction. But in a Starbucks store, you encounter real people who are informed and excited about the coffee, and enthusiastic about the brand.”

This competitive advantage is more appropriate for services brands. Therefore, it is reasonable to believe that service brand extensions would benefit when they are extended to categories which show similarities on this dimension.

A similar pattern for perceived similarity, is also found when consumers evaluate the impact of brand reputation. Brand reputation has an almost equal impact across the brand extension evaluations for all of the categories (the standardised beta coefficients are  $\beta = .12$ ;  $.19$ ;  $.08$  for the snack, car, and telecom samples respectively). However, the beta coefficient for the telecom (services) sample is lower compared against the snack and car samples. This is surprising since we had anticipated that brand reputation would play an important role for services brands, particularly since corporate credibility is an important credence attribute associated with services (Zeithaml and Bitner 1995). The present study found significant support for the notion that the reputation of the parent brand is an important variable influencing consumers' evaluations of services brand extensions.

There are indications that consumers' evaluations of brand extensions are influenced by their perceptions of the risk associated with new category. This reinforces the perspective of brands as risk relievers (de Chernatony 2001). The results show that perceived risk is not as important in FMCG as in other sectors (see Table 7). This might be due to the lower levels of consumer involvement in FMCG sectors. For services brands extension, where the

characteristics of services make it difficult for consumers to evaluate the extensions, the impact of perceived risk may encourage consumers to prefer brand extensions from well-known parent brands since they reduce the negative consequences from making a wrong decision.

Finally, in the services sample (telecom brand), there is a positive relationship between the extent to which consumers are innovative and the extent to which services brand extensions are favourably evaluated. This aligns with the arguments of Keller and Aaker (1997) that an innovative corporate image lead to positive brand extension evaluations.

The findings suggest that managers should consider perceived similarity, brand reputation, perceived product category risk, and consumer innovativeness as key factors influencing the success of their planned brand extensions. For example, all else being equal, if an organisation is contemplating extending its services brand into another services sector which consumers consider as being a higher risk purchase category, the strategy should major upon any inherent goodwill associated with the parent brand.

As with all research this study has weaknesses. The measures of perceived risk appear to have little variability, especially the uncertainty measures. In future studies, manipulation of both the uncertainty and the consequences dimensions needs to be ensured. Increased variability in the perceived risk measures could also be obtained by manipulating different purchase goals or purchase situations (Kahneman and Tversky 1979). Other scales have been used in the literature to measure perceived risk. For example, Stone and Gronhaug (1993), Dholakia (1997) and Roselius (1971) used a risk taxonomy consisting of six dimensions (financial, performance, physical, psychological, social, and time loss). Other scales could be tested to evaluate the insight they provide about brand extensions evaluations.

In the present study we used only one parent brand from the services sector (telecommunication). To allow a broader generalization, future research needs to be undertaken with a greater variety of brands.

## **Conclusions**

This study advances knowledge of brand extensions in several ways. First, we found that perceived similarity is a crucial factor in the evaluation of services brand extensions. This finding concurs with the hypothesis in the brand extension literature that any brand which is extended into similar categories should receive high consumer evaluations (see, e.g., Aaker and Keller 1990). Second, the reputation of the parent brand is a crucial factor influencing the likelihood of a successful brand extension. Building a favourable reputation for a parent brand is an important contributor to the success of brand extensions. This is equally important for FMCG, durable goods and services brands. These two findings support the generalisation and external validity of earlier experimental findings in the brand extension literature. Third, we found that consumers' perceptions of the risk associated with new product categories is an important factor influencing brand extension judgements for durable goods and services. This supports the postulate that a well-known brand acts as an aid for consumers to cope with heightened perceived risk (Aaker 1991; Keller 1998, p. 456; Cox 1967; Roselius 1971). Finally, more innovative consumers evaluate services brand extensions more favourably. Building on the diffusion of innovation literature, targeting more innovative consumers could be an efficient way of developing brand extension strategies.

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**Table 1. Selected studies in the brand extension literature**

<b>Study</b>	<b>Purpose</b>	<b>Stimuli</b>	<b>Design</b>	<b>Subjects</b>	<b>Findings</b>
<b>Boush, et al. (1987)</b>	The importance of similarity and brand reputation	Durable goods: Fictitious calculator brand (Tarco)	Lab exp.	104 students	Similarity: + Reputation: +
<b>Aaker and Keller (1990)</b>	The importance of similarity and quality	FMCG: Beer, Shampoo, Sunglasses, Ice Cream, Toothpaste, fast food restaurant (services)	Lab exp.	107 and 121 students	Similarity: + (Quality * Similarity): +
<b>Park, Milberg, and Lawson (1991)</b>	Similarity and brand concepts	Durable goods: Wristwatches	Lab exp.	195 students	Similarity: + Extend concept consistent: +
<b>Boush and Loken (1991)</b>	How important is similarity (typicality)?	Durable goods: Fictitious grocery and electronic brands (B/G)	Lab exp.	144 students	Similarity (typicality): +
<b>Keller and Aaker (1992)</b>	Sequential introduction of brand extensions	FMCG: Two fictitious potato chips brands (Crane's / Medallion)	Lab exp.	430 university employees	Quality: + Extend with consistent quality: +
<b>Smith and Park (1992)</b>	Brand extension vs. individual brands on market share	79 brands ("consumer goods")	Survey	188 business people and 1383 consumers	Brand strength (Reputation): + Similarity: 0 Knowledge: -
<b>Loken and John (1993)</b>	Brand extensions and dilution effects	FMCG: Fictitious brand (A) (gentleness and quality)	Lab exp.	196 consumers (women, age 19-49)	Dilution effects occur but depends on similarity
<b>Boush (1993)</b>	How slogans can prime extensions	FMCG: Fictitious soup brand (Bella)	Lab exp.	174 students	When the slogan primes similarity: +
<b>Broniarczyk and Alba (1994)</b>	Explore the importance of brand-specific associations	FMCG: Toothpaste, Cereal, Soap, Beer Durable goods: Computers	Lab exp.	76, 159 and 45 students	Brand-specific associations moderate similarity and brand reputation
<b>Dacin and Smith (1994)</b>	The effect of brand portfolio on extension evaluation	Durable goods: Fictitious portfolio brand (Jasil)	Lab exp. + Survey	180, 80 and 98 students	Number of products affiliated with a brand: + No support in the Survey
<b>Gürhan-Canli and Maheswaran (1998)</b>	The effects of extensions on brand name dilution	Durable goods: Sony and Sanyo	Lab exp.	347 students	Motivation and similarity influence the brand name dilution
<b>John, Loken, and Joiner (1998)</b>	The negative impact of extensions on flagship products	FMCG: Johnson & Johnson	Lab exp.	192, 139 and 124 consumers (women, age 18-49)	Flagship products are resistant to dilution (strong associations)
<b>Morrin (1999)</b>	The impact of brand extensions on parent brand memory structures	FMCG: Lotion, pain reliever, deodorizing cleaner, hot cocoa mix	Lab exp.	29, 39 and 36 students	The impact of extensions moderates by parent brand dominance and similarity
<b>Jun, et al. (1999)</b>	Effects of technological hierarchy on brand extension evaluations	Durable goods : TV, HDTV, Word-processor, and Mainframes	Lab exp.	249 students	High technology of original brand: + Similarity: + The technology level is important: +

Table 1 continues:

<b>Lane (2000)</b>	The impact of ad repetition on brand extension evaluations	FMCG: Beer, Crest, Keebler and Michelin	Lab exp.	109 students	Repeated ad exposure influence evaluations of less similar extensions
<b>Barone, et al. (2000)</b>	The influence of positive mood on brand extension evaluation	Durable goods: Fictitious electronic brand (A)	Lab exp.	67 and 71 students	Positive mood enhances evaluations of moderate similar extensions
<b>Sheinin (2000)</b>	The effects of experience with extensions on the original brand	FMCG: Cola brands	Lab exp.	250 students	Experience with extensions influence the evaluation of the original brand
<b>Ruyter and Wetzels (2000)</b>	Corporate image and extensions of service brands	Services: Fictitious telecom brand	Lab exp.	299 consumers	Late mover image (vs. first mover): + Similarity: +
<b>Ahluwalia and Gürhan-Canli (2000)</b>	The effects of extensions on the original brand	Durable goods: Fictitious athletic shoes and electronic products	Lab exp.	68 and 113 students	Negative info about a similarextension led to dilution
<b>Keller and Sood (2001/2)</b>	Branding strategies and experience	FMCG: Cola and juice brands	Lab exp.	177 students	Dilution effects occur when high degree of similarity

**Table 2. Hypotheses**

<b>Hyp.</b>	<b>Independent variable</b>	<b>Dependent variable</b>	<b>Direction</b>
<b>H<sub>1</sub></b>	Similarity (FMCG, durable goods, and services)	Acceptance of brand ext.	+
<b>H<sub>2</sub></b>	Reputation (FMCG, durable goods, and services)	Acceptance of brand ext.	+
<b>H<sub>3</sub></b>	Higher perceived risk for durable goods and services	Acceptance of brand ext.	+
<b>H<sub>4</sub></b>	Innovativeness	Acceptance of brand ext.	+

**Table 3. The Three Parent Brands and Their Brand Extensions**

<b>Parent brands:</b>	<b>Maarud snack</b>	<b>Ford car</b>	<b>Telenor telecom</b>
<b>Brand extensions:</b>	1. Ice cream (1.3) 2. Beer (1.6) 3. Chocolate (1.4)	1. Bicycle (1.5) 2. Motorbike (1.8) 3. Lawnmower (1.6)	1. Travel agency (6.6) 2. Bank (6.1) 3. Insurance (6.3)

(1) Values in parentheses are the scores from a pilot study on an interval scale from “Has extreme goods property” to “Has extreme service property”, anchored from 1 to 7.

**Table 4. Measures from the Consumer Survey**

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**Dependent variable:**

1. Overall evaluation of extensions:

- a) Overall, I am very positive to extension xyz: *Totally disagree (1) to Totally agree (6)*. (e.g., Keller and Aaker, 1992: 42)
- b) What attitude do you have towards extension xyz: *Dislike (1) to Like (6)* (e.g., Broniarczyk and Alba, 1994: 218; Muthukrishnan and Weitz 1991)
- c) Overall evaluation of the potential extension relative to existing brands in the extension category: *One of the worst (1) to One of the best (6)*. (Broniarczyk and Alba, 1994: 218)

**Independent variables:**

2. Similarity between the original brands and extensions:

- a) Think of what you associate with brand \_\_\_\_, how much overlap exists with extension xyz? (e.g., Boush, et al. 1987)
  - b) Think about brand \_\_\_\_, how similar is the user situation with extension xyz? (e.g., Smith and Park, 1992: 302)
  - c) Think about brand \_\_\_\_, how similar is the competence for making the original brand and extension xyz? (e.g., Aaker and Keller 1990; Smith and Park, 1992: 302)
- Anchored by: *Not at all similar (1) to Highly similar (6)*

3. Parent brand reputation:

- a) All together, I am very positive to brand xyz:
  - b) All together, I am very satisfied with brand xyz:
  - c) All together, I associate positive things with brand xyz:
- Anchored by: *Strongly disagree (1) to Strongly agree (6)*  
(similar measures in Aaker and Keller 1990; Smith and Park 1992; Loken and John 1993)

4. Perceived risk:

- a) When I'm in front of the \_\_\_\_ section, I always feel rather unsure about what to pick (uncertainty)
  - b) When you buy an \_\_\_\_, it's easy to make a wrong choice (uncertainty)
  - c) It's difficult to know what \_\_\_\_ is the best option in the market (uncertainty)
  - d) You risk some negative consequences if you choose a wrong \_\_\_\_ (consequences)
  - e) I should be annoyed with myself, if it turned out I'd made the wrong choice when buying \_\_\_\_ (consequences)
  - f) It's not so dangerous to make a wrong choice of \_\_\_\_ (consequences)<sup>1)</sup>
- Anchored by: *Totally disagree (1) to Totally agree (6)*  
(Partly from Kapferer and Laurent 1993: 349)

5. Innovativeness:

- a) I am continually seeking new ideas and experiences
  - b) When things get boring, I like to find some new and unfamiliar experience
  - c) I sometimes like to do things involving some danger
  - d) I like surprises
  - e) I like to experience novelty and change in my daily routine
- Anchored by: *Totally disagree (1) to Totally agree (6)*.  
(Partly from Stenkamp and Baumgartner 1995)

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<sup>1)</sup> Items are reversed

**Table 5. Descriptive Statistics**

	<b>Maarud snack</b>			<b>Ford car</b>			<b>Telenor telecom</b>		
	<b>Mean</b>	<b>SD</b>	<b>n</b>	<b>Mean</b>	<b>SD</b>	<b>n</b>	<b>Mean</b>	<b>SD</b>	<b>n</b>
1:	3.29	1.25	719	3.04	1.19	632	2.73	1.14	641
2:	2.89	1.11	606	2.47	1.10	548	2.45	1.02	563
3:	3.80	1.00	741	3.18	1.04	641	3.69	1.07	693
4:	3.54	1.26	736	3.91	1.33	637	4.55	1.11	699
5:	3.31	1.18	736	3.86	1.30	638	4.13	1.14	695
6:	4.14	0.89	701	4.17	0.96	630	4.09	0.97	651

- 1: Overall evaluation of the extensions (dependent variable)
- 2: Similarity between parent brands and extensions (independent variable)
- 3: Parent brand reputation (independent variable)
- 4: Perceived risk 1: Uncertainty (independent variable)
- 5: Perceived risk 2: Consequences (independent variable)
- 6: Innovative intention (independent variable)

**Table 6. Correlations between the Research Variables**

	Maarud snack					Ford car					Telenor telecom				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
1	1.00					1.00					1.00				
2	.54**	1.00				.56**	1.00				.52**	1.00			
3	.31**	.28**	1.00			.31**	.28**	1.00			.18**	.02**	1.00		
4	.12**	.11**	.13**	1.00		.12**	.11**	.13**	1.00		.01	-.08*	.17**	1.00	
5	.14**	.21**	.22**	.13**	1.00	.14**	.21**	.22**	.35**	1.00	.02	+.19**	.14**	.44**	1.00
6	.08*	.05	.15**	.02	.08*	.04	.07	.08*	.01	.00	.18**	.06	.12**	.16**	.12**

- 1: Overall evaluation of the extensions
- 2: Similarity between parent brands and extensions
- 3: Parent brand reputation
- 4: Perceived risk 1: Uncertainty
- 5: Perceived risk 2: Consequences
- 6: Innovative intention

\* P < .05

\*\* P < .01

**Table 7. Regression of Similarity, Reputation, Perceived Risk, and Innovativeness on Evaluation of Brand Extensions**

Variables included <sup>1)</sup>	Maarud snack	Ford car	Telenor telecom
<i>Independent variables:</i>			
Similarity <sup>2)</sup>	.50 ***	.52 ***	.52 ***
Brand reputation	.12 ***	.19 ***	.08 **
Risk 1 - uncertainty	.02	.05	.02
Risk 2 - consequences	.04	.10 ***	.07 *
Innovative	.05	.03	.20 ***
Adjusted R <sup>2</sup>	.31	.37	.33
F for full model	52.51 ***	59.37 ***	48.57 ***
Degrees of freedom (d.f.)	563	491	482

<sup>1)</sup> Dependent variable: "Overall evaluation of the extension"

<sup>2)</sup> Standardized beta coefficients

\* P < .10

\*\* P < .05

\*\*\* P < .01