The Effect of Brand Extension Strategy on Brand Image to Customers

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Authors' contributions

This work was carried out in collaboration between all authors. All authors read and approved the final manuscript.

Article Information

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ABSTRACT

The purpose of the study is to investigate the effect of brand extension strategy upon brand image to LG customers. Home appliances and mobile phone are considered as original product and extended product respectively. The research model includes five variable; initial brand image, perceived fit, perceived quality, consumers' attitude and final brand image. Random sampling method was used and A total 376 questionnaires were circulated, and the response rate was 100 %. The results show that initial image of the brand has positive, significant impact on consumers' attitude towards brand extension as well as final image of brand.

1. INTRODUCTION

Brand extension strategy refers to any attempt to develop a successful brand to offer a new or modified product on the market. Good brand reduces marketing costs and increases the probability of success [1]. When brand has a good reputation it not only makes customer trust in the brand but also acts as a powerful barrier against competitors [2]. There are many corporations trying to improve brand image within customers' mind using brand. Strong image of

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brand is a competitive advantage for corporations because customers who have positive assumptions about brand decide based on it [3]. When consumers encounter the phenomenon of brand extension for the first time they want to find whether their views about the product category is consistent with the new product or not [4]. One of the factors that can affect the mentality of the customer about the brand is the brand extension. Of course there is always the risk that the brand extension hurts the brand image [5]. Many managers of domestic and foreign companies use the method of brand extension when presenting new products to market and their argument is that the subjective views and characteristics of the product is also transferred to the new product with the same name [6]. Using this strategy has advantages and disadvantages that if they be used wrongly or without studying they would have negative effect on brand image within customers' mind. Therefore it seems necessary the companies who use this strategy evaluate its effectiveness constantly. It might failure of this strategy for a product have a negative impact on the customer's brand image [7]. The brand image is an intuitive and attractive concept which is the company's valuable asset and it must be properly managed [8]. When a company has an acceptable brand image in the eyes of customers it can increases the amount of its sales through enhancing customer satisfaction and loyalty and can also attract more investors and employees [9]. On the other hand it will be able to better compete with other companies and makes more profit for company [10]. Therefore examining how consumer evaluate the brand extension as well as reviewing it with the brand image is inevitable necessity. Thus, in this research we studied the effect of brand extension strategy on brand image in the eyes of customers of LG.

2. LITERATURE REVIEW

2.1 Brand Extension

According to Aaker (1991), "Brand extension is using an established name of one product category for entering another product category." While according to Kotler (1991), "Brand extension is the strategy of using a successful brand name for introducing a new product." Another popular definition is, " Utilizing a popular brand name to launch new products or services into a product class that is new for the company is called franchising strategy" [11]. Successful brand extensions depend on consumers'

perceptions of fit or similarity between the new extension and the parent brand [12]. Many companies adopt brand extension as strategy with the aim of benefiting from the brand knowledge achieved in the current markets. When a company launch a new product and market under the umbrella of well - known brand name, failure rates and marketing costs are reduced. Keller (2008) states that more than 80 per cent of firms resort to brand extensions as a way of marketing goods and services. Competition forces firms to adopt strategies that create a competitive advantage for the firm. Creating a brand name with well-established association is one way of achieving this aim. Firms invest heavily in developing a brand. It is a very costly process but has many returns once success is achieved. Brand extension can be classified in either vertical or horizontal extension [13].

2.2 Horizontal Extension

Horizontal extension refers to instances when an existing brand name is applied to a new product, in either the same product class or in a new product class/category, with the same price positioning or quality level, but different on some other attribute than price/quality level, such as flavor, size, scent, color etc. There are two varieties of horizontal brand extensions which differ in terms of their focus [6]. They are termed line extensions and franchise extensions. Line extensions involve a current brand name which is used to enter a new market segment in its product class. Diet Coke and Diet Pepsi are examples of line extensions since they focus on the diet conscious segment for colas not served by their parent products. In contrast, franchise extensions use a current brand name to enter a product category new to the company [14]. Most of the recent research in brand extension has focused on horizontal extensions. Unsuccessful horizontal extensions are less likely to damage the core brand than vertical extensions since horizontal extensions are often in different – and more distant – product categories. Typically consumers will recognize that such horizontal extensions are not closely related.

2.3 Vertical Extension

Vertical brand extension is applied when a brand name is used to introduce a new product in the same category or line, but with a different quality or pricing conception [15]. Vertical new product introductions can extend in two directions, upscale, involving a new product with higher

price and quality characteristics than the original; or downscale, involving a new product with lowers quality and price points. Downscale vertical extensions may offer the equivalent of sampling to a new market segment, and bring some market share enhancement. Functional products use this strategy. Prestige products allow upscale but not downscale extensions. Consumers seem to recognize and accept the enhanced prestige brand image of such upscale extensions.

2.4 Brand Image

A brand is an asset for a company, and creating a positive image of a brand leads to a high brand equity in the market. Consequently, a positive brand image is essential for companies. Brand image can be defined as the perceptions about a brand as reflected by the brand associations held in consumer memory [16]. Brand image is important for brand equity and high brand equity lead to successful brand extension [15]. Brand image refers to the way in which groups crack all of the signals emanating from the products, services and communication exposed by the brand. Three different aspects of brand image determine different consumer responses to a product. These dimensions are favorability of association, strength, and uniqueness of brand associations. Furthermore, a positive brand image is crucial for the position of a product, its target market, and measurement of market response [15]. The brand image is the simple perception phenomenon, which is affected by company activities. Keller [16] regards the brand image as consumer perception about the brand that is reflected by the brand associations in the mind. The brand image is bundle of perceptions within the mind of consumer. In other words consumer perception of the prominent features of product is consumers mental image of the whole set of brand which has been created by company.

2.5 Consumers' Attitudes towards Brand Extensions

The studies on consumers' attitudes towards brand extensions have been developed around their reactions to brand extensions and their relationship with the brand. In this framework, Kim, Parkand, & Kim [17] have emphasized in their studies in 2014 that the quality of the relationship between the consumer and the brand affects their decisions regarding brand extensions. It was revealed that this is valid especially when there is harmony between brand

and the extended product. Fedorikhin, Park, & Thomson [18] have highlighted that consumers' attitudes towards brand extensions stem from brand loyalty rather than harmony and consumers react positively to brand extensions and take purchasing decision if the harmony between the main product and the extended product is strong and moderate. Moreover, they have argued that consumers provide positive feedback for their environment about brand extensions and forgive more easily the possible mistakes when there is strong harmony. There are studies that analyze consumers' approach to brand extensions in the light of cognitive paradigms [19]. Accordingly, there is mutual interaction between the perception of the harmony between the main brand and the extended brand by the consumer and development of their first attitudes towards extensions and their market behavior. In this direction, the characteristics of consumers are the determinants of their attitudes towards brand extensions. Additionally, Kim & John [20] conducted a research in 2008 and have figured out that the level of consumers' interpreting their environment has a moderating effect on the importance of the harmony between the main product and the extended product.

2.6 Initial Brand Image

The brand image of the parent brand can be classified into two types: products with function-oriented brand images and products with prestige-oriented brand images. Function-oriented products are visualized in terms of brand unique aspects that are related to product performance. In contrast, a prestige oriented brand is visualized primarily in terms of a consumer's expression of self-image. Each type of product has unique brand associations and lends itself to different forms of extension. Some of the studies have examined the consumer evaluation of the extension and the core brand name. For both function-oriented and prestige-oriented brand names, the most favorable consumer reactions can be expected when brand extensions and core brands have high concept consistency and high product feature similarity [21]. This reinforces the need for fit between the core product and its extension. Research has also supported the premise that brands considered to be of higher quality, and prestige brands, possess greater potential to be extended into more dissimilar product categories [22,21]. Brand extension based on brand asset (such as consumer awareness,

good mental image,…) has higher chance of success [14]. One of the factors influencing consumer's attitude towards new product is Customer's primary mental image before brand extension. Consumer's attitude towards new product is better to those brands with high quality standards [23], reputation, prestige [24]. In the field of manufacturing as well as services consumer's positive brand image causes good perceptions of new product with the existing brand.

2.7 Perceived Fit

Perceived fit is the number of shared associations between the extension product category and the brand [19] and has two dimensions [25,26]. Product-category fit reflects the similarity between the extension category and the existing product categories of the parent brand, while brand-level fit is the match between the brand-image and the extension product category. Perceived fit influences consumer attitudes to the extension in two ways. It can either mediate the transfer of attitude components from the parent brand and extension category to the new extension, or it can moderate the relative influence of brand and category attitude on extension attitude. This brand extension attitude formation leads to concrete consumer behaviour in the marketplace in terms of intentions, choice and repeat purchase [27], and thus is a key element in predicting brand extension success [28].

2.8 Perceived Quality

If consumers perceive a brand as being of high quality, such positive quality perceptions can be exploited by introducing brand extensions, using the brand name to enter new product categories. It is argued that brands with a high-perceived quality can be extended much further and receive higher evaluations than brands with a low perceived quality [6,22,29]. Favorable perceived brand quality can ease the introduction of brand extensions, since the hgh regard for the brand will likely translate into high regard for the related products. If the parent brand quality is perceived as high, such transfer is thus highly beneficial for firms as the perceived quality of a brand relative to competing brands is argued to be a major factor affecting a firm's performance. Finally, Aaker & Keller [6] and Bottomley & Holden [30] conclude that the perceived quality of the brand is an important association that positively influences the evaluation process of a brand extension.

3. THE MODEL

The Fig. 1 represents A Schematic represent-tation of the variables discussed in the study.

The below conceptual model is a combined and modified model of Salinas and Perez [4], the model of Martinez et al. [31] and model of Pina et al. [32].
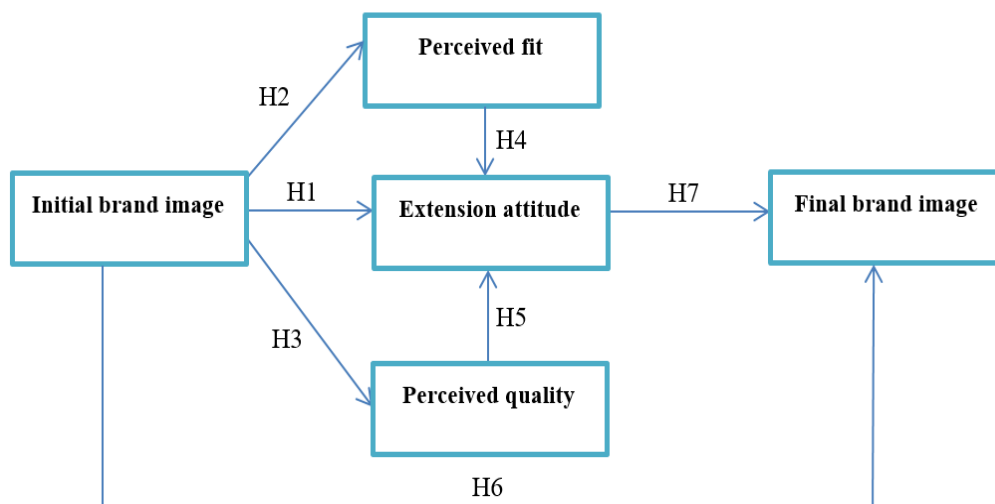

Fig. 1. Research conceptual model

4. RESEARCH HYPOTHESES

Based upon research objective and literature review and the above suggested Model, The study will test the following hypotheses:

H1: Initial brand image has significant effect on consumers' attitude towards the extended product.
H2: Initial brand image has significant effect on perceived fit between the extended product and original products.
H3: Initial brand image has significant effect on perceived quality of extended product.
H4: Perceived fit between the extended product and original products has significant effect on consumers' attitude towards the extended product.
H5: Perceived quality of original products has significant effect on consumers' attitude towards the extension.
H6: Initial brand image has significant effect on final brand image.
H7: Consumers' attitude towards the extension has significant effect on final brand image.

5. RESEARCH METHODOLOGY

5.1 Population and Statistical Sample

Statistical population just includes customers of Qom city that their common characteristic is purchasing LG products. . Home appliances and mobile phone are considered as original product and extended product respectively. This research does not belong to specific class of age, social, educational and job and if people purchase the products they will be considered among the statistical universe. Also the sampling method in the research is random sampling method,

Cochran formula has been used to calculate the sample size. The study will use a questionnaire that use a Likert- type scale with original five point format, the Interval Scale: (1) Strongly Negative (2) Negative, (3) Neutral, (4) Positive, (5) Strongly positive. A total of 376 questionnaires were retuned for 100% response rate which provided by Consumers from Qom city. The questionnaire has two parts. The first part includes demographic variables such as gender, age and education level and the second part measures variables of the research.

5.2 Research Tools Validity and Reliability

Questionnaire validity is confirmed by management professors of Tehran University. Cronbach's alpha coefficient has been used to measure reliability. For this, 30 questionnairs have been distributed among customers and Cronbach's alpha was calculated. The value of Cronbach's alpha coeficient was obtained 0.82 for all questions of variables in the research analytic model which is acceptable.

6. RESEARCH FINDINGS

In order to study the fact that how much indexes are acceptable for measurment models, all the measurement models should be analyzed separately. Overal indexes of fit of model have been presented for the measurement models (confirmatory factor analysis) in the Table 1.

Given that indexes values of CFI, NFI, IF, AGFI, GFI are higher than 0.9 for the research variables showing very good fit of the measurement models. RMR value is close to zero in all models that the value of this indicator

Table 1. Overal indexes of fitting in mesearment models

Variables indexes	Initial brand image	Perceived fit	Perceived quality	Extension attitude	Final brand image
Chi-square	000.0	003.0	000.0	300.0	000.0
GFI	959.0	984.0	979.0	997.0	932.0
AGFI	905.0	922.0	895.0	984.0	795.0
RMR	040.0	032.0	031.0	011.0	057.0
TLI	930.0	949.0	944.0	998.0	835.0
NFI	949.0	980.0	979.0	996.0	912.0
CFI	958.0	983.0	981.0	999.0	918.0
RFI	915.0	939.0	937.0	988.0	824.0
IFI	958.0	983.0	982.0	999.0	918.0
CMIN/DF	359.5	736.5	240.8	204.1	088.13
RMSEA	108.0	112.0	139.0	023.0	180.0

is also very good. Therefore, it is concluded that the measurement models have good fitness and they confirm the overal indexes of this case that the data support models well. According to the confirmation of fitted model, structural equations modeling with regression weights are shown in Fig. 2.

Then, covariance matrix - correlation has been used to study existing relationship between variables for each hypothesis. According to the Table 2 the relationship between all variables have been shown, neither correlation between variables is more than 0.9 and it does not need to delete or integrate them.

Finally, the results of hypotheses test based on the structural equation modelling have been shown in Table 3.

H1: Initial brand image has significant effect on consumer attitude towards the extended product.

Given that p-value is 0.000 and less than 0.05, it can be concluded with a certainty of 95% that Initial brand image with regression weight 0.52% has significant and positive effect on consumer's

attitude towards the extended product (mobile phone) of brand LG. Thus, the first hypothesis was confirmed. In fact, with a strong image of initial brand, consumers' attitude to the extended product would be more desirable, because consumers have considerable trust to a strong brand. The result of the first hypothesis conforms to the results of studies of [12,16] and [31].

H2: Initial brand image has significant effect on perceived fit between the extended product and original products.

Given that P-value is 0.000 and less than 0.05, it can be concluded with a certainty of 65% that primary brand image with regression weight 65% has significant and positive effect on the perceived fit between the extended product and original products of the brand LG. Thus, the second hypothesis was confirmed. As expected, due to more favorable initial brand image, perceived fit between extended product and other products of the same brand increases; because consumers when evaluating the extended products, consider initial brand image with an understanding of its advantages. The result of the second hypothesis conforms to the results of studies of [4,12] and [31].
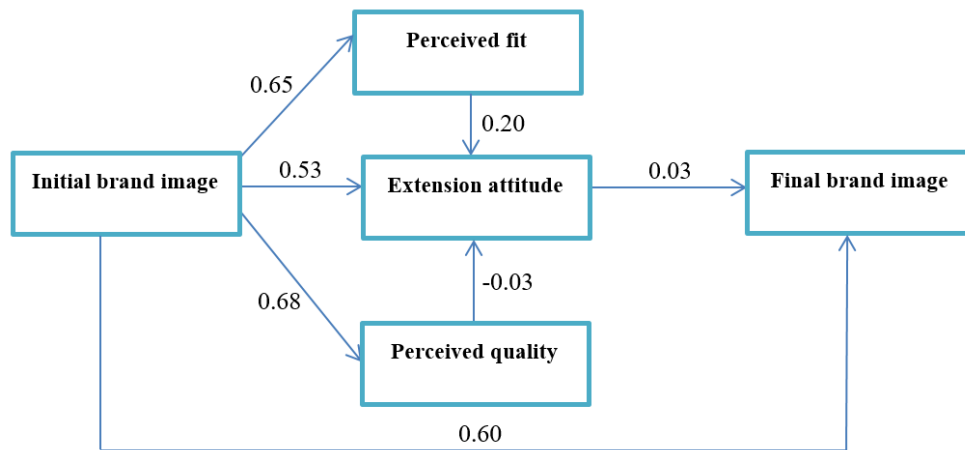

Fig. 2. Structural equations model

Table 2. Correlation between variables

Variable	Initial brand image	Perceived quality	Perceived fit	Extension attitude	Final brand image
Initial brand image	-				
Perceived quality	0.660	-			
Perceived fit	0.616	0.629	-		
Extension attitude	0.634	0.449	0.520	-	
Final brand image	0.625	0.370	0.366	0.412	-

Table 3. Hypotheses testing results

Hypotheses	Coefficient	Sig.	Result
Effect of initial brand image on extension attitude	0.629	0.000	Accepted
Effect of initial brand image on Perceived fit	0.623	0.000	Accepted
Effect of initial brand image on perceived quality	0.876	0.000	Accepted
Effect of perceived fit on extension attitude	0.237	0.008	Accepted
Effect of perceived quality on extension attitude	- 0.026	0.697	Rejected
Effect of initial brand image on final brand image	0.698	0.000	Accepted
Effect of extension attitude on final brand image	0.028	0.699	Rejected

H3: Initial brand image has significant effect on perceived quality of extended product.

Given that P-value is 0.000 and less than 0.05. it can be concluded with a certainty of 95% that Initial brand image with regression weight 68% has significant and positive effect on the perceived quality of original products of the brand LG. Thus, the third hypothesis was confirmed. As expected, due to more favorable initial brand image, perceived fit between extended product and other products of the same brand increases; because consumers when evaluating the extended products, consider initial brand image with an understanding of its advantages. The result of the third hypothesis conforms to the results of studies of [31] and [32].

H4: Perceived fit between the extended product and original products has significant effect on consumer attitude towards the extended product.

Given that P-value is 0.000 and less than 0.05, it can be concluded with a certainty of 95% that the perceived fit between the extended product and original products with the regression weight 20% has significant and positive effect on consumer's attitude towards the extended product (mobile phone) of the brand LG. Thus, the fourth hypothesis was confirmed. Indeed, consumers' good attitude towards new product involves existing high fitness between original brand and new product of the brand. The result of the fourth hypothesis conforms to the results of studies of [4,31] and [32].

H5: Perceived quality of original product has significant effect on consumer attitude towards the extension.

Given that P-value is 0.697 and higher than 0.05, it can be concluded with a certainty of 95% that the perceived quality of original product with regression weight -0.03 has not significant and positive effect on consumer's attitude towards

the extended product (mobile phone) of the brand LG. Thus, the fifth hypothesis was rejected. Unexpectedly, the perceived quality has insignificant and negative influence on consumers' attitude; while consumers' attitude is usually affected by perceived quality. The result of the fifth hypothesis conforms to the results of studies of [6] and [31].

H6: Initial brand image has significant effect on final brand image.

Given that P-value is 0.000 and less than 0.05, it can be concluded with a certainty of 95% that primary brand image with the regression weight 60% has significant and positive effect on the final image of the brand LG. thus, the six hypothesis was confirmed. In fact, when the extended product with existing brand will be supplied to the market, the majority of brand associations and overall brand image remain unchanged. As a result, final brand image is affected by initial brand image after extension. The result of the six hypothesis conforms to the results of studies of [4] and [32].

H7: Consumer attitude towards the extension has significant effect on final brand image.

Given that P-value is 0.699 and higher than 0.05, it can be concluded with a certainty of 95% that consumer's attitude towards the extended product with the regression weight 03% has not significant effect on the final image of the brand LG. Thus, the seventh hypothesis was rejected. In fact, If attitude towards the extended product is strong it will have positive effect on final brand image. However, if this variable is weak it will have negative or insignificant effect on final brand image. The result of the seventh hypothesis conforms to the results of studies of [31].

7. CONCLUSION

The aim of this study is to examine the effect of brand extension strategy upon brand image to

LG customers. Home appliances and mobile phone are considered as original product and extended product respectively. The research model includes five variable; initial brand image, perceived fit, perceived quality, consumers' attitude and final brand image. According to the model of Salinas and Perez [4], the model of Martinez et al. [31] and model of Pina et al. [32], a model was offered for examinig research hypotheses. Findings suggest that: 1- initial brand image has significant and positive effect on consumers' attitude towards the extended product, 2- initial brand image has significant and positive effect on the perceived fit between the extended product and original products, 3- initial brand image has significant and positive effect on the perceived quality of original products, 4- the perceived fit between the extended product and original product has significant and positive effect on consumers' attitude towards the extended product, 5- the perceived quality has not significant and positive effect on consumers' attitude towards the extended product, 6- initial brand image has significant and positive effect on final brand image, and 7- consumers' attitude towards the extended product has not significant effect on final brand image. Given to the importance of initial brand image, it is suggested that the company LG increases the amount of its communication activities and since advertising is proper mechanism to improve the corporation communications, it tries to transfer an integrated message to customers in its communications activities. Also given to not being significant the relationship between consumers' attitude towards the extended product and final image of the brand LG and marketing managers of the company need to reconsider the company's extended product. Given to data analysis it was found that the fifth and seventh hypotheses were rejected and about not being significant the fifth hypothesis we can express that today consumers do not evaluate the extended product of a brand just by the perceived quality of original products of that brand but other factors are considered such as reputation of the extended product, quality of the extended product, being innovative the extended product and etc. As to not being significant the seventh hypothesis from questions related to the variable of consumers' attitude towards the extended product we can express that today the companies can promote their brand images who are leading and innovative in the field of consumers' attitudes towards the extended product.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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