PART I: OPENING PERSPECTIVES
CHAPTER 1. INTRODUCTION

1.1 Background

The changing market dynamics and heightened competition of the global economy has amplified the role of brands to an unsurpassed level. Brand marketers seek ways to achieve growth while reducing both the cost of new product introductions as well as the risk of new product failure. A popular way of launching new products has therefore been to leverage the equity of an existing brand into a new sector, market, or product category called brand extension.

Detecting a consumer trend or need, competition, technology, the desire to exploit fully an existing brand name, widen the applications of a particular product from industrial use into consumer use, and to fill production capacity are some of the main drivers behind brand extension decisions (Ambler and Styles, 1997).

A brand extension strategy can be beneficial because it reduces the new product introduction costs and also increases the chance of success (Kapferer, 1994). The rationale behind brand extensions is simple: when a strong brand has been established, the brand has moved beyond the functional product into a realm of values. It makes economical sense to try to deliver the same emotional benefits in a different market (Mortimer, 2003). Since awareness of a certain brand already exists, costs of launching a new product will be lower than in the absence of a strong brand. The main objective of
brand extensions is hence to leverage the intangible qualities of a brand since the functional benefits can generally be imitated (Urde, 1999)

Since brand extensions imply launching new products, a key issue is to what extent these extensions are successful. A theoretical starting point to this discussion is the concept of brand orientation, which can be defined as "an approach in which the process of the organization revolve around the creation, development, and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands". Brand orientation is an additional degree of sophistication to market orientation. In other words, what customers demand at any given moment in time is not necessarily the same as what will reinforce the brand as a strategic resource. Market orientation can therefore be a source of conflict to a brand's long-term development when achieving competitive advantage is the aim. Ideally, a firm is both market-oriented and brand oriented. Keller (2003) argues along the same line concerning brand extensions – it is not a question of whether a brand should be extended, but rather where, when, and how it should be extended. In the 1990s, 81 percent of new products were brand extensions (Mortimer, 2003). But this does not in any way imply that brand extensions are risk-free. It is crucial to know where the boundaries of the brands are. Understanding these limits is not a simple matter, however.

1.2 Evolution of Brand Extensions

Even though brand extension is not a new phenomenon, its popularity amongst both practitioners and researchers increased during the 1980's (Ambler & Styles, 1997). The historical explanation behind brand extensions becoming popular lies within the evolution of brands as an important asset to the company. This evolution is, according to Ugglan (2002) based upon a shift in the industry focus. In the 60's and 70's, focus was strong on product and brand invention as a strategy for success; but in the wake of the oil crises and with an increasing emphasis on cost reduction together with environmental and ethical
issues emerging, companies started to turn towards the idea that its resources could be reutilized and recapitalised. The brand was realized as a strategic asset that could be the foundation for successful business strategy. Brand extensions since, have often been looked upon as organic growth without being considered as brand extensions (Uggla 2002). There are such emergent extensions, so called ad hoc extensions, that have become great successes as well as there are driven extensions that have been planned for years that turned out complete failures (Aaker 1996). Nevertheless, Uggla (2002) claims that extensions undertaken with strategic intent have proven to have better prerequisites for success in long term. According to Keller (2003), up to 90% of new product launches are extensions of brands. Even though extension of brands has become a popular strategy, far from all brand extensions are successful. Figures from 1997 show that 28% of the line extensions failed and the corresponding figure for category extensions were at 84% (Volckner & Sattler 2002 in Uggla 2002).

1.3 Research History

The popularity of brand extension has increased among practitioners since the 1980s, hence also research on the phenomenon. Up until 1981, research on brand extension was sporadic and the brand was often described as simply being a part of the augmented product. The change came when Tauber presented his findings on successful American companies that launched new products under existing brand names, and hence, the field of study came to grow intensively (Uggla 2002). According to Grime et al. (2002), research on category extensions has mostly focused on consumers' perception of "fit" and quality evaluations of category extensions. Further, most studies investigate either factors contributing to favourable consumer evaluations of an extension, or the potential negative impact of extensions on the core brand (Grime et al. 2002). Extension research has emphasized on "categorization theory" as the fundamental theoretical reason behind its investigation (Park et al. 1993). Categorization theory implies that when extending a brand name, the transfer of brand associations is largely determined by categorization
judgments. In other words, whether the consumer accepts the new extension as being a suitable member for the new category (Park et al. 1991). When faced with an extension, consumers initially categorize the new introduction by evaluating the suitability of the brand in the new category (Park et al. 1991). If the core brand associations are transferred to the extended product, consumers will perceive the extension as fitting with the new category and it will be likely that they accept it (Chakravarti et al. 1990). Aaker and Keller (1990) points out that research is indicating that categorization judgments and the transfer of brand association are particularly affected by consumer perceptions of fit. Grime et al. (2002) concludes that it is the level of fit between the core brand and the extension, and not the type of extension, i.e., category, line, or co-brand, which is the most important concern. To conclude, research on brand extension has increased in the last 25 years and concerning category extensions, focus have been on the concept of extension fit (Grime et al. 2002). If the fit is good, the extension is supposed to be successful and the existing brand name creates additional cash flow through sales generated by the new product. Further, Grime et al. (2002) pointed out that most studies investigate factors, either contributing to favourable consumer evaluations of an extension, or the potential negative impact of extensions on the core or original brand. To bear in mind is that even if the extension and the impact on the core brand are mentioned separately, the extension is still a part of the core brand.

1.4 Research Objectives

In order to determine whether a brand extension is able to capitalize on its parent brand whilst avoiding or minimizing potential disadvantages, it is crucial to understand how consumers evaluate the extensions. The success of a brand extension is largely determined by how consumers evaluate the extension (Klink & Smith, 2001). Numerous academic studies on brand extensions have been made. A landmark study in this area was made by Aaker and Keller in 1990. This study aims to determine whether a brand extension is able to capitalize on its parent brand whilst avoiding or minimizing potential
disadvantages. Researchers have predominantly investigated brand extensions amongst tangible goods. 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).

Firstly, this study proposes to empirically test whether there are differences in consumers’ evaluations between brand extensions in non-service sector and service sectors. This study aims to lay greater stress on the service sector as not much research has been devoted to this aspect. Moreover this study aims to lay greater emphasis on customers using existing brands than students and fictitious brands so that market behavior can be studied more closely.

Secondly, this study proposes to investigate how the antecedents of similarity, reputation, perceived risk and consumer innovativeness influence consumer evaluations of brand extensions.

1.5 Thesis Outline & Chapterization

The thesis has been structured into five parts. Each part consists of chapters, which are detailed below:

Part I: Opening Perspectives

Chapter 1. Introduction It introduces the topic of research, while also outlining the background and evolution of brand extensions. It traces the research history of brand extensions and then defines the problem statement of the study. It also gives an outline of the thesis.
Part II: Review of Literature

Chapter 2. Literature Review in a Macro Framework It is an introduction to the concept of consumer brand extensions and its benefits and drawbacks. It also covers a section on the concepts and theories for evaluating brand extensions.

Chapter 3. Literature Review in a Micro Framework It details a chronological review of literature in a brand extension context, selected studies in the brand extension literature, key hypothesis framed in earlier studies regarding success factors of brand extensions, the multiple measures of success factors of brand extensions and the key limitations of the previous research studies.

Part III: Conceptual Framework

Chapter 4: Hypothesis The hypothesis built on the theories of the preceding chapters are presented.

Chapter 5: Research Design It covers the research methodology, the selection of parent brands and brand extensions, the process of questionnaire development and data collection of both the pilot and the current study. It also describes the scaling of the multiple-item data, measurement of the dependent and independent variables and measurement of their reliability.

Part IV: Research Findings

Chapter 6: Analysis, Results and Interpretations In this chapter, the empirical data is analyzed, hypothesis tested and findings interpreted.
Part V: Closing Perspectives

Chapter 7: Conclusions and Directions for Future Research

A summary and conclusion of the findings are given. Implications of the study, both theoretical and managerial are mentioned, as well as limitations and directions for future research.