PART II: REVIEW OF LITERATURE
CHAPTER 2. LITERATURE REVIEW IN A MACRO FRAMEWORK

2.1 Introduction

The discussion on brand extensions begins with a consideration of a firm's sources of growth. As a useful perspective, Keller (2003) proposes the so-called Ansoff's product-market expansion grid, which categorizes various growth strategies "according to whether they involve existing or new products and whether they target existing or new customers or markets" (ibid. p.577). An important point in the context of growth strategies is that new-product introductions are crucial for a firm to sustain its long-term competitive advantage (Keller, 2003). New product introductions can, in turn, be executed in three general ways: (1) as a new brand that is individually designed for the new product; (2) as an application of an existing brand; and (3) as a combination of a new brand with an existing brand. Hence, brand extension is a managerial topic. Nevertheless, for the purposes of the current study, the literature review in this chapter will be of more theoretical nature, focusing on potential advantages and disadvantages, as well as different theoretical concepts for how consumers evaluate brand extensions.

2.2 Consumer Brand Extensions

2.2.1 Brand Extension Definition

According to Keller (2003, p.577), a brand extension is defined as "when a firm uses an established brand name to introduce a new product". Brand extensions are made on an ad hoc basis or according to a strategy to create a range brand (Aaker, 1996).
2.2.2 Benefits

The benefits of brand extensions are a much-discussed subject. Keller (2003) distinguishes two kinds of benefits: (1) benefits that relate to the acceptance of the brand extension, and (2) benefits that relate to the parent brand image. Kapferer (1997) also makes a distinction between brand extensions and their benefits from an operational point of view, and proposes that brand extensions that are intended to boost sales should be distinguished from new products that carry brand image and exist to fuel the brand.

2.2.2.1 Benefits related to brand extension acceptance

Brand extensions allow consumers to draw conclusions and form expectations about the potential performance of a new product (i.e., the brand extension) based on their existing knowledge about the brand (Keller, 2003). Provided that a strong brand name is present, the perceived risk by consumers is substantially reduced when familiarity and knowledge about the parent brand is present (Keller, 2003; Aaker & Keller, 1990). Benefits of introducing new products also include different ways of achieving operational efficiencies. A favorable parent brand reduces costs associated with gaining distribution since retailers are more positive to stock and promote a brand extension (ibid). Another benefit relates to marketing communications: since brand awareness already exists, promotional activities (including introductory and follow-up advertising and other marketing programs) of a brand extension can be less intensive and thus less costly than those of a totally new brand and product (Keller, 2003; Kapferer, 1997). Other efficiencies include avoiding costly development of brand names, logos, symbols, packages, characters, slogans, etc (Keller, 2003).

2.2.2.2 Benefits related to the parent brand image

Brand extensions also have positive spillover effects on the parent brand. Firstly, extensions can clarify the brand meaning to consumers and define the boundaries of the domain in which
it competes (Keller, 2003). Second, by improving the favorability of an existing brand extension, adding a new brand association, or a combination of these, a brand extension can enhance the parent brand image (ibid). Consistent with this view are the findings of Morrin (1999), which propose that consumer exposure to brand extensions will increase parent brand awareness in terms of recognition and recall. Similarly, Balachander and Ghose (2003) find evidence of beneficial spillover effects of advertising of a brand extension on choice of a parent brand. A third benefit involves brand revitalization – a new or rejuvenated product can be a means to renew interest and improve attitude towards the parent brand (Keller, 2003, Kapferer, 1997).

2.2.3 Drawbacks

Keller (2003) mentions several drawbacks of brand extensions. First, the image of the parent brand can be hurt irrespective of the success or failure of the extension. This happens when the attributes of the extension are seen as inconsistent or conflicting with the corresponding attributes of the parent brand. Second, brand extensions may obscure the identification of the brand with its original categories, reducing brand awareness (Morrin, 1999) and/or diluting the brand meaning. Third, brand extensions can lead to problems of practical nature, for example a large number of extensions might confuse or frustrate customers, and there might be problems with retailers being unwilling to shelf/store all the different extensions. Similarly, Loken and John (1993, p 79) suggest that "unsuccessful brand extensions can dilute brand names by diminishing the favorable attitudes that consumers have learned to associate with the family brand name".
2.3 Concepts For Evaluating Brand Extensions

2.3.1 Extension Reaction

A principle study in the field of brand extensions is Aaker and Keller's (1990) study on how consumers evaluate brand extensions. The authors hypothesize that "evaluations of brand extensions are based on the quality of the original brand, the fit between the parent and extension categories and the interaction between the two" (Bottomley & Holden, 2001, p 494) despite the fact that this study per se provides no evidence that a direct relationship between the quality of the parent brand and the consumer evaluation of the brand extension exist (Aaker & Keller, 1990, ibid.), the empirical generalizability of Aaker and Keller's (1990) model is well supported in Bottomley and Holden's (2001) secondary analysis, which examines seven replication studies. Based on their findings, Bottomley and Holden (2001) draw three general conclusions: (1) the quality of the parent brand and the fit between the parent brand and the brand extension are key determinants of consumer evaluations of brand extensions, (2) consumers' brand extension evaluations are also determined by (a) the dimensions of fit (i.e., the complementarity and transferability of assets and skills) between the parent brand and the brand extension, and (b) to what extent consumers perceive the brand extension is difficult to produce; (3) cultural differences influence how brand extensions are evaluated with respect to relative measurement factors.

2.3.2 Spillover and Substitution Effects

While Aaker and Keller (1990) and consequent replication studies provide a rationale for leveraging parent brand equity through brand extensions, from which economic profits can be extruded, Balachander and Ghose (2003) examine the reciprocal effect of brand extensions on the parent brand. This effect or productivity is measured by "brand-choice elasticities", which measure the increase in choice probability that results from increase in exposure (ibid.,
The findings of Balachander and Ghose (2003) provide strong support to positive spillover effects from advertising of a brand extension on choice of a parent brand. This reciprocal spillover effect does, however, not seem to be symmetrical – that is, forward spillover effects from advertising of a parent brand on choice of a brand extension are limited.

### 2.3.3 Categorical and Piecemeal Evaluation Processes

To understand how consumers evaluate new brand extensions, categorization theory is a useful concept. It aims at identifying the processes by which consumers form categories, and assigns certain objects to one category rather than another (Kapferer, 1997). Mervis and Rosch (1981, p.89) propose that “a category exists whenever two or more distinguishable objects are treated equivalently.” When a new brand extension is launched, a set of attributes or beliefs in addition to the already existing family or parent brand image is introduced (Loken & John, 1993). If these attributes or beliefs are consistent with the parent brand image, an extension is considered to be acceptable (Kapferer, 1997) or perceived to “fit” the category (Boush & Loken, 1991).

Another concept for attitude formation towards brand extensions is by so-called “piecemeal”, “analytical” or “computational” processing (Fiske, 1982, Cohen, 1982, Brooks, 1978), where attitude is “computed” from specific brand extension attributes. This type of model does not aim to describe conscious evaluation processes (Boush & Loken, 1991).

Categorical and computational evaluation processes are not mutually exclusive in any given affective reaction. Fiske and Pavelchak (1986) propose a two-step process of evaluation. In the first step, the consumer attempts to match a brand extension with the current category. If categorization is successful, the affect that is associated with the category type is applied to the brand extension and so the evaluation process is complete. If on the other hand, there is a poor match between the category and the brand extension, piecemeal processes are initiated. Affect is then evaluated through a weighted combination of attributes.
Even if inconsistency implies that the extension is not "integrated" in the parent category, an inconsistent brand extension can have a negative impact on the parent brand by "diluting" specific attribute beliefs that consumers have come to hold about an established brand name, rather than "diluting" the global affect associated with the established brand name (Loken & John, 1993). The negative impact of an inconsistent extension depends on the typicality of the brand attribute at stake. Hence, brand dilution is an important issue when launching new brand or category extensions.

2.3.4 Brand Specific Associations

A brand specific association is defined as an attribute or benefit that differentiates a brand from competing brands (MacInnis & Nakamoto, 1990). This means that a brand can be associated with a salient attribute, but this association is per se not strongly associated with competing brands or the product class as a whole (Broniarczyk & Alba, 1994).

Since the brand association varies depending on the benefits that are sought within a particular product category, a consumer's evaluation of a brand extension need not correspond to evaluation of that brand in its original category (ibid). Three conclusions can be drawn from Broniarczyk & Alba's (1994) research. (1) a perceived lack of fit between the product category of the parent brand and the proposed extension category can be overcome if key parent brand associations are salient and relevant in the extension category, (2) brand-specific associations allow for brand extensions to unrelated product categories brand-specific associations moderate the role of product category similarity in brand extension judgments, a brand extension is more preferred in an unrelated category that valued its association than in a similar category that does not value its associations; and (3) the boundaries for the appropriateness of a certain brand extension were determined by knowledge about the incumbent brand.
2.4 Summary

A brand can be leveraged by means of brand extensions. Two types of benefits arise from an extension strategy: (1) an extension is easier accepted among consumers if the parent brand is known; and (2) an extension can increase parent brand awareness and positive attitudes. The success or failure of an extension strategy depends highly on how consumers evaluate the extension. In general, extension acceptance is higher when there is a perceived “fit” between the parent brand and the extension. This fit can be based on associations of the extension product category or on the consistency of the extension with the parent “brand concept”. This, in turn, depends on how the evaluation process of the consumer is structured.