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# BRAND EXTENSIONS: THE ROLE OF TARGET CATEGORY COMPETITION AND DOMINANT BRAND

Past research on brand extension evaluation does not incorporate the effects of the target category structure and competition from the existing brand. This paper reports the findings of an exploratory experimental study that shows the effects of competition on the evaluation of brand extensions and potential implications of the dominant brand in the target category.

## Introduction

A review of the literature on the evaluation of brand extensions indicates that this area has been widely researched. This stream of research has made significant contributions in understanding how brand extensions are evaluated and should be created. However, despite these advancements, a number of gaps still exist in the literature that must be filled.

A notable gap in the previous research on the evaluation of brand extensions is its failure to recognize the pre-existence of competing brands in the extension category and has not accounted for their impact on the evaluation process. The past research seems to be based on the assumption that the extended brand is the only product in the target category or, if the competition exists, the extension is somehow unaffected from it. However, the market reality is very different from these assumptions, especially in the consumer goods categories, in which numerous brands compete for the same market and any proposed extension would encounter well-established brands. Tauber (1993) describes this situation succinctly:

> "We [businesses] are trying to extend into an established, or perhaps a new but rapidly growing category. In the majority of cases, another brand dominates the category. Our product, although not deficient, is most likely to be "me too" or, at best, marginally superior."

The literature on attitude formation, consumer decision-making, and brand choice processes clearly indicates that brand evaluation and choice decisions are not immune from competitive interferences. Therefore, a brand extension should not only be evaluated in terms of its fit with the parent brand, but it must also be simultaneously evaluated in terms of its fit and proposed positioning in the target category. Therefore, a managerially relevant and theoretically significant research effort would involve examination of brand extensions in the presence of competing brands and their effect on the evaluation of extensions.

Very few studies of brand extensions evaluation have taken the competitive effects into consideration. Only two published (Han 1998; Maoz and Tybout's 2002) studies have considered this issue. However, these two studies do not take into consideration the competitive factors related to brand associations and category structure that may affect brand extension evaluations. The objective of the research reported here is to examine the impact of competing brands and target category structure on the evaluation of brand extensions.

## Brand Extension Evaluation and Market Structure

Given the expense and risk of new product failures, brand extensions are often used as a growth strategy. The basic premise on which brand extensions are based is that consumers hold positive attitude toward the parent brand that can be transferred to an extension without any negative consequences as long as there is a "fit" between the two (Aaker and Keller 1990). This means that the brand-extension associations must be consistent with those of the parent brand in order for it to be successful. The introduction of brand extensions with inconsistent associations may fail and, in some cases, can even dilute the parent brand equity (Loken and Roedder John 1993). Most research on extension evaluation has focused on the issues surrounding "fit" between the parent brand and the extension and moderating variables that affect this fit.

The introduction of a brand extension in an established product category results in restructuring of the category, related brand associations, and pertinent consumer knowledge, thereby, affecting consumers' attitudes toward the existing brands in the target category (Czellar 2003). Woodside and Clokey (1974) identified that consumers' attitudes are affected by competitor activity, as well as, numerous other information sources. They developed a multi-attribute/multi-brand model of attitude formation and systematically evaluated the process of brand attitude formation. The results of the Woodside and Clokey (1974) study state that, "*brand choice was more accurately predicted when attitudes toward other brands were also considered*." Similarly, the results of the Abe and Tanaka (1989) study indicate that the brand evaluation process is not independent of other brands in the competitive markets.

Chintagunta (1996 and 1999) examined the impact of the introduction of line extension and a new brand on the market structure. The results of his research conclude that the introduction of a new brand significantly alters the existing market structure by shifting the brands in the perceptual map, and by changing the importance attached to different product category attributes. These market structure changes caused by new brand entrants in an established product category significantly affect the "*subjective brand judgments, brand preferences, and choice*," (Pan and Lehman 1993) due to a shift in similarity judgments between/among the existing brands caused by the new entrant with attribute(s) similar to the existing brands (Baker, Hunt, and Scribbner 2002).

The above discussion indicates that the introduction of a new brand in an established product category alters the existing market structure and that the evaluation of brands are interdependent resulting in modified brand preferences and choices for the existing brands (Chintagunta 1996 and 1999). Since a new brand entry alters the evaluation of existing brands in a category, it can be argued that the existing brands can also have a reciprocal impact on the evaluation of a brand extension. That is, the positive evaluation of a brand extension while ignoring the brands it will compete with in the target category may not present a complete and accurate picture of the brand extension evaluation process. The established positive beliefs and attitudes towards the existing brands and the target category as a whole can be expected to adversely affect a brand extension when it is evaluated in the presence of competing brands as opposed to when it is not[1]. Therefore:

***Proposition # 1*:** The evaluation of a brand extension, regardless of high brand-category fit, will not be as favorable in the presence of competing brands as it is when evaluated on its own.

## Brand Extensions and Target Category Competitiveness

So far the discussion has focused on the effects of competition on the evaluation of brand extensions without specifying the level of competitive intensity for a brand extension in the target category. As mentioned above, when a brand extension is introduced, the extension category is usually mature and is already populated with a number of brands (Tauber 1993). Therefore, it is not uncommon to see different levels of competition in different product categories when a brand extension is introduced. The competitive intensity refers to the relative proximity of brands on a given attribute:

> "The relative proximity of brands in the attribute space provides a measure of the intensity of competitive rivalry among brands" *(Chintagunta 1999, p. 315).*

However, some brands within a product category occupy a dominant position where the entire category is essentially defined by the dominant brand. In such instances it is likely that the dominant brand's association will be the association by which the category is known. In other cases, a category is represented by multiple brands, in which case brands share some associations with each other and with the category as a whole (MacInnis and Nakamoto 1989; Chakravarti et al 1990).

For example, facial tissues and detergent product categories are dominated by Kleenex and Tide, respectively; whereas other categories maybe dominated by two brands, such as, Coke and Pepsi in the cola drinks category. Still, some other categories do not have any category dominant brand, but rather the category is populated by a number of equally representative brands, such as, Dentyne, Trident, Juicy Fruit, Extra, and Clorets, etc in the chewing gum category.

The definition of competitive intensity discussed above in this section would suggest that the chewing gum category should be the most competitive of the three categories with the facial tissue and detergent categories being the least competitive. From the perspective of introducing a brand extension, it would seem that the facial tissue category would be the hardest of the three to penetrate, as the dominant brand in this category defines the category, and brand associations are hard to isolate from the category associations. Brand-category association strength is a measure of how readily a brand can be recalled upon invoking a category and this association represents the strength of a consumer's cognitive structure regarding a brand and its link to a category.

> "If a product category automatically activates a certain brand in memory, the brand is placed in a prominent position relative to other brands to be evaluated. Such a category-dominant brand may even preempt the choice process*," (Herr et al 1996, p. 136).*

The above discussion suggests that product categories with dominant brands would have associations so strongly linked to the dominant brand, that the introduction of brand extension

[1] We assume that these competing brands are well regarded in the product category. Otherwise, it can be argued that the category is not attractive enough for the introduction of a brand extension.

would be far adversely affected than product categories without dominant brand as the latter categories do not have such strong associative links with their brands. Therefore, we suggest:

***Proposition # 2***: The competitive effects on the evaluation of brand extensions will be stronger in product categories with category-dominant brands than categories without dominant brands.

In the following sections we describe the results of an experiment that explores whether or not existing competing brands and the competitive intensity adversely affect the evaluation of brand extensions across a range of product brands.

## Methodology

### Pre-test and Development of the Test Stimulus

Brand extensions included in the final experiment were chosen through a series of pretests in which fifty-six undergraduate students who were enrolled in various business courses participated. In the first step, thirty participants were provided with 20 consumer goods products categories and were asked to list the major brands in each category and the perceived market share of each brand in its respective category. Each student evaluated five different product categories. From the twenty product categories, top 20 brands were chosen and hypothetical brand extensions were developed for each brand. In the next step, twenty-six subjects were asked to rate the potential brand extensions in terms of their fit with the parent brand on a 9-point Likert type scales. Six brands extensions with the highest fit with the parent brand representing different product categories were retained for inclusion in the final experiment. These six brand extensions were used as replicates. These extensions are: Dell TVs, Kodak Camcorders, Sony Laser Printers, Starbucks Ice Cream, Kleenex Toilet Paper, and Listerine Toothpaste.

The data were collected using a between-subjects experimental design in which one set of questionnaires was used to collect data on the evaluation of brand extensions without cuing the competitive brands from the target category (pre-competition scenario). Based on the pre-test information, two versions of the post-competition scenarios were developed to induce the presence or absence of brand dominance in the target category by varying the competing brands' market shares in different target categories[2].

## Data Collection

The respondents, undergraduate business students, were randomly assigned to one of the three treatments (pre-competition or post-competition dominant/non-dominant). The study participants in the pre-competition scenario were asked to evaluate all six brands extensions, whereas those in the post-competition scenarios were asked to evaluate three brands each. This was done to avoid the respondent fatigue, as the post-competition questionnaires were

[2] For example, in the category TV in which Dell TVs would be introduced, Sony was consistently rated as the number one brand with the highest market share. For the dominant condition scenario, the difference between Sony and the second ranking brand was 7% and included a statement after the market share table that "From the above table it is clear that Sony is the leading and dominant brand with a commanding presence in the TV market." For the non-dominant scenario, the difference between Sony and the 2nd brand was reduced to less than 2% and a statement followed the market share table that, "From the above table it is clear that all brands of TVs are equally competitive with more or less similar market shares. There is no leading and dominant brand in the TV market." A footnote was included in the questionnaire that stated the information was collected from the Consumers Reports to enhance the believability of the market share information.

considerably longer than the pre-competition questionnaire. For the post-competition scenarios, the participants were randomly assigned three of the six brands.

A total of 64 respondents participated in the pre-competition condition, resulting in a total of 384 observations. For the post-competition treatment, 51 and 59 students completed the dominant and non-dominant post-competition scenarios resulting in a total of 153 and 177 observations, respectively.

In the pre-competition questionnaire the respondents' were asked seven questions beginning with their familiarity with the parent brand (where 1=Never Heard of; 9=Very Familiar), followed by two questions on parent brand quality (1=Low Quality; 9=High Quality) and brand affect (1=Dislike it; 9=Like it). Next, the parent brand was described with an emphasis on its dominant brand association identified through pre-tests and the management's decision to introduce the brand extension[3]. The fit of the brand extension (1=No Sense at all; 9=A Lot of Sense) and respondents' attitudes toward the brand extension were captured next (1=I Dislike it; 9=I like it), purchase intent likelihood (1=Not at All Likely; 9=Very Likely), and target category knowledge (1=Not Knowledgeable at All; 9=Very Knowledgeable).

In the post-competition scenarios the respondents were asked a total of 12 questions starting with their brand familiarity, perceived brand quality and brand affect on 9-point Likert type scales as described above. Following this, the scenario detailing management's decision to introduce the brand extension was given, and respondents were asked to assess the fit and the target category competitiveness. Next, the respondents were provided with a table of competing brands from the target category with their respective market shares to induce dominant or non-dominant brand conditions. This was followed by questions on attitude toward the brand extension compared to the existing brands in the target category (1=I Dislike it; 9=I Like it). The respondents were also asked to indicate how well the brand extension would fare in the target category compared to the existing brands (1=One of the Worst; 9=One of the Best). Finally, the last three questions asked the respondents to list their favorite brand in the target category, their purchase intent and the target category knowledge.

## Results

An initial brand level analysis was conducted to determine the effects of competition on the evaluation of brand extensions. A univariate ANOVA results showed that Pre-Competition evaluations of brand extensions were significantly higher ($F_{2,689}=16.56$, $p=0.000$) than both Post-Competition-Dominant and Non-Dominant scenarios (Table 1). However, there was also a brand effect ($F_{5,689}=16.82$, $p=0.000$), as well as, a brand and treatment interaction ($F_{10,689}=2.79$, $p=0.002$), which shows that there was a differential treatment effect on each proposed brand extension (Figure 1). At the same time, as proposed, there was no difference between Post-Competition-Dominant Brand and Post-Competition-Non-Dominant brand scenarios.

Table 1

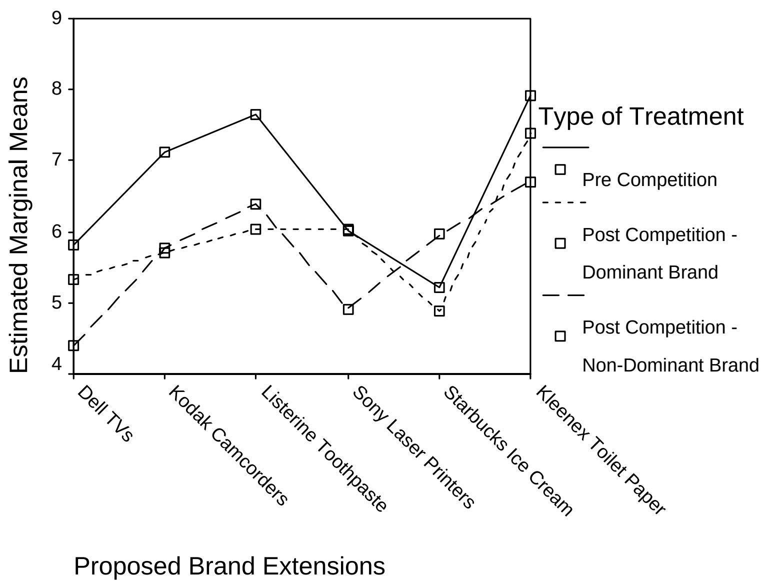
Mean Evaluation Ratings

[3] For example, Listerine is a brand known for its dental hygiene qualities. The management at Listerine has decided to introduce Listerine brand toothpaste.

| **Proposed Brand Extension** | **Pre-Competition Evaluation** | **Post Competition Evaluation** | |
|---|---|---|---|
| | | **Dominant Brand Scenario** | **Non-Dominant Brand Scenario** |
| Dell TV | 5.82 (2.26) | 5.33 (2.20) | 4.39 (1.93) |
| Kodak Camcorder | 7.12 (1.59) | 5.71 (2.15) | 5.78 (1.12) |
| Listerine Toothpaste | 7.66 (1.54) | 6.03 (2.00) | 6.40 (2.21) |
| Sony Laser Printer | 6.02 (2.10) | 6.04 (2.01) | 4.91 (2.23) |
| Starbucks Ice Cream | 5.22 (2.40) | 4.88 (2.23) | 5.96 (1.77) |
| Kleenex Toilet Paper | 7.92 (1.10) | 7.38 (0.96) | 6.70 (1.83) |

Figure 1

Pre-Post Competition Evaluation - Brand Level Analysis




The significant brand effect is not surprising and simply means that respondents did not have the same evaluation of the different product brands. However, the interaction effect is a cause for concern and indicates that the difference between treatments is not the same across brands. While some general consistency is seen in Figure 1, some brands did not follow the same pattern as others. In particular, Starbucks, the lowest rated product at the pre-competition level, is not consistent with the other brands, and the highest rated product, Kleenex, while following the general pattern of pre-post differences, has less strong differences. No patterns can be seen based on product complexity or durability or nature of product usage. Given the lack of patterned or typology-based product differences, it was decided to treat the products as replicates and merge the data across products. At the same time, due to lack of difference in dominant and non-dominant brand scenarios, these were also collapsed. The final ANOVA test examined only for consistent pre-post differences.

The results indicate that the pre-competition evaluation of brand extensions is significantly ($F_{1,705}$=31.456, p=0.000) higher in the absence of competition.

Table 2

Mean Ratings across brands for the Pre/Post Competition Scenarios

| **Experimental Condition** | **Mean** | **Std. Deviation** |
|---|---|---|
| Pre-Competition | 6.62 | 2.123 |
| Post-Competition (Dominant Brand) | 5.78 | 2.129 |
| Post-Competition (Non-Dominant Brand) | 5.70 | 2.027 |

The results of the aggregate analysis indicate that the evaluation of brand extension is affected by the presence of competing brands, thus, supporting the Proposition # 1. However, our study failed to find any difference that the presence of a dominant brand (versus a non-dominant brand) may have on the evaluation of brand extensions, thus, resulting in a lack of support for Proposition # 2.

There may be several reasons for the lack of support for proposition # 2. First, it is entirely possible that consumers, unlike marketing managers, do not use market share as an indicator of a brand's dominance in a category, therefore, our treatment failed to elicit the desired response from the respondents. Second, the dominance or non-dominance of a brand in the target category should be seen as relative to the parent brand, that is, a brand that is dominant in an existing category may witness its dominance compromised when an extension from an equally or stronger brand is introduced. Since, we used very well established brands as extensions to be introduced in well-known categories, the effect of the brand dominance might not have made a difference.

Marketers desire brand extensions that fit with the parent brand, but they must also consider the impact of competing brands in the target category on the success of brand extensions. Our study, in line with the findings from the previous research on brand extensions, also suggests that which measure of fit will be used to evaluate an extension cannot be predicted *a priori*. Consumers differ in their reaction to the brand extension and also in their method of evaluation of it depending on their perception of relevance and competing brand associations were brought to mind at the time of evaluation.

A number of possible theoretical explanations exist for the results obtained in our study, particularly the "attraction effect" theory. A market structure is often defined in terms of perceptual space and the attributes that define this space (Chintagunta 1996). When a new brand is introduced, it alters the market structure in terms of the product consideration set, perceptual space, and the attributes associated with it (Chintagunta 1996 and 1999). The findings from research reported by Pan and Lehman (1993) suggest that new brand entrants alter the subjective evaluation of the existing brands through an "attraction effect." The attraction effect works by affecting the perceptual space and its dimensions when a new brand is introduced and positioned against the existing brands. Though we did not specifically provide brand extension positioning information to the subjects in our study, it is likely that the respondents inferred such information based on their knowledge of the existing brands and extension categories resulting in lower evaluation for the proposed brand extensions when compared with the competing brands.

Given the lack of information on the proposed brand extensions, it is also possible that the existing brands in the target category were seen as more typical of the category (that is near the category ideal point) than the new entrant, therefore, resulting in lower evaluations for the brand extensions compared to the existing brands. This explanation is also consistent with the findings from the previous research that "data deficiency" and "cognitive deficiency" result in attraction effects leading to preference for the existing brands (Malaviya and Sivakumar 2002).

## Conclusion and Future Research

This study helps in understanding how competing brands affect the evaluation of brand extensions. Our findings indicate that highly rated brand extensions considered to be a good fit with the parent brand are not evaluated as favorably in the presence of competing brands as when they are evaluated on their own. Most notably, the measures of fit that make an extension relevant with the parent brand may no longer be sufficient in a competitive setting. This means that a brand extension must fit not only with the parent brand, but it must also be introduced with a good understanding of the effect of the competing brands in the target category. Future studies should examine the impact of target category structure, intensity of competition, and relative strengths of the parent brand and competing brands on the evaluation of brand extensions vis-à-vis existing brands.

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