Australasian Marketing Journal 18 (2010) 66–73

Contents lists available at ScienceDirect

Australasian Marketing Journal

journal homepage: www.elsevier.com/locate/amj

A conceptual exploration of the strategic factors driving new brand entry decisions and their success

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A R T I C L E I N F O

Article history:
Received 3 September 2009
Revised 16 February 2010
Accepted 18 February 2010

Keywords:
New brands
RBV
Strategic orientation
Environment
Innovation

A B S T R A C T

New brand entry strategies, such as brand extensions and new-name brands, are increasingly being used by firms to facilitate strategic growth. Whilst the issue of new brand entry is of great strategic importance, particularly to marketing practitioners, most new brand entry research has taken a strong consumer behavior stance, with much less research being directed towards the strategic, firm-specific and market-specific drivers of new brand entry decisions and their performance. This paper takes an exploratory first step in providing a strategic management view of new brand entry by developing and introducing a conceptual framework of firm- and market-specific antecedents and moderators of two key new brand entry strategies, brand extensions and new-name brands. Specifically, this paper first explores the direct effect of a firm's resources and strategic orientation on the choice of a brand extension or a new-name brand strategy, before going onto investigate the effect of the two new brand entry strategies on performance under different environmental conditions, namely dynamism, complexity, and hostility. The paper puts forth a number of propositions and finishes off with a discussion of future research avenues.

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1. Introduction

New brand introductions are frequently used by firms as a core vehicle for strategic growth (Broniarczyk and Alba, 1994). New brand entry refers to a firm's decision to enter a new market with either a new-name brand or a brand extension (Sullivan, 1991). A new-name brand is defined as the process of creating a *totally* new brand name for a new product (Sullivan, 1991). An example of a new-name brand is Toyota's introduction of the *Lexus* brand to compete in the luxury car market. Brand extensions involve the marketing of new products by leveraging existing brand names (Lane and Jacobson, 1995; Reddy et al., 1994). Kim et al. (2001), p. 211 define a brand extension as "the application of an established brand name to new products in order to capitalize on the equity of the original brand name and to capture new market segments". An example of a brand extension is the Armani portfolio of brands (*Armani* Exchange, Emporio *Armani*, and Giorgio *Armani*), each of which is targeted to a different market segment.

Recent years have witnessed a steady rise in the number of brand extensions introduced by firms into the consumer goods market (Broniarczyk and Alba, 1994; Gatignon et al., 1990). According to Lane and Jacobson (1995), nearly 95% of all new consumer products are introduced into the market using a brand extension strategy. Using an established brand name to access new markets can increase the likelihood of a successful entry strategy, because the brand extension can transfer equity from the existing brand, thus decreasing the amount of brand development, introduction and marketing investment. On the other hand, new-name brands have also grown in popularity, particularly for firms who choose to enter a higher value segment or a different value segment than that to which they normally compete in (i.e., Toyota's introduction of the *Lexus* brand; General Motor's *Saturn* brand; and Delta Airlines' budget airline *Song*). The reason for this is that a new-name brand results in the creation of a totally new brand identity and positioning strategy, allowing the firm to enter a different value segment with a totally different value proposition. For this reason, new-name brands are seen to be a more innovative strategy than brand extension entry. They are also a riskier strategy, in that the introduction and marketing investments are extremely high as a totally new brand identity and positioning must be created, and unlike brand extensions, they are unable to capitalize on the parent brand's equity (Sullivan, 1991). New-name brands involve a considerable degree of risk in the development, market entry and marketing process, but offer potentially significant rewards in terms of impacting positively and strongly on firm performance if they are successful.

The majority of studies in the marketing literature on new brand entry strategies use the consumer behavior perspective (i.e., using the information processing view and consumer preference formation to assess consumers' attitudes towards new brands) as a means of explaining new brand entry decisions and

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doi:10.1016/j.ausmj.2010.02.001

success (e.g., Reddy et al., 1994; Loken and John, 1993; Keller and Aaker, 1992; Smith and Park, 1992). Notwithstanding the numerous consumer behaviour-based studies conducted on this issue and the valuable insights generated from these studies, gaps in our knowledge remain. For example, whilst there is considerable evidence that a firm's resources and strategic orientation affect the strategic decision-making process (see Zhou et al., 2005; Cockburn et al., 2000; Han et al., 1998; Gatignon and Xuereb, 1997), no research has attempted to examine the direct effect of firm resources and strategic orientation on the choice of a new brand entry strategy. Moreover, the literature reflects few, if any, studies on the environmental conditions that moderate the relationship between a new brand entry strategy and firm performance, despite the number of past studies that have found that a firm's external environment affects the strategy—performance relationship (see, for example, Lukas et al., 2001; Tan and Litschert, 1994; Miller, 1987; Miller and Friesen, 1983). Both market forces and internal firm-specific factors (such as resources and strategic orientation) can affect how competitive advantage is achieved (Zhou et al., 2005).

These are very managerially relevant issues, because a more thorough examination of these firm-specific and market-specific factors will not only extend the current body of literature on the strategically important issue of new brand entry, but will also add value to management by providing a thorough insight into the impact of these factors on a particular new brand entry strategy. In fact, a number of authors (see, for example, Priem and Butler, 2001; Cockburn et al., 2000; Lieberman and Montgomery, 1998) have all made calls for more strategy research to bring together an analysis of the impact of firm-specific and market-specific factors. While the consumer behavior perspective is fundamental to the study of new brand entry, looking at new brand entry from a strategic perspective will give a more comprehensive picture of the drivers and outcomes of this issue.

In addition, as mentioned earlier, past research has found that a firm's external environment can impact on the relationship between a firm's strategy and performance (e.g., Tan and Litschert, 1994; Miller, 1987; Miller and Friesen, 1983). This suggests that a firm's external environment might also affect the relationship between a firm's *new brand entry* strategy (i.e., brand extension strategy and new-name brand strategy) and performance, with different environmental conditions resulting in one type of new brand entry strategy performing better than another type of new brand entry strategy. This implies that different environmental conditions may require different types of new brand entry strategies. Therefore, it is time that these issues were addressed, seeing that these issues are of great strategic importance to marketing managers in particular.

Whilst there are a myriad of other factors that might affect new brand entry decisions and success, such as bad timing, poor organizational fit or inappropriate target audience, this paper is concerned specifically with investigating the relationship between firm-based and market-based factors and new brand entry strategy. The key objectives of this paper are to build on and extend our limited knowledge of the strategic firm-based and market-based factors affecting new brand entry strategy and to provide an agenda for future empirical research. This paper introduces a conceptual model that has two key aims. First, the model conceptually explores the direct effect of a firm's resources and strategic orientation on the choice of a new brand entry strategy (i.e., a brand extension strategy or a new-name brand strategy). Drawing on the resource-based view theory of the firm (RBV) and the strategic orientation, innovation and branding literatures, this paper argues that a firm's new brand entry strategy is influenced by the characteristics of the resources that a firm possesses (specifically, how adaptable a firm's resources are), as well as by the firm's strategic orientation (i.e., whether the firm is market-oriented and how this affects innovative behaviour within the firm). Then, drawing on the external environment, innovation and branding literatures, the conceptual model goes onto investigate the nature of the relationships between the two new brand entry strategies and firm performance in light of different environmental conditions (namely dynamism, complexity, and hostility). Here, the paper also briefly examines the direct impact that the two new brand entry strategies have on firm performance. The paper presents a number of propositions.

The remainder of this paper is organized as follows. First, the paper introduces the proposed conceptual model and develops research propositions based on the model to explain the firm-specific drivers of new brand entry, the relationship between new brand entry and firm performance, and then the market-specific moderators of the new brand entry—firm performance relationship. Then, the paper concludes with a brief discussion of the implications of the research and presents a number of avenues for future research.

2. Conceptual framework and propositions

This study focuses on taking a more strategic management view of new brand entry. To begin to investigate several of the issues posed earlier, a conceptual framework is developed and presented that links together an examination of both firm-specific and market-specific factors to new brand entry strategic decisions and their performance. The conceptual model is depicted in Fig. 1. Specifically, the model addresses two broad, key issues. The first issue looks at how firm-specific factors drive the new brand entry strategic decision. Brand extension entry and new-name brand entry are proposed to be affected by (i) a firm's resources, and (ii) a firm's strategic orientation. The second issue explores how environmental factors moderate the relationships between the two new brand entry strategies and firm performance. Before exploring the second issue, though, the paper briefly examines the direct relationships between the two new brand entry strategies and firm performance. To begin to address these issues, I draw on the RBV (Spanos and Lioukas, 2001; Eisenhardt and Martin, 2000; Barney, 1991), strategic orientation (Gatignon and Xuereb, 1997; Narver and Slater, 1990), innovation (Varadarajan and Jayachandran, 1999; Han et al., 1998), branding (Erdem et al., 2006; Keller and Aaker, 1992; Sullivan, 1991; Aaker and Keller, 1990) and external environment literatures (Tan and Litschert, 1994; Miller, 1987; Miller and Friesen, 1983). Propositions are developed and presented.

2.1. Resource characteristics

According to Eisenhardt and Martin (2000), p. 1105, the RBV is "an influential theoretical framework for understanding how competitive advantage within firms is achieved and how that advantage might be sustained over time". The RBV focuses on the heterogeneity of firms, and looks at how these differences determine not only a firm's particular strategy, but also how successfully the firm is able to implement and execute the strategy. The RBV emphasizes the *internal* resources and capabilities of firms as a means of explaining one firm's position in a market relative to other firms, and focuses on the firm's ability to generate above-normal rates of return by adapting these resources to meet new market opportunities (Cockburn et al., 2000; Oliver, 1997). As Spanos and Lioukas (2001), p. 910 state, "the resource-based perspective posits that the essence of strategy is or should be defined by the firm's unique resources and capabilities." In other words, the RBV assumes that firms to *leverage and adapt* their resources in order to develop a sustainable competitive advantage (Priem and Butler, 2001; Barney, 1991). In light of this, we now examine

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