



## Retail brand extensions: Unpacking the link between brand extension attitude and change in parent brand equity



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### ABSTRACT

The brand extension literature outlines a pivotal role of consumers' brand extension attitudes in explaining change in parent brand equity. However, there remains little understanding of *how* such feedback effects actually materialize on parent brand equity. The present study proposes and examines change in relationship equity as a mediator of the effect of brand extension attitude on change in parent brand equity, thereby explicating a process of conversion of brand extension attitudes into reciprocal brand equity evaluations. A store-based retailing context adds an interesting dimension to the study. A conceptual model is developed around the focal mediated effects. Key hypotheses are supported and the research model achieves acceptable predictive validity in estimating change in brand equity. Importantly, change in relationship equity *fully* mediates the effect of extension attitude on change in brand equity. Overall, a novel perspective is offered to the literature. Implications for theory and practice are discussed. Crown Copyright © 2013 Australian and New Zealand Marketing Academy. Published by Elsevier Ltd. All rights reserved.

### 1. Introduction

A brand extension strategy entails leveraging the equity vested in a parent brand into a different product market with the aim of enhancing the new product's acceptance among consumers. Once introduced in a market, brand extensions typically influence consumers' reciprocal evaluations of parent brands by way of creating new associations and beliefs; a phenomenon referred to as a feedback effect. Given that feedback effects materialize only after a brand extension gets introduced in a market, consumer evaluation of the brand extension *per se* assumes a pivotal role in subsequently influencing consumers' reciprocal parent brand evaluations. Traditionally, the literature highlights a direct positive influence of brand extension attitude on consumers' reciprocal parent brand equity (e.g., Buil et al., 2009; Martinez et al., 2008). The present research unpacks this relationship and explicates an underlying *process* that explains *how* brand extension attitudes get translated into reciprocal parent brand evaluations. The rationale for considering the mediated effect is based on how feedback effects have traditionally been conceptualized in literature. Theoretically, a direct relationship between brand extension attitude and change in brand equity is embedded in schema-change mechanisms that are assumed to be occurring within a consumer's exist-

ing knowledge-base (schema) of a parent brand (e.g., Lane and Jacobson, 1997; Sheinin, 2000). Brand knowledge or schema is conceptualized as an associative network of memory nodes, where each node represents a brand-related concept and the linkages among the nodes represent brand associations (Keller, 1993). Whenever a brand extension is launched, it creates a new memory nodes and a link back to a parent brand is created. Such mental linkages facilitate the transfer of evaluative judgments from an extension to a parent brand leading to a feedback effect on the parent brand (Lane and Jacobson, 1997). However, such reasoning assumes that the newly created (i.e., extension-derived) brand associations flow unidirectionally from consumers' extension evaluations to parent brand equity evaluations. This assumption tends to discount the diversity of brand concepts that are situated within a brand schema. At a given time, consumers hold a vast network of concepts in brand memory, for instance, product features, store atmosphere, value for money and quality of service offered, to name a few (John et al., 2006). Therefore, we argue that upon the introduction of a brand extension, the newly extension-derived evaluations are likely to flow over (via spreading-activation mechanisms) to diverse facets of a parent brand.

In the present study, we specifically propose that brand extensions influence consumers' relationship evaluations with a parent brand prior to a subsequent impact on parent brand equity. Empirically, we examine a mediating role of consumer perceived *relationship equity* in facilitating the effect of brand extension attitude on change in parent brand equity. Relationship equity refers to the consumer tendency to stay in a relationship with a brand (Rust

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et al., 2004). In the first instance, a body of research supports an antecedent role of brand extension attitudes in influencing consumer brand relationships. For instance, Jiang et al. (2002) demonstrate that brand extensions facilitate customer retention, implying a potential impact on relationship equity. Similarly, Neale et al. (2009) observe a direct reciprocal impact of brand extensions on parent brand relationship quality, thus supporting the proposed mediation. In the second instance, the literature suggests an antecedent role of consumer brand relationships in facilitating brand equity (Blackston, 2000; Gustafsson et al., 2005). An explicit empirical examination of the proposed mediation is likely to offer useful contributions. Firstly, a much broader assessment of brand extension feedback effects can be made. Traditionally, the approach to measuring feedback has largely been singular, mostly investigating feedback on brand equity or its inherent components for instance, brand beliefs and brand image (e.g., Martinez et al., 2008; Sheinin, 2000). The current investigation enables feedback to be modeled simultaneously on two equities of a parent brand, thus expanding the theoretical scope of feedback effects. Secondly, the mediated framework offers an underlying process of how brand extension attitudes get converted into brand equity evaluations. An explication of intervening mechanisms theoretically enriches the understanding of how change in parent brand equity actually materializes once a brand extension is launched.

Moreover, a retailing context is a useful context given recent brand extension activity in the store-based retailing arena. Some examples include Tesco extending from supermarkets into banking, Bulgari extending from luxury boutiques to hotels, and Coco Republic extending from furniture and homeware stores to online design-related education. From a brand management perspective, retail brands represent unique offerings. Retail brands are more multi-sensory than product or service brands, conveying their brand image via a multitude of brand associations such as product assortment and merchandising, in-store service and convenience offered, pricing and discount policies, and community engagement activities (Ailawadi and Keller, 2004). Thus, given the diverse set of retail brand associations facing consumers, an understanding of how brand equity feedback effects materialize has interesting implications for theory and strategy formulation. The literature remains scant in terms of empirical investigations into potential feedback effects of retail brand extensions. Some investigations report feedback effects of retail brand extensions (Alexander and Colgate, 2005; Laforet, 2007) though a joint (dual) impact on

relationship equity and brand equity remains to be modeled. The present study addresses these issues by modeling feedback effects simultaneously on two parent brand facets within a store-based retailing context. The conceptual model is developed next.

## 2. Conceptual framework

The focal mediated relationship is best understood within a holistic framework of brand extension feedback effects. The current section develops a conceptual model of brand extension feedback effects, which incorporates the proposed mediation effect. The framework entails two sets of dynamics, namely consumer evaluations of a brand extension and subsequent feedback effects on a parent brand, incorporating 11 hypotheses. Fig. 1 depicts the conceptual model of the current research. The individual hypotheses are discussed next.

### 2.1. Explaining brand extension attitude

Consumer evaluation of brand extensions is largely dependent on consumer parent brand evaluations and assessment of fit between a parent brand and its brand extension (Keller and Aaker, 1992; Salinas and Perez, 2009). Parent brand evaluation is conceptualized as consumer perceived parent brand equity. As per the associative network memory theory (Keller, 1993), consumers' overall knowledge of brands (i.e., brand equity) is composed of a network of information nodes (i.e., brand concepts), with connections representing brand associations. Favorable parent brands possess greater positive attitudes among consumers, and when an extension from a favorable parent brand is introduced, new brand associations are created in consumer memory (Lane and Jacobson, 1997). Due to the inherent inter-connections in the schema, there is a mental transfer of affect (attitude) from a parent brand to a brand extension (Bhat and Reddy, 2001). Empirically, a direct positive impact of initial parent brand evaluations on consumers' brand extension evaluations is reported in the literature (Martinez et al., 2008; Salinas and Perez, 2009). Further, the degree of consumer perceived fit between a parent brand and an extension plays a major role in brand extension evaluations. Consumer perceived fit is defined as the consumer perception of how logical and sensible the new product is from a parent brand, consistent with major perspectives on fit (Tauber, 1988; Keller, 2007). Perceived fit between a parent brand the brand extension thus acts as a heuristic

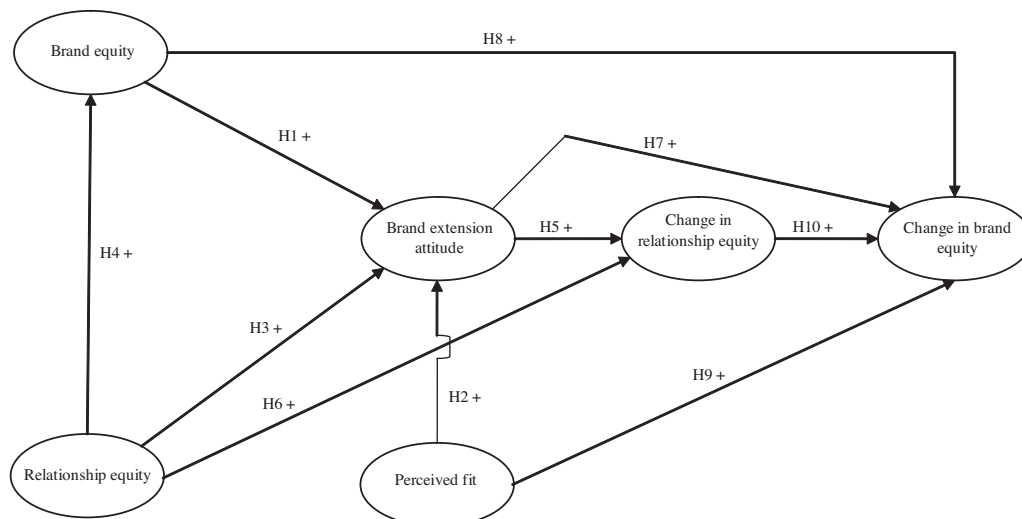


Fig. 1. The conceptual model.

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