

What really matters? A triumph of brand extension: Evidence from Engro Corporation

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Received Date: 15.12.2018 **Accepted Date:** 23.12.2018

Suggested citation: Javed, S., Rashidin, S. & Jian, W. (2018). What really matters? A triumph of brand extension: Evidence from Engro Corporation. *Journal of Politics, Economy and Management*, 1(2), 1–16.

Abstract: The intent of this study is twofold; firstly, to find out the different elements of the brand extension in different category product that influences it, secondly, evaluate the impact of these dimensions on brand extension. The study considered Engro as parent brand. The targeted brand was Engro Foods. A total of two hundred valid responses were collected from Lahore and Sahiwal through a self-administered survey. Reliability was tested by using Cronbach's alpha. The study used descriptive statistics; correlation analysis and regression analysis. Correlation results indicate that all variables; similarity, perceived risk, brand reputation, and innovativeness were positively correlated with evaluation of brand extensions. However, "brand reputation" was strongly correlated with the evaluation of extensions as compared to other variables. As far as regression analysis is concerned adjusted R^2 indicates that 48.0% of "Engro" extension was affected by the independent variable. The mean score highlighted that "Engro extension" was positively evaluated by customers and have a positive attitude towards them on all the variables. The study showed due to the strong reputation of parent brand, the Engro unrelated category extension "Engro Foods" was more favorably evaluated by customers.

Keywords: Brand extension, Brand reputation, Perceived risk

JEL classification: M31; M37

1. Introduction

Brand extension is a new way of managing the brand in order to diversify the risk & enhance the value of the brand by developing a house of brands. This is the most widely used strategy by the companies for new product developments. Companies prefer to extend their brand than introduce a new brand in order to reduce the cost and risk that is associated with launching a new brand. Companies used parent brand as leverage for new product launching that may increase the likelihood of its acceptance. Companies use the image of existing or established brand name when enters in a new market or launching a new product like Virgin Group. Virgin group took a start from retailing

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and published music than later on by using the previous image of the brand they entered in new markets and worked in diverse product categories, they moved from music to cola drink, to wedding service and further to airlines.

Managers assume they can exploit the equity of a well-known brand when entering new markets, capitalizing on recognition, goodwill, and any positive associations. Do brand extensions influenced by some factors? Its positive factors like perceived risk, perceived similarity, parent brand reputation, consumer innovativeness influence the success of brand extensions. What extent do these factors influence the consumer evaluation of brand extensions? Greater the similarity of extension with parent brand or categorical fit, well-recognized parent brand, high perceived risk, and innovators more positively evaluate the brand extension.

This study is quantitative in nature for which primary data was collected by using non-probability sampling with the help of using a self-administered questionnaire to identify the factors that have an impact on the success of brand extension. For the sake of data analysis study used SPSS version 17 software. The result was interpreted and a conclusion was drawn.

In order to reduce the risk or cost involved with launching a new product company extend their brand than launching a new brand. Companies exploit parent brand equity to leverage the new product (Shakeel, Dilnawaz, Ziyaurrahman, Safura, & Chanderprakash, 2011), but not all the extensions in a related or unrelated category are successful that is leveraged by parent brand. The problem is which factors influence the consumer's perception of evaluation of brand extensions. This study strived to find out which factors are crucial for the consumer while evaluating extensions or play a vital role in the success of brand extensions.

Objectives of the present study are to analyze the factors that influencing successful brand extensions and to what extent these factors influencing the consumer evaluation of brand extensions.

2. Literature Review

Keller (2003) defined brand extension as firm uses established brand to introduce a new product. Companies may enter in different product categories with the same brand name in order to leverage the new products (Shakeel et. al, 2011). A parent brand name having good reputation facilitates the acceptance of new product (Keller, 2003). Meanwhile, it minimizes the perceived risk associated by customers with new product developments and also reduces the marketing expenses of companies because customers have existing knowledge or well familiar with parent brand (Keller, 2003; Aaker & Keller, 1990). Launching a new product in same parent brand category increase the likelihood of success while in an unrelated category risk of failure is involved (Shakeel et al., 2011). Greater the similarity between the parent and extended category, it increases the likelihood of transference of positive (or negative) effect on the extended brand. Moreover, consumers recognized higher brand personality transferred when a direct naming strategy is used or when the parent brand extends to a high-perceived fit product (similar product category). Furthermore, the transfer of brand personality is low in low extended fit (unrelated product). Extensions can be used parent brand as leverage but chances of success would be greater for a categorical fit product.

A lot of the studies has been found on factors influencing successful brand extensions in different context across different sectors. For example, Park, Milberg and Lawso (1991) conducted a study by considering two factors. In other words, product feature similarity and brand concept consistency that distinguishes between successful and unsuccessful brand extensions. Results indicated that consumer not only gets the information about the similarity of the new product features with the original brand but also take into account consistency between extension and parent brand. Consumers respond positively to such extensions where there are high brand concept consistency and more product feature similarity between extended product and the original brand.

Khan and Rahman (2009) performed a study in Bangladesh with the intention of examining the factors contributing towards successful brand extensions. The study used factor analysis, ANOVA for data analysis collected through questionnaire. The findings of the study revealed two factors that influence the consumer perception towards brand extension are similarity and brand effect between original and extended product. Moreover, the study also found when consumer knowledge of the

brands is high; association with the brand might lead the effects of brand effect and category similarity.

Three studies have been found on factors affecting brand extensions in Fast-Moving Consumer Goods (FMCG) industry. Völckner and Sattler (2006) conducted a study in Germany with an aim of finding the drivers of extension success in FMCG industry. The study found the main driver of brand extension success is fit between extended product and the parent brand, followed by marketing support, parent-brand sincerity, acceptance of retailer, and experience of the parent brand.

Sarwat Afzal (2013) conducted a study in Pakistan with the addition of some factors with an aim of investigating the effect of brand reputation, perceived risk, similarity and consumer innovativeness on the success of brand extension in FMCG products by considering the hypothetical extensions. Researchers have used multiple regression and correlation analysis in the study. The findings of the study indicated the reputation of parent brand and consumers' innovativeness have a significant impact on the success of brand extension. Moreover, the study found the interaction of perceived similarity is positive and significant in related FMCG goods.

While, Hem (2011) conducted a study in Norway with an aim of investigating the impact of brand reputation, perceived risk, consumer innovativeness and similarity on the success of brand extension in three sectors such as service sector, FMCG and in durable goods. The study has been used in descriptive statistics, correlation analysis, and regression analysis. The results indicate that the image or reputation of parent brand has been found a critical factor in the success of the extension. Moreover, the study found greater the similarity the extension is with the parent brand widely it is accepted by the consumers and consumers who are innovative they positively respond to an extension in the services sector as compared to durable goods and FMCG. Whereas, the study found that perceived risk increase the acceptability of extensions for durable goods and services brands. Extension in a related category is enthusiastically accepted by the customer.

Sundar (2012) conducted a study in India with an aim of examining the factors (parent brand core value, similarity, quality of extension products and brand reputation) responsible for brand extensions and the role of advertisement in the success. Collected data through questionnaire was analyzed by using simple percentage method and chi-square. Findings of the study highlighted that perceived similarity and reputation of the parent brand are a crucial factor in the evaluation of services brand extensions and advertisement plays a vital role in creating awareness, distinguish one seller products from the other and meanwhile emotionally connect the consumers with the brand.

Only a few studies have been found on factors influencing successful brand extensions in Pakistan context. This study is not based on hypothetical extensions like previous study (Afzal, 2013) done in Pakistan; the current study is based on an extension already done and strives to find out up to what extent the investigated factors influenced the related or unrelated extension.

3. Research Methodology

3.1. Theoretical framework

In the research model perceived risk, similarity, brand, brand reputation, and consumer innovativeness are being taken as independent variable while the brand extension is being taken as a dependent variable. On the bases of literature review following hypothesis have been developed:

H₁: Extensions in the similar category with the original brand more will be the positive evaluation of brand extension than less categorical fit.

H₂: The higher the perceived risk associated with the extension category, the more positive will be evaluations of an extended brand.

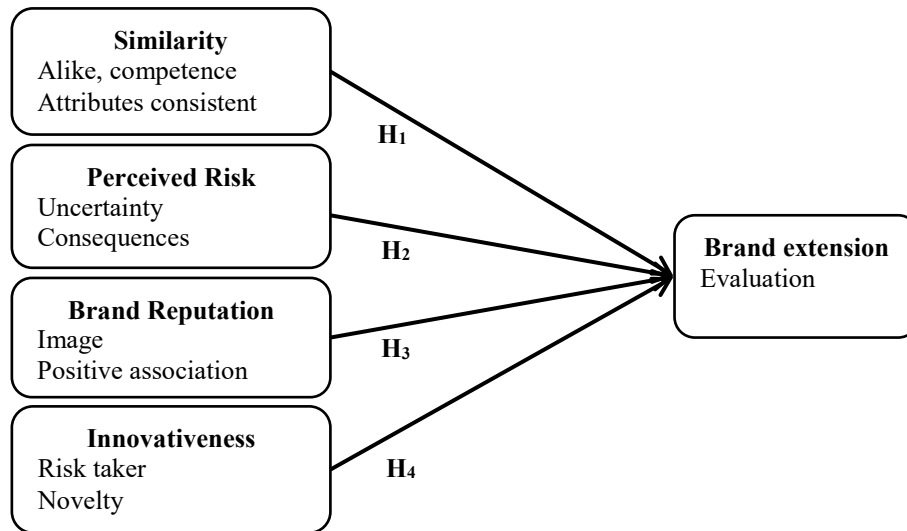
H₃: The higher the perceived reputations of the parent brand, the more favorable should be evaluations of the brand extensions.

H₄: The higher the consumers' innovativeness more will be the positive evaluations of extended brands.

The questionnaire was adopted from previous studies in order to carry out the survey. The study focused on evaluating the factors influencing successful brand extensions. Engro was targeted for this

study. A total of two hundred responses were received for this study. Data were collected (N=200) from Lahore and Sahiwal using questionnaire on the convenient basis by using non- probability sampling technique. Closed-ended questions using 5-point Likert type scale (Strongly Disagree=1, Strongly Agree=5), were adopted as a form of questions in the questionnaire. The first part of the questionnaire contained demographic information of the respondents and second section was based on five variables, a total of sixteen questions were included in order to evaluate to what extent factors influence the success of Engro extension in an unrelated category. Finally, correlation, regression, and descriptive statistics through SPSS version 17 were used to analyse the collected data.

Figure 1. The research model.



3.2. Measurements

3.2.1. Perceived risk

Dowling and Staelin (1994) defined perceived risk as consumer perception of uncertainty and unfavorable consequences from the purchase and use of a new product. A brand which extends in different product category from original brand influence the consumer perception of risk. The widely used way of reducing the risk is to trust on parent brand (Derbaix, 1983). A well-recognized brand is a risk reliever and increases the likelihood of product testing (de Chernatony, Drury, & Segal-Horn, 2003).

3.2.2. Similarity

The extent to which consumer perceived that extension is similar to parent brand (Smith & Park, 1992). Numerous studies found that the greater the similarity between the original and extended category, the higher the chances of transference of positive (or negative) effect to the extended brand (Boush et al., 1987; Aaker & Keller, 1990; Park et al., 1991; Boush & Loken, 1991; Dacin & Smith, 1994; Herr, Farquhar, & Fazio, 1996). Moreover, consumers recognized high brand personality transferred when a direct naming strategy is used or when the parent brand extends to a high perceived fit product (similar product category). Furthermore, the transfer of brand personality is low in low extended fit (unrelated product).

3.2.3. Brand reputation

Brand reputation has been defined in terms of consumer perception “quality related with a brand” (Aaker & Keller, 1990; Barone, Miyazaki, & Taylor, 2000). Previous studies found that brand perceived to be high in quality can be extended further and is positively evaluated by consumers

(Aaker & Keller, 1990; Keller & Aaker, 1992; Sunde & Brodie, 1993; Dacin & Smith, 1994; Bottomley & Doyle, 1996). Parent brand perceived to be high in quality, increase the chances of acceptability and success of extension, on the other hand, brand perceived to be low in quality hurting the extensions (Aaker & Keller, 1990).

3.2.3. Consumer innovativeness

Openness to new ideas and willing to purchase new products and services is one of the human personality traits. Rogers (1993) in the diffusion of innovation inspected the significance of innovativeness. Only a few studies have been done on consumer evaluation of brand extensions. According to Steenkamp and Baumgartner (1992) consumers who are high on the dimension of innovativeness are more daring and willing to try new products. As innovative consumers are risk takers than those who are not (de Chernatony et al., 2003). According to Rogers (1993), the prominent feature of innovators is that they feel comfortable in risk-taking.

4. Findings

Table 1 shows the reliability of the scale. As the reliability of the items was tested, and all the variables had a Cronbach Alpha value greater than .7, which showed that the scale was reliable and there was consistency in the responses.

Table 1. Reliability of scales

Variables	Cronbach Alpha (Engro)	Numbers of items
Perceived risk	.743	4
Similarity	.845	3
Brand reputation	.789	4
Innovativeness	.752	5
Brand extension	.825	3

Table 2 revealed that tolerance level ($>$ or equivalent to .10) and *VIF* (below 10) meet the rule of thumb, which means no multicollinearity exists between variables.

Table 2. Collinearity test

Variables	Collinearity statistics (Engro)	
	Tolerance	VIF
Similarity	.719	1.391
Perceived risk	.709	1.410
Brand reputation	.530	1.886
Consumer innovativeness	.733	1.364

Table 3. Frequencies

Variables	Categories	Frequency	Percent
Gender	Male	91	45.5
	Female	109	54.5
Age	18-30	86	43
	31-50	69	34.5
	51 or above	45	22.5
Total		400	200

The respondents were not the same in terms of gender (Table 3). The female respondents have more strength ($n=109$) than male ($n=91$) respondents. The age group of 18-30 years had a higher representation (43%) than the other age group of 31-50 years and 51 or above.

Table 4. Descriptive statistics

Variables	N	Mean	Std. Deviation
brand extension	200	3.7533	.74666
similarity	200	3.5667	.74872
risk	200	3.6462	.57496
reputation	200	3.9437	.56624
innovativeness	200	4.0590	.50517

Table 4 shows mean score as well as standard deviation. An important observation was that subjects have a positive attitude towards Engro extension with a mean score of 3.7533 and this happened due to the strong reputation of Engro with a mean score of 3.9437 and customers are highly innovative with a high mean score 4.0590. Another observation was that customers perceived that Engro extension was not of similar categorical fit; that's why it was least on mean score 3.5667 than all other variables.

Table 5. Regression results

Variables	Standardized beta coefficients (Engro Foods)
Similarity	.29***
Perceived risk	.17**
Brand reputation	.326***
Innovativeness	.109*
Adjusted R ²	.480

Notes: * $p < .10$; ** $p < .05$; *** $p = .000$

The adjusted R-square in the table shows that the dependent variable, brand extension (Engro Foods) was affected by 48.0% due to independent variables similarity, perceived risk, brand reputation and innovativeness (Table 5). The standardized coefficient indicates that how much change occurs in dependent variable due to change in predictor variable. Among all the variables brand reputation has a greater impact on the evaluation of brand (engro $\beta = .326$, $p = .000$) and innovativeness has the least impact on brand evaluation (engro $\beta = .109$, $p < .10$).

Table 6. Correlation results (Engro Foods)

	Brand evaluation	Similarity	Perceived risk	Brand reputation	Innovativeness
Brand evaluation	1				
Similarity	.556**	1			
Perceived risk	.480**	.372**	1		
Brand reputation	.616**	.500**	.524**	1	
Innovativeness	.422**	.355**	.268**	.503**	1

Note: * $p < .01$

The correlation result shows the positive relationship between similarity of less categorical fit and extension of Engro in foods ($r = .556$, $p < .01$). In the case of Engro, customers more favorably evaluated the less categorical fit product. Therefore, it does not support H_1 .

The correlation results reveal a positive association between perceived risk and overall evaluation of Engro ($r = .480$, $p < .01$). As perceived risk increases in new extension categories, yet customers evaluated the Engro extension more favorably because they have trust in parent brand. A

well-recognized brand is a risk reliever and increases the chances of product testing. Therefore, H_2 is supported.

The correlation results highlight a positive relationship between brand reputation and overall evaluation of Engro ($r=.616, p<.01$). Customers perceived Engro extended products conveyed the same impression as parent brand and due to this, they associate positive things with extended products. Therefore, H_3 is accepted based on this, well-reputed brand was positively evaluated by customers.

The correlation results show a positive association between consumer innovativeness and overall evaluation of Engro Foods ($r=.422, p<.01$). Customers seeking new ideas, novelty, surprises, and new experience more favorably evaluate Engro extension (perishable goods). Therefore, H_4 is accepted based on this, innovative customers positively evaluate the extension.

5. Conclusion and Discussion

The present study increases our understanding of brand extensions. The success of brand extension depends upon numerous factors. The present study highlighted the factors that have an influence on the evaluation of brand extension by considering Engro. The mean score revealed that Engro Foods is positively evaluated on all variables by customers and they have a positive attitude towards its extensions. The correlation results depict all the predictor variables are positively correlated with brand extension and these variables play a crucial role in the evaluation of brand extensions. Among all the variables brand reputation has wider an impact on the evaluation of brand as proved by regression analysis.

The study has proven that it not always the case, that parent brand increase the acceptability chances of similar categorical fit, but a strong reputation of parent brand also increases the likelihood of diverse category extension. Two things come under consideration as parent brand used as leverage in order to enter in related or unrelated category recognition of parent brand and customer trust on the parent. Engro Foods used their parent brand as leverage for its extension and entered in a diverse category from fertilizer to foods, due to having a strong reputation in market and customers trust on Engro, the extension is widely accepted by the customers.

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