Consumer Perspectives of Brand Extension Effects: an Empirical Analysis of Buying Decision Patterns

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EXTENDED ABSTRACT

Information inflow on brands and outflow through interpersonal communication may act as a device to coordinate consumer expectations of the purchasing decisions of other consumers in markets with consumption externalities. The paper attempts to emphasize the relationship between empirical and theoretical considerations in the information analysis of brand extensions on consumer behavior. Broadly the study focuses on analysis at the individual or micro-level and attempts to derive implications towards buying decisions on the extended brands analyzing the aggregate relationships.

Theoretical Motivation

The accessibility-diagnosticity model explains that any factor that increases the accessibility of an input is also expected to increase the likelihood with which that input will be used for the judgment. Therefore, in the brand extension context, temporal proximity between information about brand extension and family brand evaluation is likely to result in a disproportionate influence of the activated or accessible cognition (i.e., extension information) on the judgment (i.e., family brand evaluation) made shortly after its activation. The review of previous literature on brand extension effects indicates that dilution/enhancement effects generally emerge in the presence of highly accessible extension information (Lane and Jacobson 1997; Loken and John 1993; Milberg et al. 1997). Milberg et al. (1997) examined in his study the negative feedback effects, subjects rated the family brand immediately after exposure to information about the extension, making extension information highly accessible at the time when family brand evaluations were assessed. Lane and Jacobson (1997), also focused on negative feedback effects, found dilution effects in a study where extension evaluations took place immediately prior to brand evaluations, making the extension information more accessible. Loken and John (1993) in one of their research studies raised issues about comprehension of target attributes after reading negative information about the extension. The negative information analysis often leads to the strategic non-participation with the brands. Willingness to pay, which can be computed only in equilibrium, will reflect, besides private valuations, preemptive incentives stemming from the desire to minimize the negative externalities.

Study Design

The study was conducted in an empirical design with the sample of 145 consumers in Mexico City addressing to over 40 consumer brands available in different categories of markets. The respondents belonged to the processed food products category and cosmetics. Respondents were organized into small groups and were randomly assigned to conditions in a 2 (extension category: close, far) x 2 (information: positive, negative) between-subjects design.

The questionnaire contained a scenario describing the experience of a company with a new product extension. Most brands are expected to perform well in manufacturing products that are close to their current product offerings. Hence, not only high quality brands are expected to perform well most of the time, but low or mediocre quality brands also perform well at times. Consequently, positive information about a close extension is not very indicative of the family brand quality. However, negative information about a close extension clearly signals a low quality brand. Therefore,

H1: In the domain of close extensions, negative information is likely to be rated as more diagnostic than positive information.

H2: In the domain of far extensions, positive information is likely to be rated as more diagnostic than negative information.

In view of critically examining some of the existing contributions made to the literature, the paper addresses as when and why feedback effects are likely to vary across different extension categories.

Findings and Discussion

Brand choice models implicitly assume that consumers incorporate all relevant marketing information such as price, display, and feature for key brands on each purchase occasion. In the context of brand extensions, information about the extension will be highly accessible when consumers are asked to report their evaluation of the family brand immediately after reading the extension information. Under such conditions, a highly accessible negative (positive) extension is expected to lead to a dilution (enhancement) effect regardless of product category as observed by past studies in this area (Loken and John 1993; Milberg et al. 1997). This is because highly accessible information about a new extension is likely to be sufficient for making a judgment about the family brand. It is also possible that the accessibility of the information may influence its perceived diagnosticity. Consumers may perceive the extension information to be more diagnostic if it is highly accessible. In any case, extension information is likely to affect family brand evaluations, regardless of extension category, when it is highly accessible. The information about the extension will not be highly accessible or dominant when consumers report their evaluation of the family brand, at a later point in time. In such a situation, extension information will be used in the brand evaluation based on its diagnosticity.

The ANOVA on the diagnosticity index for the process food sector brands revealed a significant interaction between information and extension category \( F(1, 86)=24.07, p<.001 \). Consistent with Hypothesis 1, the simple-effects test revealed that negative (vs. positive) information was rated as more diagnostic for close extensions \( M_{\text{score}}=0.63 \) vs. \( 0.57; F(1, 86)=7.61, p<.01 \). In contrast, as predicted by Hypothesis 2, positive (vs. negative) information was rated as more diagnostic for far extensions \( M_{\text{score}}=0.69 \) vs. \( 0.57; F(1, 86)=17.42, p<.001 \). Similar findings were obtained with the cosmetics products brands. Specifically, an ANOVA on the diagnosticity index yielded a significant information per extension category interaction \( F(1, 124)=20.03, p<.001 \).
As expected, the simple-effects test indicated that negative (vs. positive) information was rated as more diagnostic for close extensions \( \{M's=0.63 \text{ vs. } 0.59; F(1, 124)=6.36, p<.05\} \), while subjects rated positive (vs. negative) information as more diagnostic for far extensions \( \{M's=0.63 \text{ vs. } 0.57; F(1, 124)=13.13, p<.001\} \). The data was analyzed using a 2 (extension category: close vs. far) x 2 (information: positive vs. negative) between-subjects ANOVA. The coefficient of correlations for the close brand extensions and positive information lead to higher degree as compared to any other relationships. It was expected that, consistent with past research on the negativity effect, negative (vs positive) information would be perceived as more diagnostic in the domain of close extensions (H1); however, positivistic effect (positive perceived as more diagnostic than negative) would be obtained for far extensions (H2). The findings of the study in general establish the hypotheses framed in the paper.

**Conclusion**

This pattern of results calls for an interaction between extension category and information. There is likelihood that information may be used as a basis of response to a subsequently measured construct and determined by (i) the accessibility of the input in memory, (ii) the perceived diagnosticity of the input for the judgment, and (iii) the accessibility of other inputs in memory. The extension information is highly accessible; it will influence family brand evaluations, irrespective of the brand extension’s diagnosticity. The analysis reveals that the correlation of brand extension variables-positive close, positive far, negative close and negative far with buying decisions on the extended brands showed lower degree of association. It may be stated in view of the results that the ambience of market outlet does not have a strong influencing factor over the information diagnostics for the consumers to make decisions on buying the extended brands.

**References**

