The Effects of Line Extensions Up and Down in Quality on Initial Choice and Subsequent Switching Tendencies

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Three experiments compared line extensions with novel names. Higher-quality extensions (e.g., Formaggio’s Magnifico pasta sauce) failed to increase choice of higher-quality versions, but did increase choice of within-family middle-quality versions (e.g., Formaggio’s regular) at the expense of competitors, steal (when discounted) more people from competitors, and reduce switching to (discounted) competitors. No corresponding effects of lower-quality extensions emerged, though results implicate countervailing positive effects of more products offered and negative effects of lower-quality offerings.

[to cite]:

[url]:
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EXTENDED ABSTRACT

Line extensions have been popular for centuries, yet little is known about their effects on choice and switching, issues critical to global branding initiatives. For example, brands taken around the globe increasingly face pressures for lower-quality and high-quality versions. In China, for example, Colgate’s regular brand of toothpaste was too high in quality and price for many in this market to afford, leading Colgate to introduce a lower-quality toothpaste. The question, then, was whether to put the Colgate name on the lower-quality version (e.g., Colgate Basic) or adopt a new name altogether. Such decisions have far-reaching implications because they can (1) stimulate initial choice share, (2) influence subsequent switching rates to, and away, from our brand, (3) influence brand equity by way of associations with lower-quality or higher-quality products, and (4) influence brand equity through line-breadth effects, either positive effects resulting from perceived expertise and coverage, or negative effects from diluted image. To help begin answering such questions systematically, this study tests the effects of extending product/brand lines up or down in quality on initial brand choice and subsequent switching. In addition to their implications for practitioners, the results implicate theoretical mechanisms and methodological issues of relevance to decision researchers (e.g., switching rates offering a level test sensitivity beyond that of simple choice).

Design and Stimuli. In Experiment 1, respondents initially chose from two medium quality (MQ) brands (identical in price and quality) and one higher-quality (HQ) higher-priced brand, where all brands were listed by brand name, price, and quality level as rated by the retail chain’s consumers. Experiment 2 respondents chose from the same two MQ brands plus one lower-quality (LQ) lower-priced brand. The cover story had U.S. college juniors and seniors imagine taking their first job in the UK, where they were faced with a given shopping decision. Fictitious (supposedly UK) brands were used for two product classes that were counter-balanced between-subjects (pasta sauce and portable CD players). In pasta sauce, the MQ names were Giovanni’s and Formaggio’s, where (1) the name of the single HQ brand in Experiment 1 was Magnifico, Giovanni’s Magnifico, or Formaggio’s Magnifico (varied between-subjects), and (2) the name of the single lower-quality brand in Experiment 2 was Basiqué, Giovanni’s Basiqué, or Formaggio’s Basiqué (varied between-subjects). Four-hundred-sixty-six respondents were randomly assigned across the various between-subjects conditions in Experiment 1, with the exception of self-selected conditions (e.g., choice at Time-1), and 586 were so assigned in Experiment 2. Experiments 3a and 3b began testing theoretical mechanisms but are discussed only briefly (later) due to inconclusive results.

Procedure. Respondents first chose one of the three brands and then, based on that choice, were directed to another page in their booklets where they chose again in the face of a price discount offered by a non-chosen brand from another quality tier. Key dependent measures were initial choice shares as well as various switching rates across lower and higher-quality brands: switching from a non-extended brand to another such brand (e.g., from Formaggio’s to Magnifico), from an extended brand to a novel brand (e.g., from Formaggio’s Magnifico to Giovanni’s), from a base brand to its extension (e.g., from Formaggio’s to Formaggio’s Magnifico), etc.

Initial Choice Results. Brand names had no effect on initial-tier shares in either choice experiment, and the split between the two brands at the MQ level was comparable when neither brand offered a line extension. However, when one MQ brand also offered an HQ extension (Experiment 1), it enjoyed a 2/1 share advantage over its MQ competitor (e.g., when HQ = Magnifico, Formaggio’s Regular = Giovanni’s Regular, but when HQ = Formaggio’s Magnifico, Formaggio’s Regular > Giovanni’s Regular). No corresponding negative effects of LQ extensions emerged, however, in Experiment 2.

Switching Rates. Experiment 1’s non-extension (control) conditions produced symmetric switching up and down in quality at roughly 46%. When HQ was a line extension, however, the standard asymmetry in price competition emerged, where line extensions helped HQ versions both attract new consumers and retain old ones. Discounted-HQ-extensions attracted 57% of HQ choosers but discounted-LQ-brands attracted only 34% of HQ-extension choosers.

In Experiment 2, LQ extensions failed to influence choice shares or switching. At a practical level, marketers may have little to fear from extending brand names to lower-quality versions. In terms of theory, null lower-quality-extension effects may reflect two countervailing forces; a negative effect of the name being associated with lower-quality products, and a positive effect of the name being associated with broader product lines (perceived expertise, sensitivity to consumer needs, etc.). Experiments 3a and 3b began testing this possibility with measures of product perceptions (rated name respect, company knowledge, and overall quality). Although their results echo the patterns seen in the choice experiments, their results remain inconclusive with respect to the possible distinction between quality-breadth and quality-association effects.

Implications. First, line extensions can improve choice shares relative to novel names. Second, even if higher-quality extensions do not increase shares of the line-extended version, they can increase shares of lower-quality versions within their brand family. Third, extending a name to a higher-quality version can, relative to a novel name, improve that version’s competitiveness by (1) increasing its ability to steal consumers from competitors, and (2) increasing its ability to retain consumers in the face of competitive attacks. Fourth, decision researchers can increase the sensitivity of their tests by assessing not only choice, but switching. Switching rates away from a target alternative reflect the same type of resistance-to-persuasion measures popular in attitude research, and switching rates to targeted alternatives reflect future persuasive power, in this case, an additional measure of brand equity. Such switching rates, moreover, mimic a marketplace dynamic of particular interest to practitioners (i.e., long-run (as opposed to initial) choice shares). Fifth, the failure of lower-quality extensions to produce corresponding negative effects suggests, at a practical level, that marketers may have little to fear from extending brand names to lower-quality versions within the product line, although work is still needed to understand such effects theoretically.