Brand Dilution Effects on Franchises

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Research on brand dilution has shown that extensions which are similar to the parent brand are better liked than dissimilar extensions. This research has focused on situations in which the parent brand has complete control over the extension. We examine dilution effects in the context of franchises. Franchisees make decisions for new stores that dilute the parent brand, even though the parent brand does not dictate the decisions. We show that new dissimilar franchise stores are negatively evaluated and negatively impact the parent brand. This effect occurs even occurs when participants are reminded that the company is a franchise.

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What Really Matters When Differentiating: A Neuroscientific Approach

Marketing managers’ daily business is dedicated to fighting commoditization. That is, the process of trying to differentiate their firm’s products in a marketplace where competitors offer essentially products with identical core attributes, e.g., in terms of quality. Prior research and managerial practice, however, lack insight about which aspects of differentiation resonate in acceptance and purchase among consumers. Moreover, consumers’ affective and cognitive processes when deciding between a standard offering and a differentiated one are not yet well understood. Should the product packing be re-designed? Should marketing managers offer products at lower prices than the competition? Or, does a strong brand drive product success in a commoditized marketplace?

Methodology. To answer these questions, we digitally rendered pictures of 20 everyday products from sunscreen to table water along the line of three distinct variables: packaging design, brand, and price. For example, the well-known Evian spring water was shown in its original form (i.e., Evian brand, designed bottle, higher price) as well as in a rendered form with a different brand or a different bottle or at a lower price.

In a brain scanning session using functional magnetic resonance imaging (fMRI), 17 participants (gender: 9 male, 8 female; mean age: 24.9; occupation: students) bought or rejected original and rendered offerings. We chose fMRI because it has become one of the most prominent noninvasive methodologies for imaging brain activity in humans. Moreover, fMRI has made it possible to enhance our knowledge about how individuals process different stimuli. As such, fMRI allows for a direct measurement and localization of brain activations and offers several advantages over more traditional measurement approaches: (1) the ability to provide confirmatory evidence about the existence of an intrapersonal phenomenon; (2) the generation of a more fundamental conceptualization and understanding of underlying processes; and (3) the refinement of existing conceptualizations of various phenomena.

Results. Among other findings, our fMRI data suggest that design differentiated products activate areas related to reward anticipation to a significantly larger extent than non-differentiated and branded products. This suggests that marketing managers can trigger reward anticipation among consumers when offering products under a differentiated design.

In summary, we identified several relevant brain areas involved with three distinct differentiation strategies—packaging design differentiation, brand differentiation, and price differentiation. Utilizing fMRI, we were able to (1) provide confirmatory evidence about the existence of an intrapersonal phenomenon (i.e., reward anticipation relating to design differentiated products) and (2) generate a more fundamental conceptualization and understanding of these underlying processes.

References can be obtained from the first author upon request.

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Prior literature on brand dilution has shown that when brands extend into new product domains, information about the extension that is inconsistent with the parent brand can affect the parent brand. However, most research on brand dilution has been performed in the context of product brand extensions. Product brand extensions are those in which the manufacturer is under the control of the parent brand and therefore, sanctioned by the parent brand manufacturer. Another context that may be potentially important for understanding brand dilution is the impact of a new retail opening with a franchised brand name.

Franchises are a good way for companies to expand quickly at relatively little cost. The franchisor charges a fee to the franchisee for the use of its brand, advertising, and other brand elements, while leaving varying amounts of control to the franchisee. A good example of a franchise is McDonald’s. McDonald’s franchisees benefit from McDonalds Corp. national advertising and brand strength, but are able to tailor some aspects of the store or target market.

However, any McDonald’s patron who has noticed the absence of his/her favorite item in a specific McDonald’s can tell you that franchisees do not always deviate from the parent company in a positive way. This research examines cases in which parent brands have little control over some franchisee failures, but may, nonetheless, experience dilution effects. We examine the impact of consistent and inconsistent franchise openings through the use of brand partnerships. While research has examined the impact of co-branding (e.g., Simion and Ruth 1998) in side-by-side retail contexts (Levin and Levin 2000) and in pairings of brands in retail displays (Buchanan, Simmons and Bickart 1999), researchers have not examined co-brands in franchise contexts in which the franchisee has some control over the use of co-brands.

In our research, we used a known company that was unlikely to yield ceiling or floor effects on loyalty: Bally’s Fitness Centers. Bally’s is a nation-wide chain of fitness centers that is operated on a franchise basis. Abundant past research has found that consistent extensions are better liked than inconsistent extensions. In the present study, we described Bally’s as opening a new fitness center, and as part of the information received by participants, the new Bally’s fitness center also housed a small restaurant.