Power Distance and Consumer Evaluation of Vertical Brand Extension

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Two studies examine how power distance (PD) impacts consumers’ evaluation of vertical brand extensions. We propose that, compared with low PDs, high PDs will rate upward (downward) extensions more favorably, as upward extensions match their status enhancement mindset while downward extensions are in conflict with such mindset.

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EXTENDED ABSTRACT

Vertical extension - introducing a new product in the same category at different price and prestige levels - is a very common practice adopted by marketers to attract different segments of consumers (Keller and Aaker 1992). In practice, around 65% of new product-launches involve vertical brand extension, whereas only 17% of new product-launches are horizontal extensions (Dall’Olmo Riley, Pina, and Bravo 2013). Despite its importance, existing research in branding literature has mainly focused on horizontal extension while research on vertical extension is limited. Moreover, the handful of research done on vertical extension has primarily focused on the impacts of brand and extension characteristics – such as brand quality, brand concept and extension distance (e.g., Kimnari, Sood, and Bridges 1999; Lei, de Ruyter and Wetzel 2008; Randall, Ulrich, and Reibstein 1998). To our knowledge, no research has examined the impact of cultural-orientation on consumer evaluation of vertical extension. Filling this gap in the literature, this research shows that differential power distance beliefs across cultures would affect consumers’ acceptance of vertical extensions.

By introducing a new product at a higher or lower price and prestige level, vertical extension is uniquely different from horizontal extension in that it evokes a status consideration. Thus, to understand how consumers view vertical extension, it is important to know how they feel about the brand’s potential status change due to changed price points. In this article, we propose that power distance (PD) - the extent to which people expect and accept power disparity in an organization or in a society (Hofstede 1984, 2001) – would exert significant impacts on how they view vertical extension. Prior research shows that consumers with high PD value status and have a strong desire for status enhancement, whereas low PD consumers emphasize equality more than status hierarchy, and view status as a less important consideration when making consumption choices (Kim and Zhang 2014). Thus, we expect that, compared with low PD consumers, high PD consumers would be more positive towards upward extensions as it fits their status enhancement mindset. In contrast, they would view downward extensions more negatively as the perceived status denigration runs counter to their desire for status enhancement. Three studies were conducted to test our proposition.

Study 1 (N = 114) was conducted online using Mturk. A 2 (vertical extension: upward vs. control) × 2 (PD: high vs. low) between-subjects design was adopted. Brand extension was manipulated and power distance was measured. Subjects were randomly assigned to either an upward extension condition or a control condition. The Seiko brand was selected for this study based on a pretest. Participants were shown a description of a new Seiko watch. In the upward extension condition, participants were shown a watch priced significantly higher than the average price of its products. While in the control condition, participants were shown a watch that was priced similarly to the average price of Seiko’s products. Next, participants proceeded to rate their evaluation of the extension product. Participations’ power distance was measured using an 8-item scale revised for previous research (Brockner et al. 2001; Hofstede 1984). Analyses revealed a significant interaction between vertical extension and power distance on extension evaluation ($\beta = .76, t = 2.36, p = .02$). As expected, high PD consumers evaluate the upward extension more favourably than low PD consumers ($M_{high} = 5.42, M_{low} = 3.91; P < .01$), but there was no significant difference in the control condition ($M_{high} = 4.70, M_{low} = 4.82, p > .1$).

Study 2 (N = 95) used the same procedure as that in study 1, with three differences: 1) we expanded our inquiry by examining both upward and downward extensions; 2) a fictitious hotel brand was adopted to address possible confounding effects of using a real brand in study 1 (e.g., prior brand knowledge); 3) we tested the mediation process. Study 2 adopted a 2 (brand extension: upward vs. downward) × 2 (PD: high vs. low) between-subjects design. Information about a fictitious 4-star hotel was shown. In the upward (downward) extension condition, participants were told that the hotel is introducing a new 6- (2-) star hotel. As expected, we found a significant interaction between vertical extension and PD ($\beta = .51, t = 2.46, p = .02$). Replicating the findings of study 1, high PD consumers rated the upward extension more favourably ($M_{high} = 6.04, M_{low} = 5.36; p < .01$). Moreover, we found that high PD consumers evaluated the downward extension marginally less favourably ($M_{high} = 4.44, M_{low} = 4.89; p = .09$). Mediation analysis showed that the impact of power distance on brand extension evaluation was mediated by the extent to which consumers believe upward (downward) extension will result in brand enhancement (impairment) (mediated effect $= .48, SE = .14, 95% CI = .24 to .79$).

In studies 1 and 2, power distance was measured. In study 3 (N = 93), we examined whether the effect of PD on vertical extension evaluation would replicate when PD was manipulated. Study 3 adopted a 2 (brand extension: upward vs. downward) × 2 (power distance: high vs. low) between-subjects design. First, PD was primed by asking participants to write an essay to support or argue against a statement of inequality (Zhang, Winterich, and Mita 2010). Next, information about a fictitious car brand was shown. Participants were either told that a more or less expensive new car is introduced. Results revealed a significant interaction between brand extension and PD on extension evaluation ($\beta = 1.57, t = 2.56, p = .01$). As expected, compared with low PD consumers, high PD consumers evaluated the upward extension more favorably ($M_{high} = 5.49, M_{low} = 4.65; P = .07$) and the downward extension less favorably ($M_{high} = 4.29, M_{low} = 5.03; P = .08$).

The current research contributes in several ways. First, our study expands existing research on vertical brand extension, by providing an initial empirical investigation of the impact of power distance on extension evaluations. In doing so, we connect the two streams of research – on power distance and vertical brand extension – which have till now developed fairly independently. Our research therefore provides a new perspective of understanding how different consumers evaluate vertical brand extension. Second, we also contribute to the culture literature by adding to the increasing stream of research on PD. Previous research has mainly focused on the individualism-collectivism dimension while very limited attention was paid to the hierarchical dimension (Oysterman 2006; Shavitt et al. 2006). Managerially, our findings have direct marketing implications for marketers who are launching vertical brand extensions in multicultural markets.
REFERENCES