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# The Effect of Brand Extension Strategies upon Competitive Advantage in Service Companies from Costumers point of View

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**Abstract**

This study analyzes the impact of brand extension strategies upon Competitive Advantage in Service Companies from Costumers point of View among Parsian Bank and its Affiliated Service Companies in Isfahan City. In this study, for collecting data a questionnaire was used. The samples were selected randomly. Also, SPSS and Amos software were used to analyze data and test hypotheses .The results indicate that the probability of success and acceptance of brand extension in order to have a competitive advantage Influenced by the Perceived product quality, perceived fit between the extended product and other products of the brand and consumer's attitude to extension. Also, the consumer's attitude to extension has been affected by Perceived product quality and perceived fit in this study.

**Keywords:** Brand, Brand extension strategy, consumer's attitude to extension, Perceived fit and Perceived quality.

**Introduction**

Increasingly competitive forces in the global markets are forcing companies to differentiate themselves from competitors in order to survive and take advantage of the current opportunities of growth. One way to differentiate from competitors is the establishment of strong brands that allow companies to increase the efficiency of their marketing expenses (Keller, 1993). The importance of brands is not only measured in terms of the competitive advantages that they provide in their present markets but also the future opportunities that they provide in untapped markets (Srivastava and Shocker, 1991). This way, firms can enter new markets by using an existing, well-known brand name in order to reduce both the cost of

launching new products and the risk of product failure. The strategy behind the leverage of the company brand equity to new markets, products or sectors is known as brand extension (Martinez, 2011).

Consumers play a significant role within brand extension strategy because their judgments regarding the new extensions will be one of the principal determinants of successful brand extensions (Klink and Smith, 2001). Related to the evaluation of brand extensions, Boush and Loken (1991) maintained that a categorical evaluation process is developed when the brand extension is perceived by consumers as belonging to an already existing category (brand). Therefore, beliefs and attitudes associated with the parent brand are transferred to the new product (Romeo, 1991). Thus, this strategy is not without risk and is not suitable for all brands, besides, it may affect adversely the image of extended brand (Martinez and Pina, 2003). Though new product associations may be positive, a negative association may also arise and unfavorably influence the consumer's attitude to extension and brand image (Katzanis and Pitta, 1995; Chen and Chen, 2000).

Considering the benefits of using brand extension strategy for the organization, which was discussed above, this study has evaluated the effect of brand extension strategies upon competitive advantages in Service Companies from Costumers point of View among Parsian Bank and its Affiliated Service Companies in Isfahan City. In the following sections, a review of the relevant literature from branding and consumer decision making is presented to develop the hypotheses, followed by a detailed discussion of the research employed to test them. Finally, we describe the implications of the research findings for theory, research, and managers, along with limitations of the study and directions for future research.

## A Review of the theoretical literature
### Brand extension

Determining a name and ID for a product is an important process which is considered when designing a product's strategies. Manufacturing companies eventually come to know that their brand is a power source obtained from the market (Kotler, 2008). The American Marketing Association defines a brand as a name, word or phrase, mark, sign, symbol, design or a combination of them its purpose is to introduce a product or service which a seller or group of sellers offer in order to distinguish them from the products of competing firms (Kotler and Armestrang, 2009).

One strategy in developing a brand is brand extension strategy. By brand extension it means that a successful current brand is used for a new product. It means that the company by using its current brand offers new products in other categories (Arselan and Altuna, 2010: 171). There is a vast literature on the factors that influence the success of brand extensions. Yorkston, Nunes and Matta (2010) outline more than 50 studies over the past 15 years that have analyzed the success factors of brand extensions. A positive brand attitude and a high degree of perceived quality and perceived similarity between the core products and the extension products are among the most important success factors (Czellar, 2003; Völckner and Sattler, 2006 and 2007). Different companies use different methods for the extension of brand. Either they go for vertical extension of brand or for horizontal extension(see figure 1). Both methods are used by companies in different situations as well as for different products and markets.
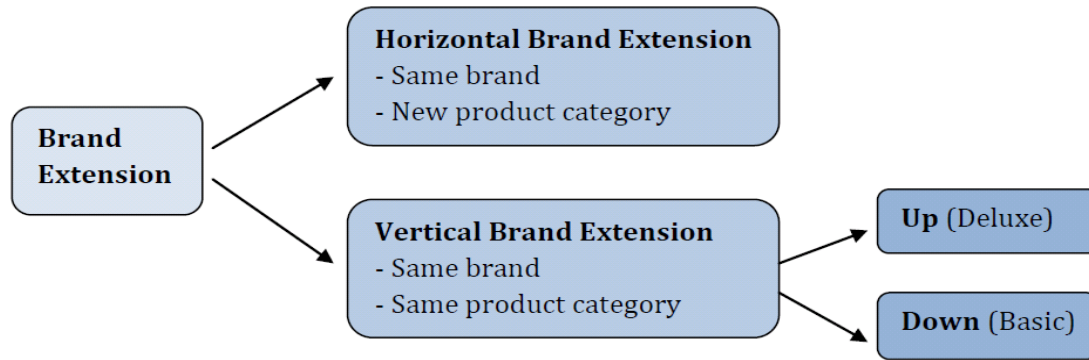
**Figure 1:** Brand Extension

**Source.** Adapted from Kim and Lavack, 2001; Martinez and Pina, 2003; Xie, 2008; Pitta and Katsanis, 1995

Horizontal brand extension can be defined as extending a parent brand to a new product in the same product class or to a product which is completely new for a company (Pitta and Katsanis, 1995). The definition given by Pitta and Katsanis (1995) includes two aspects; one is a new product within the same product class and the other one is a new product which belongs to different category for the company or a new product to the company without having any class. Vertical extension is the second type of brand extension, in which a new brand is introduced on the basis of price and quality. It can be defined as introducing a similar brand to the same product category while being different in prices and quality (Keller and Aaker, 1992). Vertical brand extension additionally can be divided into upscale and downscale brand extension (Xie, 2008). Upscale vertical brand extension is brand extension done on the basis of a higher quality and higher price point as compared to the parent brand. Down scale vertical brand extension is extending a brand with lower quality and price (Kim and Lavack, 1996).

**Consumer Attitude To Extension Or New Product With Extended Brand**

There are two main reasons for paying special attention to consumers' attitude. First, consumers' evaluation is very important because researchers believe that consumer attitude is the main factor in successful implementation of brand extension and brand success (Boush and Loken, 1991: 19). Furthermore, consumers' attitude to extension is a necessity to establish brand equity (Pitta and Katsanis, 1995: 54).

Attitude is defined as a cognitive state which is reflected in many aspects and makes the consumer give preference to one product or brand. In other words, consumer attitude to new product and extended brand is made by consumers' perception of extended brand and the possibility of buying a new product with that brand (Wilkie, 1994: 281). Consumer attitude to extension is influenced by such variables as perceived fit between a brand and its products and the new product with extended brand and perceived quality of extended products (Martinez and Pina, 2009) which are discussed in following.

**Perceived Fit between a Brand's Products and the New Product with Extended Brand**

As mentioned before, perceived similarity has been found to be a major determinant of brand extension evaluations (Aaker and Keller, 1990; Volckner and Sattler, 2006). In this line, consumers compare their knowledge category related to the parent brand to the characteristics presented by the extension product (Park et al., 1991) and, if there is a sufficient level of similarity, this information about the brand, stored in consumers' memories, is transferred to

the extension product (Boush and Loken, 1991). Therefore, consumers evaluate more favorably those extensions that present a high degree of similarity or fit with the parent brand (Aaker and Keller, 1990; Czellar 2003; Hem et al. 2003; Völckner and Sattler, 2006; Hem and Iversen, 2009). The provided definition of similarity mentions the congruence between the parent brand and extension in general terms. However, scholars have identified different levels within the similarity construct. Park et al., (1991) suggested that the degree of consistency between the brand concept or image and the extension product, along with the product category similarity (Aaker and Keller, 1990).

"Similarity" or category fit is the most important aspect of fitness which is referred to in most researches (Bhat and Reddy, 1997). "Similarity" is defined as resemblance between current and new product groups in terms of features, characteristics or benefits (Boush and Loken, 1991: 20). Studies related to the consumers have shown, when similarity between current and new product is more the transfer probability of the positive and negative beliefs to new product will be higher. By increasing similarity between current and new products, success and the transfer of positive attitude from the initial brand to the new product are more likely (Martinez and Pina, 2005: 266; Völckner and Sattler, 2006: 154).

## Perceived quality of the extended product

In today's competitive environment delivering high quality service is the key for a sustainable competitive advantage. Many researchers point out the fact that satisfied customers share their experiences with other people to the order of perhaps five or six people. On the contrary, dissatisfied customers are more likely to tell another ten people of their experience with product or service. (Angelova et al, 2011: 232). Perceived quality plays an important role in the success of a brand. Once the company has created brand awareness in consumers, they will purchase a product. For continuous purchase of a product, the customer quality perception should be positive. A new product can be a good idea, but if the product does not meet expectations, it will not be sold. If a consumer goes for a purchase trial but the product does not meet his/her expectations, then the continuous process of purchasing will stop (Apéria and Back, 2004).

Aaker and Keller (1990) suggested that when consumers have a high overall perception about the quality of the brand, the extension should be assessed more positively than when they infer a low overall, further empirical research (Bottomley and Holden, 2001; Gronhaug et al., 2002) demonstrated a positive relationship between perceived quality and brand extension success. Supporting these finding, Rao et al., (1999) suggested that quality perceptions of parent brands are transferred to new products. In a recent article, Völckner et al., (2010) went even further by stating that perceived quality is the principal driver of brand extensions success rather than similarity in the case of services.

## Competitive Advantage

In recent years the concept of competitive advantage has taken center stage in discussions of business strategy. Statements about competitive advantage abound, but a precise definition is elusive. According to one school of thought, value is created by favorable terms of trade in product markets. That is, sales in which revenues exceed costs. Another school of thought holds

that advantage is revealed by "super-normal" returns. A third school of thought ties advantage to stock market performance (Rumlet, 2003).

Service companies are using resources and capabilities to build sustainable competitive advantage (Riwo, 2013). These building blocks of competitive advantage are efficiency, quality, innovation, and customer responsiveness. These building blocks are generic in that they provide four basic ways to lower cost and achieve differentiation. Any firm can adopt these no matter what industry it is in or what product or service it provides. Efficiency is based on the cost of inputs required to produce a given output. The more efficient a firm, the lower the cost of its inputs required to produce a given output.

The impact of high product quality on competitive advantage is the creation of a brand name reputation, greater efficiency and, thus, lowers costs. Innovation is defined as anything new or novel about a firm's operation or product. Innovation gives a firm something unique. When a firm is the pioneer in its industry it can charge a higher price because of a lack of competition. To achieve customer responsiveness a firm must deliver exactly what the customer wants when the customer wants it. A firm must do everything it can to identify and satisfy customer needs (Hill and Jones, 1998).

According to the theoretical literature, the hypotheses of this research are:

H1- Perceived fit between the extended product and other products of the market influences consumer's attitude to extension in Parsian Bank and its Affiliated Service Companies in Isfahan City.

H2- Perceived quality of extended product influences consumer's attitude to extension in Parsian Bank and its Affiliated Service Companies in Isfahan City.

H3- Perceived fit between the extended product and other products influences Competitive advantage in Parsian Bank and its Affiliated Service Companies in Isfahan City.

H4- Perceived quality of extended product influences Competitive advantage in Parsian Bank and its Affiliated Service Companies in Isfahan City.

H5- consumer's attitude to extension influences competitive advantage in Parsian Bank and its Affiliated Service Companies in Isfahan City.

Considering available theoretical literature in the study and mentioned hypotheses, the conceptual model of this research is shown in figure 1.
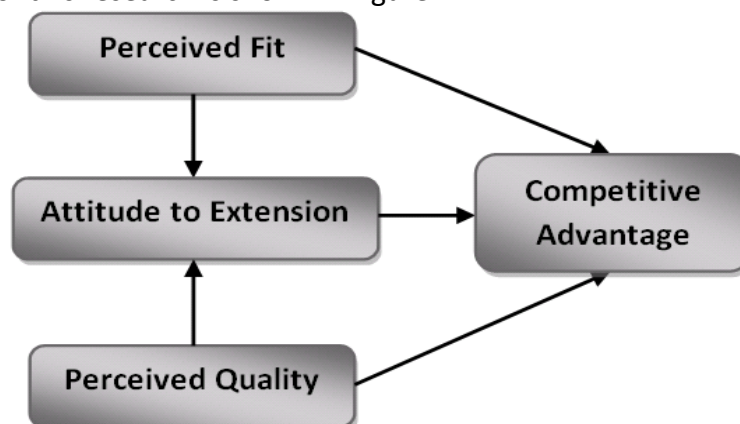


**Figure 2:** Research Conceptual Model

**Research Methodology**
**Research Population and Sample**

This research, from the viewpoints of practical purposes and methods of data collection is a descriptive survey research. The research's statistical population is customers of Parsian insurance that are available at the time of data collection. For data collection, based on the subject's literature, a questionnaire was designed. 600 questionnaires were distributed randomly among customers of Parsian insurance. The questionnaires used in this study had two parts. The first part included demographic variables such as gender, age and educational level and the second part was devoted to measure this research's considered variables. Rating scale for each question was prepared based on a score of 1 to 5 that is from very agreeing to strongly disagree.

**Research Variables Measurement**
Content validity of this questionnaire was approved by University of Isfahan authorities and professors. Cronbach's alpha was used to determine the reliability of the test. For this purpose, an initial sample of 50 questionnaires was distributed. By using obtained data, Cronbach's alpha was calculated. Cronbach's alpha for all the questions related to the variables in the research analytical model was calculated as 0.94% which is acceptable. Criteria used in evaluating research variables are shown in Table 1.

**Analytical Findings Of The Research Conceptual Model**
In the first step, measurement models get fitted. Models' fit indexes are listed in Table 1:

**Table 1:** overall indexes of fit in measurement models

| Variables Indexes | Fitness and similarity | Perceived quality | Consumer attitude to extension | Competitive Advantage |
|---|---|---|---|---|
| CMIN/DF | 2.714 | 2.397 | - | 2.706 |
| RMR | 0.009 | 0.014 | 0.000 | 0.014 |
| GFI | 0.996 | 0.981 | 1.000 | 0.984 |
| AGFI | 0.973 | 0.965 | - | 0.960 |
| IFI | 0.999 | 0.991 | 1.000 | 0.993 |
| NFI | 0.998 | 0.985 | 1.000 | 0.990 |
| CFI | 0.999 | 0.991 | 1.000 | 0.993 |

Measurement models have a good fit, in other words, overall indexes confirm that models are clearly supported by data. Variables' loading factor, as the most important fit index, has been considered in the consumer attitude model and is widely used in results' interpretation. The questions loadind factors are mentioned in appendix.

**The Results Of Structural Equation Modeling Analysis**
After evaluating and verifying the measurement models in the first step, in the second step, to test hypotheses, structural equation model is fitted and analyzed. Overall indexes of model fitness are presented in Table 2.

**Table 2:** model fitness indexes

| RMR | IFI | CFI | NFI | AGFI | GFI | RMSEA | CMIN/df | df | CMIN |
|---|---|---|---|---|---|---|---|---|---|
| 0.032 | 0.984 | 0.983 | 0.975 | 0.945 | 0.933 | 0.057 | 2.814 | 68 | 191.328 |
| Close to zero | 0.90> | 0.90> | 0.90> | 0.90> | 0.90> | 0.08< | 1> 3< | Reception area | Close to zero |

Results obtained from the information provided in Table 2 are as follow:

Amos output results in estimating the standard model indicates that path analysis model is an appropriate model. The normal Chi-square value is 2.814 which stand between two values of 1 and 3. RMSEA value is 0.032 which is appropriate, also the values of GFI, AGFI, NFI, CFI and IFI are all above 90%; and finally RMR value is close to zero. All the values of model fitness indexes are in the reception area and these indexes indicate that model has a goodness-of-fit which is obtained by data and model is well supported by collected data. Hypotheses and regression coefficients as well as partial indexes values for each hypothesis are shown in table 5. Research's final model is presented in the appendix.

**Table 3:** hypotheses testing results

| Hypotheses | Sample size | Significance number | Corroboration coefficient | Critical ratio | Test result |
|---|---|---|---|---|---|
| perceived fit → consumer attitude | 600 | 0.000 | 0.68 | 18.654 | accepted |
| perceived quality → consumer attitude | 600 | 0.000 | 0.17 | 5.984 | accepted |
| perceived fit → competitive advantage | 600 | 0.018 | 0.44 | 7.662 | accepted |
| perceived quality → competitive advantage | 600 | 0.000 | 0.40 | 10.002 | accepted |
| consumer attitude→ competitive advantage | 600 | 0.000 | 0.15 | 3.001 | accepted |

In the significance level of 0.05, if the table's significance number is smaller than 0.05, relationship between each pair of variables is confirmed.

**Discussion and Conclusion**

As it is perceived from the results in Table 3, it can be concluded that implementation of brand extension strategy in any condition has diluted brand image but this dilution, when the extension is applied to a dissimilar product is more tangible. Also, the following results were obtained through testing hypotheses:

H1- Perceived fit between the extended product and other products influences consumer's attitude to extension in Parsian Bank and its Affiliated Service Companies in Isfahan City.

Based on testing research hypotheses and the Sig of this relationship which is less than 0.05, it can be said that Perceived fit between the extended product and other products of the market, with a certainty of 95 %, positively influences consumer's attitude to extension in Parsian Bank and its Affiliated Service Companies in Isfahan City. As expected, with a more favorable perceived fit between the extended product and other products of the brand is increased because consumers compare their knowledge category related to the parent brand to the characteristics presented by the extension product to understand the benefits, applications and features. Therefore, consumers evaluate more favorably those extensions that present a high degree of similarity or fit with the parent brand. This research's result is in line with the results of Aaker and Keller (1990); Park et al (1991); Boush and Loken (1991); Czellar (2003); Hem et al. (2003); Völckner and Sattler (2006); Hem and Iversen, (2009).

H2- Perceived quality of extended product influences consumer's attitude to extension in Parsian Bank and its Affiliated Service Companies in Isfahan City.

Based on testing research hypotheses and the Sig of this relationship which is less than 0.05, it can be said that Perceived quality of extended product, with a certainty of 95 %, positively influences consumer's attitude to extension in Parsian Bank and its Affiliated Service Companies in Isfahan City. In fact, when consumers have a high overall perception about the quality of the brand, the extension should be assessed more positively than when they infer a low overall, further researches demonstrated a positive relationship between perceived quality and brand extension success. This research's result is in line with the results of Aaker and Keller (1990); Rao et al. (1999); Bottomley and Holden (2001); Gronhaug et al. (2002); Völckner et al. (2010).H3- Perceived fit between the extended product and other products influences Competitive advantage in Parsian Bank and its Affiliated Service Companies in Isfahan City.

H4- Perceived quality of extended product influences Competitive advantage in Parsian Bank and its Affiliated Service Companies in Isfahan City.

Based on testing research hypotheses and the Sig of this relationship which is less than 0.05, it can be said that Perceived quality of the extended product, with 95 percent of certainty, positively influence competitive advantage in Parsian Bank and its Affiliated Service Companies in Isfahan City. In fact, when consumers have a high overall perception about the quality of the brand, the extension should be assessed more positively than when they infer a low overall, further researches demonstrated a positive relationship between perceived quality and brand extension success. This research's result is in line with the results of Aaker and Keller (1990); Rao et al. (1999); Bottomley and Holden (2001); Gronhaug et al. (2002); Völckner et al. (2010).

H5- consumer's attitude to extension influences Competitive advantage in Parsian Bank and its Affiliated Service Companies in Isfahan City.

Based on testing research hypotheses and the Sig of this relationship which is more than 0.05, it can be said that consumer's attitude to extension, with 95% of certainty, positively influence Competitive advantage in Parsian Bank and its Affiliated Service Companies in Isfahan City. As expected, consumer attitude is increased competitive advantage, because consumers compare their knowledge category related to the parent brand to the characteristics presented by the extension product to understand the benefits, applications and features. Therefore, consumers evaluate more favorably those extensions and it can guarantee competitive advantage of brand extension. The result of this research is in line with the results of Martinez and Pina (2009), Martinez and de Chernatony (2004) and Martinez et al (2009).

In this study, the effect of brand extension strategy upon Competitive advantage has been the subject of discussion. According to the results of this study, the right products and brands for research were determined, and research's models and hypotheses were tested through structural equation modeling and regression weights of causal pathways. According to the results of this study, it can be said that in implementing brand extension strategy some factors such as perceived fit between the new product and either the remaining products, perceived quality of extended product and Consumer attitude influence the competitive advantage.

As it can be concluded, from the research model and hypotheses, perceived fit strongly influences the implementation of brand extension strategy since it has effects on the consumer attitude to extension as well as on the competitive advantage. When there is a higher perception of perceived fit between the new product and either the remaining products of the brand. This higher perception strengthens consumer attitude to the extended product that enhances success chances of brand in performing the brand extension strategy and reduces brand image delusion. An important point to be noticed here is that extensions that seem successful in terms of high perceived quality of extended products. If the extended product has a low quality, it will negatively influence attitude toward the brand. However, a high quality extension, when extension attitude is unsatisfactory, does not guarantee the protection of competitive advantage, because the new associations of seemingly successful extensions can also lead to brand image dilution. If the new product is carefully chosen so that it can be consistent with the name and concept of the brand and have a lot of similarities with the other products of the brand then competitive advantage will be increased. Results indicate that the most important aspect of brand extension success and achieving competitive advantage is perceived fit between the extended product and other products.

In this study, model has only been evaluated in the insurance services category and its extension capability to other products is limit, since consumers' preoccupation with different products may be diverse. This study was conducted in Iran, Isfahan and among consumers of Parsian insurance. Thus, its extension to other countries and provinces is limited because different cultures may lead to different results. Another limitation is related to the variables used in the study. Although other variables can also be effective on brand extension strategy, in this study only some variables such as perceived fit, perceived quality and consumer attitude to extension were evaluated. As a result, this study has not considered all the variables existed in brand extension, that this issue influences research's results. In order to analyze the effects on competitive advantage, other researches should develop the study both before and after the introduction of the extended product. For validation, researchers can use the research model in

the field of other products. Also, this study can be applied to other countries and provinces with different cultures. Researchers can examine such variables as brand familiarity and brand's prestige and power as main variables in brand extension and consumer preoccupation with the product as the moderating variable .

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