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Horizontal Brand Extension and Customer Perception

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Abstract

Companies use different methods for extending their business to different markets and to different segments. Regarding different methods, brand extension is one of the most popular strategies for extension of business. However, brand extension does not become successful for every brand, it is very risky. The purpose of this thesis is to study horizontal brand extension and customer perception. We will discuss horizontal brand extension and its two main types which are franchise brand extension and line extension. Brand extension is less expensive as compared to a new product development in the market. Sometimes a failure of brand extension affects the image of its parent brand. Consumer perception is very important for extension of market because success or failure of an extended brand depend on the perception of consumers and their attitudes toward the extended brand. We use three (3) different focus groups and eight (8) individual interviews for to find out about the consumer perception, about horizontal brand extension and its effect on parent brand.

Key words: Brand image, Brand extension, Horizontal brand extension, Consumer perception, Loyalty

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Chapter 1 Introduction

1.1 Background

From start until the end of the day, people's lifestyles are surrounded by various brands of products and services, but they do not notice in their daily routine. Some people perceive the brand which they consume, whereas others do not pay any attention to it. A brand that customers are aware of and recognize can be a first step of success in marketing strategy. Due to the competition in the market, products are quite similar to the competitors' ones. While positioning a brand in market and to customers, marketers need to make their products or services distinguishable from competitors' ones. It is obvious that some brands are successful while others do not achieve their goals.

When we talk about "brand", brand has a tangible value added to a company by goodwill associated with respect to brand name and through higher sales (Jobber & Fahy 2006). The brand itself has its own value. Some global brands such as Coco-Cola, Microsoft, IBM, Toyota, McDonald's, IKEA, and further top global brands have an estimated value above US$ 10 billion. For example, Coca-Cola's company brand is valued at US$67 billion, from Business Week (Kiley 2006). A brand can identify the product and service. A brand does not need to explain itself in a long sentence. Some brands are associated so strongly with a product or service that customers know about their purpose or use from the brand names. For example, if somebody talks about McDonald's, fast food will come into a customer's mind.

Companies always search for new opportunities in various markets in order to expend their business. They comes out with different new products in different segments and markets. They always try to capture more market shares by using different marketing strategies. Brand extension is one of these strategies.

Most of today's companies use brand extension as a tool to expand their products into different dimensions. Some expand in the same category that they already produce, whereas others launch new product lines (Merz et al. 2008). There are many definitions on the brand extension. Referring to Jobber and Fahy (2006), brand extension is the use of an established brand name on a new brand within the same broad market. Kotler (1991) defines brand extensions as "any effort to extend established brand names to launch new or modified products or lines. The importance

in the establishment of brand extension to be success is the consonance between brand name and new product category".

Brand extension is divided into two types. These are horizontal extension and vertical extension. Horizontal brand extension is usually regarded as dissimilar extension that applies an available brand name to enter in a new product category (Randall et al. 1998). Vertical extension refers to extending an existing brand to a product at a different price or quality level (Kim et al. 2001, Kirmani et al. 1999, Randall et al. 1998).

Horizontal extension is normally considered as the difference of the product categories from parent brands or new product to same class. New product in same class is associated with line extensions, while different product category is associated with franchise extension. Horizontal brand extension expands the parent brand's market coverage, provide variety, and renew consumer interest in the brand (Aaker 1996, Ambler & Styles 1997, Keller 1998). According to Milberg (1997), line extension can be divided into a sub-brand or a direct brand. A sub-brand is obtained by the use of a new brand name, differentiating with new colors and new symbols, but keeping the name of the parent brand discreetly on the tag in advertising and product materials. Direct branding strategy is defined as a new extension that is strongly linked to the parent brand's name, colors, and/or symbols, which appear in a prominent position in the brand name (Milberg et al. 1997).

There are many factors along with the advantages and disadvantages of conducting brand extension for current brand. For example some companies are very successful after expanding their product or service that is the result of understanding the nature of their brands. Referring to Haig (2005), there are some examples of brands those are very successful after extension in their products, while others face a failure in the market. For instance, in 1982 Coca-Cola has launched Diet Coke. Today this is the third most popular drink by Coca-Cola. Furthermore, Gillette razors and shaving cream are another example of a successful extension.

Companies having an existing brand are not always successful when they try to introduce a new category within their brand. Even though brand extension may increase sale volume in short term, on the other hand it can also devalue the brand's identity in long term. In the United States for instance, 7-Up cut its share of the market in half, when they added brand variations such as 7-

Up Gold. As well as Pond's, a well known brand of face cream, that has already extended its products before into soap products, but unfortunately it was not so popular, when it applied this brand to toothpaste.

Therefore, companies should know and understand the nature, characteristic, purpose, and use of their brands and products. Accordingly, they should extend their brands. However, it is not important to do this because they can also comes out with a new category. Since these two strategies in horizontal extension are completely different, a company needs a complete research and good understanding of the market.

1.2 Problem discussion

Brand extension is one of the most popular strategies for business around the world in every industry sector. When the brand is already well known after spending an amount of money on marketing in order to create a strong brand image, it is time for the brand to give birth to future profitable products and services.

New product launch is always a good strategy for growth of a business. Brand extension can also be defined as use of an established brand name for launching new products or services, which is a good strategy for the success of a new product or service. Companies use different methods for extension of its brand. Either they go for vertical extension of brand or for horizontal extension. Both methods are used by companies in different situations as well as for different products and markets.

"Most companies run in to brand extension seeing it as a cheaper and less risky way of launching innovation than creating new brands. In reality the benefits are less cut and dried, with the majority of extensions dying an early death" (Taylor 2004).

The success and failure of brand extension depend on the company market research, nature of extension and consumer attitude toward extension. Brand extension can be very successful as compared to new product development. Many companies has done successful brand extension, but on the other hand they also have weak point as if the company is not able to understand their own brand before extending their product or service it can bring loss to new extension. This is the challenge which needs to be understood by a company. Therefore, a company needs

knowledge about how to extend its brand, how to perform proper market research. In this context, a company also has to understand the positive and negative effects of brand extension.

Many researches and studies about success and failure of brand extension are available that can guide managers regarding easy decision making (e.g. Aaker & Keller 1990, Bottomley & Doyle 1996, Dacin & Smith 1994, Swaminathan et al. 2001). Though, there is still a lack when focusing on evaluation, specifically in the horizontal extension along with the customer perception in both positive and negative ways. Due to lack of research in horizontal brand extension and much advantage for company make this area more important for to study further.

1.3 Purpose

Companies around the world have done extension for their brand to fill the market and introduce products and services according to needs and wants of customers. But how customers perceive them? The aim of our thesis is to find out this.

More precisely, the fundamental objective of our thesis is to identify consumer perception on brand extension. When companies do extension of a brand, does it affect consumer perception? Furthermore, we focus on factors on which companies can change consumer perception through which they can attract them to extended brand.

In this context, we will focus on horizontal extension in which we will highlight both line and franchise brand extension. Through individual interviews as well as focus group interviews we try to get result about how customers perceive these kinds of horizontal extension and, consequently, try to understand customer perception.

1.4 Research questions

Our two research questions are as follows:

➢ **Does horizontal brand extension affect the companies in relation to customer perception?**

➢ **How do consumers perceive horizontal brand extension?**

Chapter 2 Literature Review

In this chapter we give a brief overview about research which has been conducted about brand extension. We also link these studies with our research.

Dhananjay Bapat and J.S. Panwar (2009) had work on consumer evaluation of Brand Extensions. They made the study in the Indian context with some famous brands they examine Lux and Nirma in deodorant, Amul and Maggi brands in to potato chips, LIC and Reliance into banking sector, TATA motors venturing into bikes and Bajaj Auto limited entering from bike to cars. They examine the evaluation of brand extensions for real brands in hypothetical product category by using survey. As a whole they make their research in different categories and they take cases from the market. They identify the factor for successful brand extension. their finding indicate that successful extension of brand not only depend on strong parent brand association but also on extendable category borrowed brand extension. They conduct their research in two main area of India (Ahmedabad and Baroda). They made survey in these areas by their finding.

Chung K.Kim, Anne M.Lavack and Margo Smith (1995) did their research in the field of another type of brand extension. They wanted to know about the evaluation of consumer on Vertical brand extension. it was a scientific research in which they made two experiments to measure consumer evaluations on both core brands and vertical brand extensions, they made research on the effect of direction of brand extension (Step up Vs Step down) and distancing techniques (close, Medium and far). In their research they examine the impact of product concept (function oriented Vs prestige oriented brands). They made two studies in study one they use car (lexus, Toyota) and in study 2 they use wrist watches (Rolex, Timex). They find out that any type of vertical brand extension either step up or step down has a negative impact on consumer evaluation of the core brand. However increasing the perceived distance between the core brand and brand extension reduces this negative impact on the core brand.

Another study in this related field was carried out from David A.Aaker and Kevin Lane Keller (1990). They make two studies to obtain insight on how consumer forms attitudes toward brand extensions. In one study reaction to 20 brand extension concepts involving six well known brand names were examined. In this study they find out that attitude toward the extension was higher when there was perception of "Fit" between extended brand and original brand. In second study examined the effectiveness of different positioning strategies for extension. They find out that

potentially negative associations can e neutralized more effectively by elaborating on the attributes of the brand extension than by reminding consumers of positive associations with the original brand.

Mostly these study were done scientifically and experiments were use to come to know that how consumer evaluate brand extension. We employed qualitative methods for our research using students as our target group. The data were collected through individual interviews and focus group interviews. The study ranges of these researches are very wide either with over all extension types or with samples in the market. We have targeted only students studying in Karlstad University regarding one main type of brand extension, in our case horizontal brand extension. We investigated about horizontal brand extension on consumer perception. We did not make our study in any specific case but we discussed different examples of expensive brand as well as daily routine product brands.

 Kim at al (1995) had study another type of brand extension and they also study the impact of function product which we use an example but not in the same field. They study vertical brand extension while we are working on horizontal brand extension. Hartman at al (1990) use franchise extension, that how customer evaluates them, they use a processing model through and categorization theory.

We study franchise extension as well as line extension and we did not make it specific to any theory regarding extension but in general we study the horizontal brand extension and perception of customer. These researchers worked on how consumer evaluate an extended brand in any type of brand extension while we are study how they perceive the extended brand and what they think about the effect of extended brand on parent brand.

Chapter 3 Theoretical Framework

In the following section we focus on the theoretical framework, more precisely on brand extension and customer perception toward this extension. We introduce theory related to brand extension both vertical and horizontal, since this gives the reader a better understanding of the wide picture of brand extension. Later, we give only attention to horizontal brand extension which this thesis focuses on.

In this paper we focus on two main factors: the first one is – as already mentioned – brand extension and the second one is customer perception. In this context, we describe *branding* in the first sub-section (3.1). Related to branding is the question why it is important to have a brand that leads to and creates a strong position in the market, and to get a competitive advantage.

In the first sub-section (3.1) we describe *Branding*. This includes the importance to create a brand which leads to a strong position in the market,

Theory that is used in this paper from section (3.1) *Branding,* how it is important to have brand that lead to create strong position in the market, get competitive advantage and as well as *Brand image (*3.2) that connected with the brand equity, which have direct effect on brand extension section (3.4) explain about the creation of brand equity among customer, high customer base brand equity make the image of company strong which is important for franchise extension.

In chapter section 3.3 we discuss brand extension and two main types of it. From sections 3.1 to 3.3 we also present theory about the topic brand as well as with brand related topics that affect the extension of a brand. In the end of this chapter (3.5), theory about how to understand customer perception is considered. Specific factors for perception are discussed because these ones work together with extension of brand. These factors can change the perception of consumers and make extensions successful or unsuccessful in the market.

3.1 Branding and its importance

Branding is an activity that takes place in business markets where companies try to separate themselves from competitors. According to a phrase from Fortune Magazine published in the book "Brand and Branding", "in twenty first century branding ultimately will be the only unique differentiator between companies, brand equity is now a key asset" (Clifton et al. 2009).

Companies spend a lot of money in order to build a strong brand image in consumers' mind. However, companies use different advertisement channels for this such as electronic and print media: for example, radio, TV, newspapers, magazines, and billboards spending millions of dollars by sponsoring different events, musical festivals, and celebrities (McCracken 1989). They attract consumer in one or another way.

Before a brand was used to make a product different from another one, that enables them to trace the manufacturer for holding the brand and responsible for assuring the quality and promises attached to brands (Keller 2001). Today brands have become an asset for a firm, which is important to develop continuously further if a company wants to be successful and to compete in the market (Aaker 1991).

In this regard, today brands are a major player in our life and penetrate in nearly all parts of our life; we can observe this in our social, cultural, religious, sporting, and economic activities (Klein 1999).

Brands are becoming such an asset which plays an important role in the success of companies. By a famous brand premium prices can be realized in market. Companies, which are able to create a strong image in the customers' mind, always take competitive advantages in the market. Creating a brand is important, since today's companies sell products, but customers buy brands. According to Kapferer (1992), a brand is not just a symbol, logo or name, because saliency, differentiability, intensity, and trust make that symbol, logo or name to a brand. In these modern ages the customer has so many alternative choices for one product or service. Therefore, they do not spend much time in differentiating between them. If they do, still they are not sure about the product or service, more risk and uncertainty is involved by purchasing an unknown brand. That is why they go for brands which have already created trust in the market.

If we observe today's fast and modern life, there are a number of brands, from which consumers have to select. Some brands are so effective and have created such an image in the customers' mind that when consumers think about a product or service, a particular brand automatically comes into their mind or it takes place in priority list during buying decision. Image of a brand is made in a way that evens the name, logo, symbol tells all the story of the company; what it offers and what it sells. Many brands have developed their slogans in such a way that consumers come

to know what fundamental task is the product has (Kapferer 1992). For example, Microsoft has developed a slogan "where do you want to go today" or "Life is good" created by LG. There are many further slogan examples like "Connecting people" communicated by Nokia in such a way, that most of the consumer can recognize it. According to Keller (2001), there must be brand salience in the brand which refers to the brand awareness. Brand awareness means to recall and recognize a brand by customers. Brand awareness makes links between a brand and the customers. High brand awareness mean that customer know about the brand categories, function of brand and benefit that customer get. Consumer also know that how can it fulfill its desires and needs.

Successful companies earn their profit rather from their brand than from their product (Keller 2001). Establishing a new brand in international markets requires over $100 million investment (Meyers-Levy et al. 1994). Beside investment, building a new brand in the market is very hard. As the time goes on, a company has to build trust, awareness and status. As we discussed above, brand is also important because it defines a unique quality, function, characteristic, promises, and trust for the consumer which makes it distinguishable from other products. Choosing a name is not difficult. However, choosing such a name which also defines the product or service of the company is a challenge. Therefore, a brand should always communicate the characteristics of a product or service.

3.2 Brand image

As we mentioned in the section before, a brand is an asset for a company, and creating a positive image of a brand leads to a high brand equity in the market. Consequently, a positive brand image is essential for companies. Brand image can be defined as the perceptions about a brand as reflected by the brand associations held in consumer memory (Keller 1993). Brand image is important for brand equity and high brand equity lead to successful brand extension (Pitta & Katsanis 1995). Brand image refers to the way in which groups crack all of the signals emanating from the products, services and communication exposed by the brand (Kapferer 1992). Three different aspects of brand image determine different consumer responses to a product. These dimensions are favorability of association, strength, and uniqueness of brand associations. Furthermore, a positive brand image is crucial for the position of a product, its target market, and measurement of market response (Pitta & Katsanis 1995).

Favorability of brand association means that the consumers believe on brand attributes and benefits. They believe that a certain brand satisfies their requirements and desires in such a way that a positive brand attitude is formed. Strength association can also be considered as an important aspect of brand image, which depends on how much information regarding brand comes into a consumer's mind and is being maintained. Strength association mean number of time consumer process information about the brand nature and quality, along with manner he/she encodes information send by the sender. More the information is processed in mind of consumer stronger will be the association in memory. Uniqueness of brand association describes how much the brand is unique in a consumer's mind. A unique brand position also helps that consumers buy the brand. The presence of favorability, evaluated association, strong held and uniqueness can make a competitive advantage for a company (Keller 1993). Creating a strong image in the mind of consumers is essential for the firms on any possible technique. Consumers are 'kings' in the market. If a brand has a strong image, it can be preferred by a consumer in his/her buying process. Therefore, a company should fulfill all the promises they have done to consumers regarding the brand. It should fulfill their needs and wants. Once a company have built a strong image and can maintain that image, it can enjoy competitive advantage over competitors.

Mc Donald's has made an image in such a way that whenever we see or hear it, fast food comes into our minds. A brand name should give some information to customers. For example, when we hear about Volvo, one thought comes into a customer's mind and that is safety. These companies have worked on their brand names and have created a particular image in the mind of customers.

3.3 Brand extension

 "Brand extension can either be taking product to market faster or diluting the parent brand." (Juda 2007). More than 80 percent of new products' introduction is brand extension (Sheinin 1998). However, only those brand extensions are considered successful which have high perceived similarities between the extension and parent brand and are also well known in the market (Hem & Iversen 2009). To sum up, parent brand has an effect on extension either in a negative or positive way.

As mentioned before, new product launch is always a good strategy for growth or expansion of business. Companies use different methods for launching new products, which also include brand extension (Bapat & Panwar 2009). Companies try to take advantage of their current well established brands by extending them into new product categories or same product categories within the class and with new prices and quality (Aaker & Keller 1990). A brand extension is a popular strategy for companies to enter a new market because of an already existing good brand image and equity (Kapferer 2000). Brand extension can also be defined as using an established brand name for launching new products or services. So, this can be a good strategy for the success of a new product. It also helps the companies because new product launching is less expensive by using the old brand name. This can be reasoned, since a consumer already knows and can recognize it (Völckner & Sattler 2006). If the original brand has a good image and status in the market, this can enable a new product to start a good growth in the market. When companies are absent from one market or business and they enter to such a new market or business by sometime they are using the same name.

Companies always search for opportunities in different markets. Some experts keep claiming that brand extension should be avoided (Ries & Trout 1981, 2000). The reality of a brand extension's success is low because new brands are not unique and innovative and they cannot fulfill the needs of consumers as a whole (Juda 2007). There are also many risks involved with the extension of a brand. Brand extension leads a brand into a new and unknown market where it competes with already stable local and international brands, and financial risk is also involved. If a product fails to survive in the market, it can also damage the brand value and its image. Moreover, there is a high risk that in such a case users switch to another brand. A failed extension could also dull the image and market share of existing brand. A manager should be aware of benefits and problems created by brand extension. Nevertheless, brand extension is necessary for each organization (Pitta & Katsanis 1995).

On the other side, brand extension is a need of strategic move at some aspects of a brand's life. Mostly, companies look forward to brand extension because they think it is an essential way for sustained brand growth. It is also done for the innovation in brand because it should be a core issue related to a brand; this process is also known as brand stretching (Kapferer 1992).

A company's planning plays an important role in the success of brand extension. Brand extension is also popular among managers because it reduces the introductory expenses; it also decreases the risk of complicated buying decisions and provides emotional benefits to customers due to their attachment with the core brand (Smith & Park 1992). Managers of companies should determine those factors which play an important role in the success of extension and they should plan and allocate resources on the importance of those factors. It is also observed that consumer feeling could diminish because of the core brand name, attachment of consumer and image of brand on a consumer's mind (Loken & John 1993). 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.

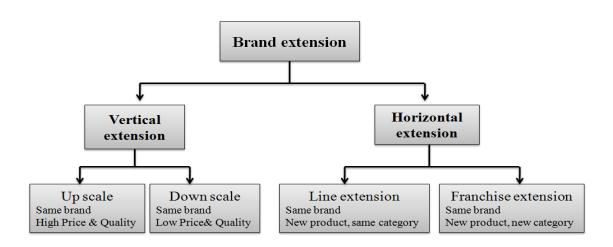Figure 1. Adapted from Kim & Lavack, 2001, Martinez & Pina 2003, Xie 2008, Pitta & Katsanis 1995)

Brand extension can be done in different ways, as we discussed above. It depends on the company study and its policy. It can be done either in the same product category or in a different category. So brand extension can be classified in either vertical or horizontal extension (Pitta & Katsanis 1995).

2.3.1 Horizontal extension

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 & 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. It can be understood better by the figure 2.

Figure 2 Source: New opportunities from company point of view: Tauber (2001)

According to Aaker and Keller (1990), horizontal brand extension can be further divided into line extension and franchise extension.

3.3.1.1 Line extension

Line extension uses the current brand name or parent brand name to enter a new market segment in its product class. More precisely, it also includes the cases when a company comes out with new features, such as new flavors, forms, colors, and package sizes and introduces it within the same product category under the same brand name (Kotler 1997). For example, Danone Company offered several Danone yogurts like fat free, dessert flavors etc. Coke and Pepsi also offered Coke zero and Pepsi Max with the same brand name of Coke and Pepsi belonging to the same class but they have targeted different segments. Many products are introduced under the line extension in grocery industry this ratio was 89 percents (Kotler 1997). Sometimes line extension can lead to losing of specific name meaning of the brand name.

For example, when a person asks for Coke, the retailer could ask many questions, like which one: new classic, regular, diet, bottle or can and so on. Line extension has also advantages for the company to introduce new product. Due to its famous categories, customer could perceive them well in the market (Kotler 1997). A company parent brand's image is very important for line extension, because if a parent brand's image is already damaged than further line extension in the

same category could lead them to failure. On the other side, a successful core brand can help in becoming a line extension successful.

3.3.1.2 Franchise extension

Franchise extension can be defined as when a company enters to a market by using the same parent brand name though different category. Tauber (2001 p,37) defines franchise extension as follows: "franchise extension takes brand name familiar to the consumer and applies it to products that are in a category new to the parent firm. While a new entry employs a new brand name and the product or service is in a category new to the company, this is a traditional new product". Companies mostly take advantage of a brand name's awareness, goodwill and impression of its brand name to enter to different market with different product category or product categories that are new to market (Tauber 2001).

Examples of franchise extension are the entry of Caterpillar into the shoe market. Before it only produced heavy machinery. Therefore, the shoe market was completely different for Caterpillar (Aaker & Keller 1990). Yamaha also entered in the motorbike market which was also a completely new category compared to musical instruments. An important point in franchise extension is that a customer should have a positive perception about the parent brand. Otherwise its success is questionable for a company.

A company, when setting out in market with a new product and trying to build a new brand, needs many expenses. Yet, entering through franchise extension can minimize significant expenses. Introduction of franchise brand extension can also maximize the sales of the core brand due to having almost the same brand name. Franchise extension can also take advantage from the core brand, but sometimes a failure of franchise extension leads to a negative consumer perception which has ultimately a negative effect on the parent brand (Tauber 2001).

3.3.2 Vertical extension

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 & Aaker 1992). Taking this definition, so either the new brand should be of a higher price with a higher quality or it has a lower price with a lower quality. Vertical extension is very common in automobile industry,

where companies comes out with new models that are different in prices and quality like Toyota Tercel, Corolla, and Camry. Since vertical brand extension has a significant difference in quality and prices from the core or parent brand, this leads consumer to re-evaluate the core brand because of new brand in same categories with completely different prices. This, in turn, can result in a negative perception, which destroys the core parent brand image in the market (Kim, Lavack & Smith 2001). Vertical brand extension additionally can be divided into upscale and downscale brand extension (Xie 2008).

3.3.2.1 Upscale vertical brand extension

Upscale or step up vertical brand extension is brand extension done on the basis of a higher quality and higher price point as compared to the parent brand (Kim & Lavack 1996). A high price can affect consumers in such a way that consumers expect the same quality or higher quality of a remaining low price.

Companies go for upscale vertical extension very slowly because it needs innovation in the existing product. High technological products like iPod or iPhone by Apple can be called as upscale vertical brand extension. High-tech product upscale extension has a great effect on consumers because it enables new features and benefits for consumers.

Some researchers suggest that if a company comes with high or low prices and quality, even then vertical extension damages the core brand. Kim, Lavack & Smith (2001) suggest that vertical extension has a negative effect on core brand regardless of its direction and regardless of its brand concept. Yet, Lei, de Ruyter and Wetzels (2008) indicate according to their research that steps up or upscale brand extension may be perceived positive information that enhances the core brand beliefs.

3.3.2.2 Down scale vertical brand extension

Down scale or step down vertical brand extension is extending a brand with lower quality and price (Kim & Lavack 1996). There are a lot of discussions between the researchers about down scale vertical brand extension. Great risk is involved in introduction of down scale extension, because it has sometimes a negative impact on a consumer's mind, when a company comes with lower quality while using the same brand name. This can damage the core brand or parent brand. The difference between the parent brand and the extended brand can take in to consumer

concern. Vertical extension has always a negative impact on consumer regarding the parent brand (Dacin & Smith 1994).

If a consumer perceives the down scale extension with same quality though with lower price, then a company can benefit from this attitude, while if the quality is perceived as low, it can harm the parent brand very badly (Reddy et al. 1994). Down scale extension can have an effect on prestige of the parent brand because it is natural that consumer will associate the brand with its parent brand and they will build the same image about the brand (Kim & Lavack 1996). Sometimes in searching for new clients, a company can lose their existing customers. For example, if a luxury brand comes with lower price and quality, consumers can change to competitors, when those consumers bought the expensive or luxury brand only as a status or symbol. Consequently, if quality or prices are reduced, it can deeply affect the existing consumers of the brand (Ries & Trout 1986).

3.4 Customer based brand equity

The differential affect of brand knowledge on consumer response to marketing of a brand is known as customer based brand equity (Keller 1993). The definition has three parts: differential affect, brand knowledge, and consumer response to marketing. Favorable consumer response and positive customer based brand equity, in turn, can lead to increasing revenue, lower costs and higher profit. Brand knowledge is an important aspect of the definition or, we can say, the vital part of definition. Consumer knowledge has played an important role in customer based brand equity. According to Keller (2001), the power of brand lies in what customers have learned, felt, seen, and heard about the brand over time, it means that how much knowledge he/she has taken by experiencing the brand. Consumer knowledge can be increased by awareness of a brand. If companies have created a high level of brand awareness and a positive image, it will lead to high probability of brand choice, which directly takes consumer to loyalty and decreases vulnerability to competitive marketing actions. So both consumer awareness and posit3ive image is necessary for customer based brand equity (Keller 1993).

Keller (2001) has developed a customer based brand equity pyramid (see figure 3) on the basis that customer based equity can be developed. The model has three main goals. The first one is that it is logical, well integrated and grounded which reflects the state of thinking about the brand

from both academic and industry point of view. Second, the model is applicable to all possible kinds of brands and industry settings. Third, the model is much comprehensive to cover important branding topics as well as enough depth to provide useful insights and guidelines.
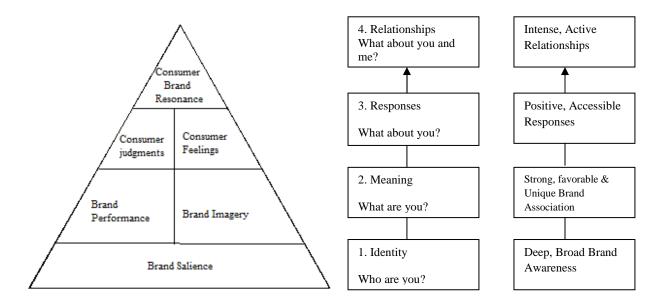
Figure 3: Customer based brand equity by Keller (2001).

Figure 3 is divided into four blocks which are important for the creation of customer based brand equity (CBBE). But as Keller has explained there are two more blocks which are taken by dividing second and third block into further blocks. The four blocks consist of identity, meaning, responses and relationships.

3.5 Understanding customer perception

The world has become a global village. Some products and services provided by companies can be accessed by customers nearly everywhere and in each part of the world. This global economy creates high competition among companies. Many companies face competition from substitutes and new products in the market that approach with different ideas and different offering. Every company tries to win as much customers and market shares as possible.

Choices for customers increase and, moreover, customers have also access to products and services around the world. This has created a high competition among the producers and service providers, which, in turn, has resulted in price sensitivity among customers. Substitute brands are offered that can fulfill their needs and wants by low price and high quality. Today's customers

are mostly well informed, and much aware of incidents in the market, and can easily compare prices, which finally influences their purchase choice.

In this situation a strong relationship for companies is very important in order to create a positive perception in the mind of customers. Relationship is not only limited to price and quality, perceived experience plays also an important role in making loyalty. Loyalty can only be achieved if the customer is satisfied and has a positive attitude towards products and services of a company. A customer always evaluates benefits he/she perceived from companies (Recklies 2006). There could be many customers which will buy the product/brand regularly, but will have no special bond towards the brand of those companies. According to Hallberg (1995), 80 percent of customers are not loyal to an already established brand. Companies generate sale from 10 to 15 percent of loyal customers in the market. 20 percent of customers are accounts for 80 percent role, it is also known as pareto or 80/20 rules (Randall 2001). For example, one third of the diet Coke buyers are accounts for 85 percent of the total yearly sales.

Perception plays an important role in making strong loyalty of customers. Perception of customers can be influenced by different factors like experience, satisfaction, promises of the company, offerings of competitors etc. Furthermore, customer perceptions are dynamic. At the beginning of a relationship with a brand it will be uncertain, but as time passes perception changes to be positive or negative. A change of perception also depends on the circumstances because a change in circumstances can lead to different needs and preferences – like a change in external environment, offerings of competitors, public opinions, etc. Companies use different strategies to improve customer perception by using various communication channels. These channels of communication create awareness in consumers; they are aimed at establishing a good relationship from which a company gets high competitive advantage, especially in B2B, improvement of their offerings, increase in quality, launching of different products and qualities. Trust also plays an important role in customer perception. Companies should know the points due to which they can increase the customer satisfaction and trust, which lead to high perceived value and strong customer relationship.

Aaker (1990, 1991) defines three criteria for a successful brand extension: (1) the brand should have strong associations, (2) the customer's perceived quality should be high, and (3) the level of awareness must be high.

Strong associations, a customer's perceived quality and level of awareness are factors which play a crucial role in the extension of a master or parent brand as well as for making a positive perception of a customer toward a brand.

3.5.1 Awareness

Brand awareness refers to a customer's ability to recall and recognize a brand. Brand awareness is not only to evoke customers about a brand, but it also links a brand to its name, logo and symbol as well as promises given by the company or a firm.

Awareness represents the first step in building a brand that shows strength towards a customer's mind. After creating awareness with the help of repetitive communication strategies, they will create level of awareness among customers.

When a customer suddenly thinks about a particular product, the first thing which comes into his/her mind is the brand. 'Brand recognition' deals with the fact that a customer can recognize the product or brand name when he/se is stimulated. 'Unawareness of brand' is the situation that a customer cannot recognize the brand. According to Keller (1998), 'brand recall' and 'brand recognition' that it can be used properly in different situations, for example, when a customer makes a decision before he/she goes to visit the store, brand recall will have more influence on a customer's decision, but in some cases if a customer did not decide about which brand he/she is going to buy, then brand recognition becomes important. Brand awareness is the main factor to encourage a customer to purchase a new product in the market. When awareness increases, it will also have a positive relationship to the quantity of trial (Apéria & Back 2004).

3.5.2 Customer perceived quality

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 & Back 2004).

Perception of quality differs from actual quality. The consumer can be affected by earlier impressions made by poor quality. According to Aaker (1996), decisive is to protect the brand from a bad image of shady quality. Otherwise it will be difficult or almost impossible to recover the image and reputation of a brand in the market.

Perceived quality differs from objective quality. Making difference between product attributes and consumer perception in them is very important. In perceived quality value and emotional reward are seen on high level by customer. Perceived quality becomes the assessment through which it creates the image of a product in a customer's mind that governs his/her attitude toward a product. Perceived quality can be in the intrinsic or physical make up (taste, color, consistency) and extrinsic cues (price, brand name, publicity, warranties) (Apéria & Back 2004). Internal or intrinsic is about the product quality, working duration and physical composition of the product. External or extrinsic dimension all which is not included in the physical product. This can be price, marketing or the brand itself. Therefore, brand should develop itself to associate with the quality in a customer's mind both in internal cue and external cue (Apéria & Back 2004).

3.5.3 Brand association

Brand association plays an important role from basic level of making a functional features relating to customers and their brands. Complex level is to send the emotional bond that ties the brand with customer. They can express self image by associating and meaning to connect the brand and customer. Brand associate are gather directly and indirectly from customer memory, That link and create value to brand and customer by easily understanding the information, differentiating brand from other, giving customer the reason to buy the brand as well as create positive attitude and feeling toward brand and support brand extension (Apéria & Back 2004). Brand associations include appropriate usage situations, product categories, product attributes and provision of customers' benefits. The association can be the link from brand, product, and user type as well (Broniarczyk & Alba 1994)

According to Keller (1998), brand association can increase a customer's buying decision by an increasing belief in brand, but awareness is creating the condition of purchasing trial and positioning the product in a customer's memory. There are three components on brand association (Apéria & Back 2004).

➢ **Attributes** can be the characteristic of the product as well as the aspects related to purchase and consumption.

➢ **Benefit** is the value that attaches to the product.

➢ **Attitude** is the overall value that a customer thinks on brand like favorable; strength and uniqueness can affect the customer on brand association in different point of views.

Chapter 4 Methodology

This chapter presents the methodology of our research. In the following sections we introduce the strategy for research and sample selection, which has been employed in order to answer the research questions. Furthermore, we give a description how we collected the data as well as how we analyzed it. In this context, background information to the employed data collection methods is also given. Finally, as almost in every research, there are a few limitations while conducting this research. A brief discussion about these ones concludes this chapter.

4.1 Strategy for research

Strategy for research is an initial procedure, which shows the way to achieve the objective or goal of research. It tells about the selection of a sample, collection of data from that sample, their analysis and quality. Such as strategy helps in conceptualizing the data, idea and finds a straight way to achieve the goal.

The goal of our research is to find out how brand extension, with focus on horizontal extension, influences customer perception. For this we have chosen a deductive and explorative approach. We used interviews as a qualitative method for the collection of data. Different articles and books related to our topic were used as support for the analysis of our data. Using a qualitative method will also give us the chance to get deeper information from a customer's perspective.

We have decided to take data by using focus group discussions and interviews with customers. Both of them give deep information about the topic and will help to get good results of analysis. According to Morgan (1996), focus group interviews as a strategy will be difficult to employ. Yet, if it is used sufficiently, it can give solid and depth information. For our research qualitative method is suitable, because it will give deep information about consumers' perception.

4.2 Sample selection

We selected international students between 20-30 years of age for both individual in-depth interviews and focus group discussions. Participants selected have been already familiar with interviewer that has contributed in creating the interview environment more comfortable for them at the time of interview. Furthermore, we chose these students because they have the

knowledge and experience of what we are trying to find out. This will help interviewees at the time of interview to understand the background and questions easily.

4.3 Data collection methods

We employed two methods for data collection which are used in qualitative research studies. In order to have reliable and a variety of ideas we decided to use more than one qualitative method to collect data. This has been done by using two qualitative techniques; one is individual in-depth interview and another method is focus group interview. We decided to take interviews only at Karlstad University because of the convenience as we do our research here.

In general, we employed structured interviews, where questions are well prepared before asking for both individual interviews as well as focus group discussion. The questions will be asked face to face in order to get quick response. Moreover, if something is unclear, we can ask the participants at once.

4.3.1 Individual in-depth interviews

In this research, we conducted eight (8) individual interviews with students studying at Karlstad University, whose age is around 20-30 years. Each interview has taken an average time about 30 minutes.

Interview questions are related to the field of horizontal extension (regarding the questions see appendix), for which we wanted to find out the students' opinions and attitudes in this regard. As first step we conducted a couple of sample interviews before starting the actual interviews. This helped us to estimate the quality of our designed questions, more precisely, if they are understandable for the interviewees and if we get the required results from them. After re-designing the questions we started the actual individual interviews. With this proceeding we got mot detailed and related information needed for our research.

4.3.2 Focus group interviews

There are many advantages of taking focus group discussions which is a relatively convenient and efficient way to reach a large number of interviewees. We think that it is a suitable method to do in this research paper.

The focus group discussions have also been conducted within Karlstad University; they have been hold in one of the library's study rooms. In every focus group were 6 to 10 international students participating at a time. We think that this is suitable size. By asking the questions every participant had a chance to give ideas and explanations regarding the topic we asked. We conducted three (3) focus group interviews and each group had an average time of about one and a half hour in order to get more responses as well as to have the chance to get more ideas.

4.4. Background information regarding selected data collection methods

Regarding the two employed data collection methods, a brief theoretical description of each method is given in the following sections.

4.4.1 Individual interview

Individual interview is a qualitative research method that provides the opportunities for people to talk. The major purpose is to learn and to see the world from different eyes of persons who are being interviewed (Ely et al. 1991). Furthermore, an interview is aimed to get some information through a decisive conversation between two people, sometimes involving more than two people (Bogdan & Biklen 1982).

4.4.2 Focus group interview

Morgan (1997) defines focus group as a research technique that collects data through group interaction on a topic determined by the researcher. In essence it is the researcher's interest that provides the focus, whereas the data themselves come from the group interaction.

Morgan draws attention to the distinction between the focus (in this case concern about levels of student satisfaction with a particular unit) and the group. Interaction would appear to provide a good vehicle for exploring and elucidating the nature and causes of dissatisfaction.

It can provide another level of data gathering or perspective on the research problem not available through individual interviews (Lincoln & Denzin 1994). According to Morgan (1996), focus group is a way to reach and gather the information that is not easy to gather by other qualitative methods.

4.5 Limitations

In our thesis we have some limitations. During the interviews it could be possible that interviewees give some biased or false information. It could be also possible, that in both individual interviews and focus group interviews a participant does not understand the question properly and just wants to be part of discussion in focus group which can influence the results in another direction. There is also a probability that answers to the questions will be different as the interviewees have interpreted the questions differently. That will also have an impact on the research results. We tried to reduce these types of errors by asking the same questions with coating different examples to avoid errors and get as much clear data as possible. Especially at the end of an interview we tried to give a summary of answers received during the discussions to make the answers more accurate and to make sure that we had these aspects and information which the interviewees wanted to say.

We tried to create such a focus group in which people are familiar up to some extent with each other because this helped them to discuss more openly. We wanted to have an informal and friendly discussion, that give us full thoughts and accurate information. In focus group some individuals were more familiar with each other, so it can be possible that they support each others' arguments during a discussion without given their own point of view.

We have tried to include the answers and views of all participants in our data presentation from individual interviews and focus group. The reason was to include every person's thoughts about the topic and make data more realistic. We also took in our consideration that while conducting focus group interviews some participants were not aware of the questions we asked, but they still participated and tried to answer. Therefore, we tried our level best to eliminate those discussions because they were not related to our topic and also information was considered as false.

Chapter 5 Data presentation

In this chapter we present the data we got from both individual interviews and focus group discussions. The results are divided on the basis of research questions. Our research questions have two parts: one is related to brand extension and second part is related to customer perception. We divided our focus group participants in two groups. Ones were those who have some knowledge about marketing. They will be considered as marketing group. The others will be considered as common consumer group.

Both groups have given different responses in discussions of both individual interviews and focus group discussions regarding brand extension. The marketing group focused too much on image and value of a company, from which they think it can be very effective in changing the perceived value for a customer of extended brand. They also discussed close extension to brand and new category which is completely different to parent brand.

Before going to result of brand extension and customer perception image of company was focus point in discussion. Consumer group also gave results that show the importance of a company's image. We will explain all these result below in detail.

5.1 Brand image

As we mentioned before, brand image was the focus point for marketing group and common consumer group. When we asked the question regarding to IKEA, namely if this company comes out with clothing products, so their response was positive toward this product. As we asked the reason why they would prefer its products as compared to other companies that already exist in the clothing market, they gave the reason that IKEA fulfills customer needs and want. It has created an image in consumers' mind that they always keep its promises and, therefore, consumers trust it. IKEA has already a very successful extension in its restaurants. Due to which they believe that they should comes out with more extension.

From our data, we collected from both individual interviews and focus group discussions; we can conclude that the image of a parent brand is very important for the new product launch. It is obvious that when a company does not have a good image bringing out a new product category under the same brand, then consumers will have the same image about new product as they already have about the parent brand. Almost half of the persons, who we have interviewed, have

mentioned about brand image, that it has a direct effect from parent brand toward product extension. The question arose during the interviews about H&M where the image of this brand is about reasonable price and good design. In case, if H&M comes out with home furniture with reasonable prices and good design, many interviewees considered this as a good chance. In their opinion it is worth to launch new categories because H&M already has an image of reasonable prices and good design for consumer products. But when they do not have strong fit between existing brand and new extension, it will very difficult to convince consumers in this category. In long term with good communication strategy such companies can be successful in the market.

During individual interviews and focus group discussions we came to know that customers take the risk of buying extended brand only when the image of parent brand is strong in the market. When the students were asked if Marks & Spencer and Esprit comes out with a mobile phone, so without hesitation their answers were positive for Marks & Spencer, because it has created an image of status, quality, and high customer services compared to Esprit. They also gave the arguments that, if the mobile phone has not a good quality, it will damage the parent brand. But one person, who is loyal to Marks & Spencer, has stated that it will not affect it, because Mark & Spencer is on top of the market in clothing, while mobile phone is a different category.

During the discussions the issue came that if a company fails in the market with an extended product, it can be very harmful for the parent brand image in the market. According to focus groups, it can be more harmful in line extension because of almost similar characteristic and close fit between the products as compared to franchise extension.

5.2 Brand extension

The discussion about brand extension in focus group and individual interviews has taken much time. Brand loyal students were very much supporting brand extension and they said we would purchase such brands because we have already experienced a good quality with them. If they comes out with a new extended product, we would buy it. When we discussed the point that if a company comes out with a new brand and the consumer has a bad experience with them, so does it affect the parent brand, the answer was 'no'. The students stated that one product cannot change their point of view about the parent brand of a product.

We further focused on horizontal brand extension. The interviewees had different thoughts and discussions about brand extension. We present both kinds of it separately below.

5.2.1 Line extension

As we discussed before, the questions and examples were related to franchise brand extension but we let the students also discuss about the line extension.

Discussions were related to the aspect if a company is strong in one brand, it would be good for them to come out with different products in the same class. They gave the example of juice if one company is already in the market with one flavor. They should produce different flavor and different sizes to target different segments' taste. They also discussed regarding Pepsi different sizes and Diet Coke. According to marketing group discussion, a company should take it as opportunity to bring out different products in the same line. Example of H&M was also given, namely if it has already jeans and T-shirts, it could also offer good types of shoes with reasonable prices. It should concentrate on its price strategy in the market and launch its own shops with shoes and different variety in them.

Furthermore, they discussed that sometimes line extension can be very dangerous to the image of a company because if a product within the same class fails in the market, it will damage the parent brand easily. It can also weak the parent brand, because it can take away the sale from the parent brand. In focus group discussions another point arose, namely that line extension has more advantages as compared to franchise extension. The students discussed Coke and fashion industry in this regard. But they also said that a failure could also take a greater damage to a parent brand in line extension. There is also a chance of competition between the two products under the same brand.

The respondents also took into consideration that line extension of a brand is cheap as compared to introduce a new product with a new brand. They reasoned this with high marketing expenses on a new brand because people are not so much aware of the new brand yet. Companies will also create association between a consumer and a new product in line brand extension, they already know the brand and they can attract and influence consumer easily.

5.2.2 Franchise brand extension

The focus of discussions and our main concern was on franchise brand extension. According to consumer group, they would go for any brand which satisfies their need. Some of them agreed that, for example, they need a T-shirt and if they can buy it, so they would take it from any company because they did not have any particular brand in mind. When we discussed the students' purchase decision in the case that Dell comes out with regular T-shirts, most of them were confused. They stated that it is a bit difficult to buy the T-shirts of Dell because it is such a company which is good in computer related field mean technology but not in ordinary life clothes. But when we asked the same question using a different company, namely if IKEA offers T-shirts, most of the persons in the group showed a positive motivation toward buying a T-shirt from IKEA.

In common consumer group loyal people to Marks & Spencer had a different attitude toward the same question when we asked that if Marks & Spencer and Apple have a MP3 player, which one they would prefer, they said we would buy that one from Apple, because we do not buy MP3 player regularly and we already know that Apple is the only good brand in MP3 player. We asked this question in different ways that if such companies like Mark & Spencer and Marc Jacobs sell MP3 player which do not operate in this field of technology, how would be their response then. Their answer was quick and without any thinking that they would prefer the MP3 player of Marks & Spencer.

Marketing group discussion was a bit related to policies and image of a company. The interviewees said that if a company is already successful in one product, it does not mean that they will be successful with the same brand name while completely different category of product. In their view, a successful company can comes out with franchise extension but it should be at least a bit related to its main business which can take them to successful extension. They said Adidas, for example, operates in the sport business. If it produces such drinks which focus only on sports player like energy drinks, it can be quite successful in this field, because it is already at the peak in sportswear business. They further stated that customer perception depends on external environment but sometimes it takes much time to change perception and to attract consumers toward a different company. If a company has product(s) in the same field and has good strategies, it can attract consumers more easily and quickly.

Franchise extension was also a big risk in the point of view of marketing group because they thought that a completely different product from the parent brand has difficulties to be successful in the market. When the example of CAT comes out in the discussion, namely that it also deals with shoes in the market as well as heavy machinery and still it is successful in the shoe segment and has shares in the market, their thoughts were as follows: they said in this different category it is difficult to attract consumer toward the product. They also give the reason is line extension is less expensive in communication with consumer. If company comes with different product category it has to invest heavily in communication with consumer to attract them and it will take time as compared to line extension. In their point of view it is fine because there is already an established brand but the product is completely different. The company has to spend more on advertisement to convince a consumer toward the brand. We also came to the result from the discussion that advertisement also plays an important role in the success of franchise extension. If a company highlights the uniqueness and new feature of product, it can be very successful in the market. They should show the benefits of product to consumer for to use of their extended brand and comes out with some emotional advertisement for the loyal consumer.

Most of the participants in the individual interviews as well in the focus groups, most of them said that if a company's image is good in the market and the consumer perception is positive toward the company, it should go for line extension and in franchise extension. However, it should take a bit care and patient to attract consumer quickly toward the extended brand.

5.3 Customer perception

Individual interviews and focus group discussions also showed that the perception of consumers is not consistent. It can change from negative to positive or from positive to negative. This depends on product and service as well as personal attitude which can be the price, quality, and value that every consumer perceives in different ways. Some respondents who considered the price as priority will run into it without thinking of quality. But some respondents stated that price and quality should go together. During the interviews some of the respondents mentioned that a brand can also affect customer perception.

We asked the respondents for giving a priority of factors from which they think that they influence a customer's decision when purchasing a product. Factors provided by us were the

following: quality, price, design and image, opinion of their friends and family. Therefore, we divided the data that was presented during the interviews and focus group discussions toward customer perception topic into three categories. These are (1) customer perceived price, (2) customer perceived quality, and (3) customer perceived value.

5.3.1 Perceived price

One respondent, from those who perceived price as a priority, mentioned that low price is not always reflecting a low quality. When a company comes with low price at a brand extension, customers will prefer to buy it as quality of the brand which is already perceived good. But in case a brand having a high professionalization on the category, in which they do extension, and make lower prices, it can attract a customer to purchase. Because those companies have expertise in the field and when consumers buy their product, they perceive it as positive.

5.3.2 Perceived quality

Those customers, for who quality is important, are willing to pay the price for a brand which has high quality and can serve them better. One respondent said that when the price is high, it will express to high quality. The brands they already trial and it has good quality, makes them satisfied. So they will always go for those brands. During focus group discussions respondents came with the idea that if a parent brand has a good reputation among consumers and the company makes brand extension, then consumers will experience that brand. They gave the reason that a parent brand gives a high quality which will be the same for the extended brand.

5.3.3 Perceived value

The respondents, who do not consider the price or quality as priority, think that the status comes first. They think value of the product, that they bought, will make them good looking and better status in society. For those respondents value is the feedback that they get from external environment; it can also be price, quality, durability or image. Some participants' person stated that if they buy an expensive product which has low quality, this makes him unpleasant. They consider this as non value for them and it will lead to negative impression to the brand.

In focus group discussions different respondents came with different thinking about a product that is going to be extended. In the case of brand extension, when a customer buys a routine

product, it will not have a big effect on customer perception and customers can also experience a new product. Respondents have mentioned that they are willing to switch the brand if that product is less expensive. But in the case of a product that is not common in the market and they do not buy it regularly, this can limit their decision. It is also difficult to switch from the brand which they buy very often and, therefore, which they are loyal to it.

5.4 Brand loyalty

During individual interviews and focus group discussions we found out, that brand loyalty is one of the most important factors during purchase decision. We have seen that interviewees loyal to a brand will go for its extended brand. We gave the example on Marks & Spencer, namely if the company launches new products which are completely different from the parent brand such as juice, would they purchase it? One respondent said "*I would definitely go for it, and I love to try all the products of the brand I like*". He further discuss that extended brand quality will be as good as parent brand's quality. Even though if the extended product perceived negative and it does not his expectation, he will not think negative toward the parent brand. This is a completely different view from the non regular users of one brand.

Furthermore, during the interviews we also realized that many people are not brand conscious. Those respondents go for price quality and styles. Status was also included by some respondents. It depends on the brand offer that what aspect they want the most. Many respondents mentioned that they may switch to be loyal if the brand, they bought, continuously give them on what it promises.

5.5 Brand association

The results of the interviews do not show only the brand that has high association to categories extension can attach customer mind, but it is also the positioning of a brand in a customer's mind. During focus group discussion one respondent, who has knowledge in marketing, said regarding association of a brand and a customer that his depends on the customer's behavior. For example, if those customers are not interested in music, the brand of a music instrument will not be associated with a customer's mind. One can say that the characteristics of the product are not related to a customer's behavior.

Moreover, the association can be the benefit that customer perceives as well as attitude. During the interviews one respondent mentioned regarding Marks & Spencer it can make him feel superior and better looking than any other brand as well as he can get a better quality compared to another brand. These are the associations between customers and brand that can get along each other.

During focus group we have discussed about the association of a parent and extended brand. The example of the Apple brand arose. If Apple launches a new product category such as car, television, camera, will it be successful? The majority of respondents said it will be successful, because the existing product of Apple is related to the technology and design. The discussion continued with another example, that if Apple comes out with candy, will it also be successful? 'Yes' and 'no' answers were given. The reason behind the positive answer was that company strong image is enough if they come out with an unrelated product. The participants who were not agree they give the reason that parent and extended brand are totally different in nature and it might lead to failure in the market. They also discuss that in line extension association of customer from parent brand can be shift quickly from to extended brand while it is difficult in franchise extension.

5.6 External environment

External environment has a big effect on the perception of a consumer. Opinions of people, friends and family can change the perception of a brand for a particular person either in positive or negative way.

During individual interview discussion we found out that many people have changed their brands due to financial problems. According to this, economic situation also changes their brands. They want to purchase a particular brand but due to their economic situation they are not able to continue buying it.

We also found out that consumer perception can be changed by friends' and family's opinion. There were some students in the interviews who purchase products if people talk positive about them. When we asked in case of H&M why they buy its products, they reasoned this with the lower prices. The question regarding quality was completely different from that because they said that compared to Jack & Jones and Esprit it is not so good. However, they have to fulfill

their needs. In the focus groups it has been discussed that IKEA has cheap and good quality furniture and they have good experience with the brand IKEA.

Marketing related group discussed that it is not important, if a company is successful in one product so all people will buy their products. They are only successful because of weak strategy from the competitors. In their point of view if another company launches the same product having good quality and competitive price, then it can capture market shares in an existing market. It further means it can change customer perception if they have a good plan and strategy.

In some markets new product development plays an important role. We discussed about MP3 that if Dell comes with a MP3 player like Apple, will it be successful in the market and can it take market shares from Apple? The answer was if it comes with a (new idea) advanced technology and continues improvement, it could take market shares of Apple.

Chapter 6 Analysis of data

In this part of our thesis we analyze the data that we got from individual interviews and focus group discussions based on the theory of horizontal brand extension and customer perception. We will analyze the effects of horizontal brand extension on the image of a company and on the perception of consumers about horizontal brand extension.

6.1   Effect of brand image on horizontal brand extension

Keller (1993) defines brand image as perception about a brand reflected by the brand association held in a consumer's mind. Brand image refers to the way in which groups of consumers crack all the signals emanating from the product services and communication exposed by the brand (Kapferer, 1992). When we asked the question about H&M, why this brand is good, the answers were positive with its reasonable price and good design. H&M has created this image with a good pricing strategy. In consumers' mind H&M has made an image of low prices and good design. Whenever consumers talk about H&M, low prices combined with good design comes into their mind. A positive brand image is very crucial for positioning of products, target market and market response. Similarly, Volvo's image is reflected by its slogan "safety comes first".

Brand extension strategy is sometimes risky. The extension may confuse the image of a parent brand and it can change consumers' attitude toward other products caring the same brand name if an extended brand fails in the market (Kotler 2008). According to marketing group's point of view, it is good to make an extension if a company has a strong image in market. On the other side, it can also affect the image of a brand if it does not become successful in the market. Students commented the point that in line extension a failure of an extended product can damage the image more as compared to franchise extension.

Brand image plays an important role in the extension of any brand either vertical or horizontal. Companies create an image by fulfilling their promises to consumers. These promises can be given regarding to price, quality or other properties. From the focus groups and individual interviews, it became clear that a positive brand image helps to attract consumers easily toward the extended brand. The reason is the consumers' believe on a parent brand which gives an advantage to a new extended product with the same brand.

6.1.1   Effect of brand image on franchise extension

According to Tauber (2001) "Franchise extensions take a brand name familiar to the consumer and apply it to products that in a category new to the parent firm". There are many examples of such a company which operates in different categories, like CAT, Porsche, and Apple. But consumers' thinking about them is different. The question if they would by T-shirts brought out by Dell, was answered and discussed differently. According to them, it is not important that a company has a good image in one category if it has the same image in other category. Since computer and T-shirts are completely different from each other, it will take time till Dell has influenced consumers in the market.

If there is a brand fit between two categories of a company, it can influence consumers easily. For this we used the example of Marks & Spencer which offers sunglasses. In this case the students stated that consumers will accept sunglasses. The reason is that Marks & Spencer having the same fashion industry and has image in same industry. It can influence consumers very easily as compared to completely different categories. They further gave the example of Honda which works in Lawnmowers, marine engines and motorcycles. These are different categories but all are related to engines which logically will lead to success in the market.

6.1.2   Effect of brand image on line extension

Randall (2001) explains line extension as introducing a new product while using the existing brand name in the same or closely related field. Line extension is the extension of the same brand in different product with in the same product line or class. Line extension occurs, when a company extends an existing brand name to, for example, new forms, colors, sizes, ingredients and flavors of an existing product category. According to Kotler (1997), 89 percent of extensions in the grocery industry are done through line extension. Line extensions are not riskier if a company's parent brand already has a good image in the market. It can lead a company to profit in long term. Coke is successful with Diet Coke and different sizes. Kit Kat has done line extension with low-crab and ice cream.

Consumers are attracted very soon by line extension. They believe the company has good image in parent brand and they have expertise in the same line due to which they might be having good result in extended brand, mean same line if they come out with flavors or size. They said if a

juice company already works in one flavor and they are quite successful, then they should comes out with different flavors in order to target different segments in market. According to them, image plays an important role in this extension. But it can also be risky for a parent brand. It can damage consumers' believe in a parent brand and it will also compete with the parent brand which means that the same profit will be distributed amongst both products of companies, unless the market shares cannot be increased.

Heavily extended brands can also cause confusion or frustration of the consumer. Sometimes too much extension loss it specific meaning in consumer mind which is known as line extension trap (Kotler et al. 2008). Like Coca-Cola has done many extensions, for example, Classic Coke, Diet Coke, Cherry Coke, caffeine-free Coke, and so one. According to Randall (2001), it can confuse consumers in future.

The discussion from individual interviews and focus groups resulted that a good image of a parent brand can give more advantages in line extension as compared to franchise extension. The participants have positive perception and attitude toward line extension.

6.2 Consumer perception on line extension

Line extension uses an existing brand or parent brand to enter a new market in different market segments in its product class (Kotler 1997). Danone company brought out different flavors in yogurt like fat free, dessert flavors. In this context, one study found out that almost nine of ten so called new product introductions are come through line extension (Aaker 1991).

Companies use line extension because it is cheaper than launching a free stand brand. Due to the image of a parent brand, there are many chances of success in the market. Coca-Cola has done successful line extension with Diet Coke. Consumers are aware of brand which leads to less expense on promotion of product. Line extension is also important for filling the gap in the line, in which consumers are also interested. Cherry Coke was introduced successfully in Germany to fill the gap within the same line. It has the same brand name, only ingredients and flavor of the new product is different and it got advantage of the parent brand. According to the focus groups, if H&M can do business in garments, it can also comes out with a variety of shoes to the market. It is already operating in the same fashion industry.

6.2.1   Positive effects of line extension

Successful line extension can increase the value of the parent brand as well as the equity of brand. A company can also fill the gap that in the same line exists, due to which it can get a competitive advantage over the competitors. A company takes advantage of a positive image in a consumer's mind and cashes its brand image, which creates more value and equity for a brand.

According to focus group, line extension is better than introducing a new product in the market, since this is cheaper. It saves some expenses for the company as well as the amount that spend for making the brand strong in the market and creating value for the new product or new brand. It has a close relation to the company's parent brand, which also helps the company to comes out with successful introduction of new product under the same brand only with small changes which confirms Randall (2001) statements about the line extension of product.

Due to relevance with the class, consumer association also shifts from parent brand to extended brand up to some extending. The transfer of consumers' association also depends on the fit between extended brand and parent brand. If it has a close fit and is quite similar with the parent brand that it can take more association from consumer.

6.2.2   Negatives effects of line extension

As line extension has so many positive aspects, it has also some negative impacts on both consumer and company. As Kotler stated that in too much long extension some time the brand lose its meaning in a consumer's mind. It makes the consumer confused. If we take the example of Coke, it offers Cherry Coke, Diet Coke, Classic Coke, Caffeine-free Diet Coke and so on. According to Randall, it can make consumer confuse in the future purchase.

According to the data collected from consumers, it is mentioned that if line extension fails in the market. It can seriously damage the parent brand. As line extension has advantages due to close relation with the parent band, it is also risky for the parent brand. Consumers will lose their confidence on the parent brand. Discussion also took place that if company comes out with line extension to fill the gap than it is better but it will also take some share from the existence brand in the market and there will be competition between two products under the same brand.

6.3 Perception of consumer on franchise extension

Big companies do business in one category, and they try to extende their business in other markets with different categories of products under the same brand like G.E which does business in domestic appliances, broadcasting, electric motors and aircraft engine. This is known as franchise extension. Tauber (2001) explains franchise extension as that "franchise extension take brand name familiar to the consumer and applies it to products that are in a category new to the parent firm".

CAT has done a very successful franchise extension from earth moving heavy machinery to shoes industry. Similarly like Virgin has done in airline and financial services. Yamaha is going on the same way which introduces motorbike while its core business was musical instruments.

The focus group discussions about brand extension were different. As mentioned before, the respondents would buy that brand which satisfies their need. The question if they would consider a T-Shirt by Dell in their buying decision when Dell comes out with that, gave different results. The students stated they would not purchase a T-shirt from Dell because it has expertise in computers. But they do not have any expertise in clothes, so it is difficult for consumers to estimate the new product. If such a company comes out with a different category which has at least some fit between parent brand and extended franchise brand, it can attract them easily. However, it is very difficult to consider such a company in clothing which is completely different from that business. If such a company comes with a different category which has at least some fit between parent brand and extended franchise brand, it can attract them easily. However, it is very difficult to consider such a company clothing which is completely different from that business.

In franchise extension loyalty and relation of a consumer with a brand plays an important role in the success of franchise extension. Franchise extension depends on the product. As discussed in data presentation that a consumer will not go for such product that consumer buy for long period like in iPod or laptop. It is very difficult that a consumer takes a risk. In franchise extension consumers also look for new features and innovation in such products. But such products like if Adidas comes with energy drinks, consumers will experience them as shown above in data

presentation. They consider an energy drink with sports and they also see a close fit between two products. Furthermore, in this category a company's image plays an important role.

A company should also have expertise in the transformation of one feature to another product. Like it is believed that if Sony comes out with any electronic appliances, then consumers will believe on appliances easily (Randall 2001). Apple is successful with extension due to a fit between the products. Consumers believe that it can transfer expertise and value to IPhone easily. The image of an Apple laptop also helps the company to comes out with extension. A big risk is involved that consumers will buy the extended brand in market because it has different categories. In this extension market also can be a reason for make the product successful, like computers of Sony were not much successful in the beginning. The reason was that a computer was seen as high-tech product, but now many companies deal with computer systems. So now Sony has get success in the market. A big gap for new product should exist in the market for successful extension. (Randall 2001).

6.3.1   Positive effect of franchise brand extension

The main effect of franchise extension on a brand is the increase of value and equity for the company's parent brand, which is not possible by introducing a new brand to market. Moving to franchise extension significantly decreases the new investment for an extended brand. If there is a close relation between the extended brand and a parent brand, it will not have much communication expenses because the consumer has already awareness about the brand. When a company's image and a brand image are strong and have a positive image in a consumer's mind, it can convey the message clearly. A fit between parent brand and extended brand communicates through the name and provides the same benefits and promises to consumers. Like orange soda promises the same orange taste, as consumers get from the Sunkist oranges.

In franchise extension if a consumer perceives consistent with a parent brand name, it will make the extended franchise extension successful. This, in turn, will lead to an increase of brand image for the company Tauber (2001). Focus group discussions claim that fit is not so much important for extension, but the gap for the product and feature of the product are important. They think if a company can comes out with a better product than the competitors and create proper awareness between consumers, they can attract consumers easily. According to marketing group,

advertisement plays a crucial role in the success of franchise brand extension. If a company has positive effects from the advertisement, it will also affect the extended brand, because it carries the same name.

6.3.2   Negative effects of franchise brand extension

Some researchers think that if a product is new or not unique and innovative, it cannot fulfill the need of consumers. The chances of success for extension are very low (Juda 2007). Focus of discussion also remained on the competition because if a company comes with different products and it has also no expertise in the field, it will be very difficult for the company to compete in the new market. If there is a close fit between a parent and extended brand and the last one fails in the market, this will be harmful for the image and value of the parent brand among the consumer. They can switch from the brand to another brand.

Keller and Aaker (1992) have expressed concern that brand extension can also create image dilution or negative reciprocity affects, which are defined as change in the consumer's original brand attitude and beliefs caused by brand extension. If a company comes with such a category that changes the image of consumers to a negative direction, it will also lead to a negative image for the parent brand.

If franchise extension fails in the market, companies will face a lot of losses for the new category and it can also demoralize the company from a future extension or doing an investment for further categories.

6.4   Effect of brand association on horizontal extension

According to Aaker (1991), creating a strong association is one of the essential criteria for brand extension success. But the result of focus group discussions claimed that a strong brand association can have both positive and negative effect on horizontal brand extension.

A product that has a strong association with its customers has more chances of success when it comes to new extended product. It is then easy to create awareness among consumers. That is a positive effect of horizontal brand extension. When a customer has a positive association with the brand, a new product launch will be perceived as accepted. During focus group discussions

the respondents discussed the example of Apple. We assumed that if Apple launches a car as a new product category and then observed the participants views. The outcome of this kind of extension was accepted by the majority of participants, especially who have a positive attitude with the brand, as well as who have already experienced its existing products. The participants were already using iPod, iPhone and laptop from Apple and they have a very strong association with their products. According to them, Apple is trustable and keeps all its promises kept with their customers. In this image of the company play an important role because we can see their no fit between car and Apple product still consumer want to buy their products.

According to Broniarczyk and Alba (1994), the association is also linked between the existing products to a new product extension. If the extended product does not fit to the parent brand or if it is completely different from the parent brand, the chances of success are very few in the market. In data presentation we also used the example that if Apple launches a 'candy' as new product category, what will be the result. The association of Apple brand is about technology and design, but candy is something far from the core value of Apple. So the result of the interviews indicated that it might not become successful in the customers' mind. Brand association is the relationship between brand, product and user (Broniarczyk & Alba 1994).

The association of a product has various types depending on extended product. Creating brand knowledge toward the consumer for building consumer association is also very important. A company should link the benefit from a product that a consumer gets from it through a good strategy of communication. It can lead to strong association with product and positive attitude toward a consumer's mind. This association depends on customer point of view, because each customer perceives the brand in different ways. The situation of brand association is known as fit, which has various types. It can be manufacture fit, technology fit, situation fit etc. The brand which has a high quality can be extended further than the moderate quality in the market (Apéria & Back 2004).

There are negative effects of brand association toward horizontal brand extension. According to Apéria and Back (2004), a too strong brand association can limit the brand extension. As customers have too strong association, it means the customer has permanent knowledge on the parent brand and it is hard to change the customer perception. The negative effect through the

association on horizontal brand extension is the dilution of the brand; when customers lose their understanding of the perception mindset and the association of the brand, then a product will no longer be associated.

One case came from the focus group discussions about JASPAL, a Thailand brand that originally started from bed and bath linen 30 years ago. After some years the company extended its products to fashion industry like clothes. Now consumers perceive JASPAL as fashion clothes brand in the market and keep the bed and bath linen behind. Association with brand is also effected through people's lifestyle. For example, for consumed products it is easier to create association among people than for a new product about it purchase a customer has to decide. As an example, JASPAL mostly considered as fashion cloth rather than bed and bath linen because the association of customer and the brand are tied the knowledge of fashion in majority of the customers' mind. Yamaha is also considered by most of the people about a brand that manufactures motorcycles because the product is noticed in everyday life, and keeps the musical instruments, electronics and power sports equipment far behind their thoughts.

Horizontal brand extension can affect the association of consumers with products. It depends on how much the association is strong with the parent brand and fits between extended brand and parent brand. If there is a fit between extended brand and the parent brand, it can change the consumer's association with a product easily as compared to a completely different product. For example, Apple Company can create a strong association for iPhone as compared to car, because of fits with IPhone technology as compared to a car.

6.6 Effect of brand loyalty on horizontal extension

The core purpose of building brand equity is brand loyalty. It consists of awareness, perceived quality and association (Apéria & Back 2004). Customer loyalty is a goal of marketers to achieve the sustainable sale and profits for long term purpose. Light (1993) had mentioned that quality of product and service of pre and post purchase is important, this quality meant not only the unique benefit of a product and service, but also the brand must be superior when it comes to filling its promise.

Keller (1998) mentions that a customer may feel that the associations are positive in the original product category and negative in extension category. The relationship of customer perception towards brand is independent from parent and extended brand. The outcome of interviews shows, that loyalty is one of the factors driving brand extension to be successful. Customers are loyal to a brand, because they perceive the product positively and have belief on the promises and benefits that brand give to consumers.

When it was discussed in focus groups that if a new extended brand fails in the market, will it affect customer perception toward parent brand or not? The response was different by the participants because according to them if a company fulfills it promises associated with a product and still it fails in the market, it does not affect the loyalty of consumers. Since they have given all the promises and it will not affect their perception towards the parent brand. Furthermore, we have also seen that if there is strong fit between parent and extended brand like in line extension, a failure can lead to a negative perception, while there are very few chances in franchise extension because the product is from a different category and has no fit between the parent brand and the extended brand.

According to Juda (2007), he argues that "level of brand loyalty shown by customer can switch to radical degree for brand extension case. When loyalty and level of familiarity with a parent brand is high, a new product extension failure may greatly diminish the trust level to an entire brand portfolio." The data presentation further shows that, the loyalty can be limited in horizontal brand extension; especially the product that completely differs from the parent brand as well as nothing can connect with the nature of parent brand. It can be concluded that the familiarity of the parent brand and new extended brand will have both positive and negative effect to the brand.

However, customers can change their opinions, needs and behaviors overtime. So it is difficult to stay with one brand without changing. Therefore, it is the marketer who develops the strategy in order to match it with a customer's point of view.

Chapter 7 Conclusion

Consumer perception has a big effect on the success or failure of brand extension. From our research we can conclude that after horizontal extension the consumer perception changes either positively or negatively depending on the extended brand. The data that we collected from consumers show that companies should always think about customer perception while going for extension of brand.

The data shows that a company which deals with line extension can be more successful compared to franchise extension. The reason is that the image of the parent brand can help more in line extension because of company's expertise. If companies do franchise extension with completely different category of product, brand image cannot play an important role, but the image of the company can have some impacts on the extended brand. In franchise extension it is important that there should be some fit between the extended brand and parent brand of the company.

Image of a company can play an important role in the success of brand extension. If a company has expertise in one product or industry, it should extend its business in that line. It should not always go for the line extension because it can also create confusion about the meaning of parent brand or we can say that parent brand can lose its meaning with high extension. Brand conscious consumers are very sensitive about their brand. If the image of their brand is damaged from anything, they do not remain more with the company. On one side, there are more chances for line extension to be successful in the market, but on the other hand there are more chances for damage of image of parent brand in line extension due to strong fit between parent brand and extended brand. Perception of consumers can be changed very quickly in line extension if an extended product fills the gap between the lines. Line extension has also an advantage because brand awareness already exists in the market and if a company extended its product in same class, so it can attract consumers easily for the extended product.

However, for franchise extension it is different. Role of image depends on the fit between parent brand and extended brand. If there is a fit between extended brand and parent brand, image of brand can play an important role in the success. Like Apple iPod: it is successful because of technology similarity between laptop and iPod. Innovation plays an important role in the success of franchise extension. Consumers will not go for franchise extension or new product until he or

she sees some benefits in a new product. If a company launches a completely different category in franchise extension, then the brand image has not so much part in the success, but image of company can have an important role in the success of product. Beside fit nature of product also depend on the success of expended brand. If company comes with such a product, which consumers do not use regularly, consumers will feel hesitation to experience the brand. They will first gather information from external environment and then will try to experience the brand. In franchise extension loyalty is an important factor for the success. The more consumers are loyal to a brand the more chances of success are for the extended brand in the market.

Chapter 8 Further study

Our study shows the positive and negative impact of implementing horizontal brand extension that shows consumer perception in this regard. It can be in a company's benefit to expand the product into different class and category. Extension of business increases day by day, but there is still a lack of research on the specification of all types of extension. Here is the need of taking decision by the managers of a company regarding research in extension of business.

As per the purpose of our study about customer perception on horizontal brand extension, we generally believe that brand extension can be studied from other perspectives. Our study has less focus on one specific brand or one type of business that uses extension as the strategy. The types of horizontal brand extension are completely different from each other. One is franchise extension and another is line extension Therefore, in further research one type of extension can be studied to have more precise results.

Furthermore, it is interesting to study the mature situation that one company can extend its brand successfully, when should a company extend its product or brand? Second, how far can a company implement horizontal extension (franchise extension) without affecting its brand?

This research uses primary data collection from individual interviews and focus group discussion, the reflection come from international students, 20 to 30 year old, and enrolled in Karlstad University. Further study can be conducted with primary research form different age range, so that it can gather more ideas from different perspectives. We believe that future research in the same topic could contribute to a deeper understanding and create more knowledge that can strengthen our study.

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Appendix

Individual interview guide

- ➢ Which brand do you use for a T-shirt and are you a regular user of that brand?

- ➢ Two parts (related to question No.1)

  - o If regular: why do you use it regularly?

  - o If not: why do you change your brand for clothing?

- ➢ What is important for you to select a brand? Quality, design, price, image of brand?

- ➢ Do you know about brand extension? (We will discuss with him/her)

- ➢ If IKEA comes out with clothing having the same quality, price, design; will you switch to that?

- ➢ During the shopping in a supermarket you see H&M food product in the shelf, will you buy it?

  - o If not, then why?

  - o If yes, why?

- ➢ If the same company comes out with makeup (for female) or shaving products (for male), will you be willing to buy that?

- ➢ Which products or services these companies are providing?

  - o IKEA, H&M, VIRGIN, YAMAHA, VOLVO, P&G,

- ➢ Is it good to introduce a brand in a new category? For example……………what is your opinion about extension?

Focus group discussion guide

➢ What is important for a customer when buying a brand? (Quality, Price, Design, Image of Brand)

➢ What do you think about extension of a brand? Can you give an example of brand extension that comes to your mind? And what do you think about that brand?

➢ Is it good to buy one brand regularly? Why?

➢ Does a company's communication affect buying decision of customers?

➢ Is it a good idea if a company comes out with a new product under the same brand name? Like Coke with Coke Zero, Diet Coke, Apple with laptop and iPhone.

➢ Which factor makes brand extension successful in your mind?

    o If Adidas comes out with energy drinks, will it be successful? Why**?**

➢ How can reputation and quality be transferred from a parent brand to a new extension?

➢ If an extended brand fails in market, will it affect the parent brand and why?

➢ Do you think that (Brand Image/Brand Loyalty/Brand Association/Perceived Quality) will affect after a horizontal brand extension? How?