

## **Examining the Effect of Credence and Personal Factors on Brand Extension Evaluation**

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### **ABSTRACT**

*Brand extension is one of the most effective strategies for the introduction of a new product. This study aims to investigate the effect of credence and personal factors in brand extension evaluation. A total of 447 respondents were collected from consumers via mall intercepts. PLS-SEM analysis involving a two-step approach was used to test the proposed hypotheses, with a sample of 421 respondents in five major malls in Selangor. The result shows that country of origin, brand credibility, and consumer innovativeness have a positive effect on brand extension evaluation. The contribution of this study is obvious as the resulting outcomes can be capitalized as guidelines for managers to design successful brand extension strategy.*

*Keywords: Brand credibility; country of origin; consumer innovativeness; value consciousness; brand extension; Malaysia*

### **INTRODUCTION**

Brand extension involves the application of a reputable brand name to a new product to capitalize on equity of the original brand name and to capture new market segments (Dutta & Biswas 2005; Kerin et al. 1996). The extension may be in a different or new category to the firm. A large number of well-known brands (e.g. Virgin, Nike, Adidas, Coca-Cola, and Samsung) have extended their brand over time to different product under their more popular brand names (Huang, Jia & Wyer Jr 2017). Coca-Cola, a multi-billion dollars brand has extended its brand to diverse categories, classical, diet and regular version of their cold drinks.

A credible brand offers the consumer the assurance that the extended brand will carry the same characteristics and quality. It helps the company to avoid any financial risks attached to the complete failure of a new brand. Additionally, it improves consumers' perception about the new product based on core brand equity. Companies also regard it less expensive to launch a new product under a well-known brand than to launch an entirely new brand. In view of the low costs and higher success rates associated with brand extension, more than 80% of the companies choose brand extension to market their new product in the marketplace (Keller 2003). Several studies were carried out to investigate the effect of brand credibility on purchase intention (Baek et al. 2010), and customer loyalty (Doraiswamy & Watchravesringkan 2016).

Although brand extension carries several benefits, however, there are many risks attached to such practices. Sometimes, the extended brand may not be as effective to satisfy the expectation of customers. It is reported that there is 84% failure rate of brand extension in some categories (Ernst & Young 1999) and only 50% or half of all the brand extensions in the market cannot survive after three years. Similarly, several researchers found that extension may also negatively affect the parent brand as it might dilute its image, and affect the credibility of the parent brand (Serrao & Botelho 2008). Given the potential risks involved in the brand extension, experts even propose that brand extension should be avoided as a product introduction strategy (Ries & Trout 2001).

Despite potential risks with the brand extensions, most of product developers are inclined towards brand extension to realise the success likelihood of new product (Smith & Park 1992). Possibly, the preponderance for the belief is that most of consumers have a good response to the brand extension as compared to a totally new brand that they don't have any acquaintance or interaction. Some scholars contend that country of origin plays a central role in consumer product evaluation and decision making processes (Josiasen & Harzing 2008; Magnusson Westjohn & Zdravkovic 2011). In contrast, based on a recent study, Samiee (2011) and Usunier (2011) argue that country of origin does not have a crucial role in consumer decision making and product evaluation processes. A careful study of the literature reveals that country of origin has not been thoroughly investigated in brand extension evaluation because there is still a lack of extensive study that consider country of origin as a key determinant in the evaluation of the brand extension evaluation model. Furthermore, according to Aaker (1996) and De Chernatony et al. (2000), the association process of branding must link directly with consumers' preferences, including group affiliation. Keller (1993) and Taute and Sierra (2014) argued that consumers' belief is not only derived from the company's brand but could possibly influenced by other associations, consumer personality, attitude and credence factors.

Based on the aforementioned gaps, this research aims to examine the effect of brand credibility, country of origin, consumer innovativeness and value consciousness on brand extension evaluation. Brand extension has grown as an area of research (Keller, 2002). This study aims to provide valuable data and analysis for those who wish to explore brand extension strategy.

## **LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

Brand extension is one of the main strategies used by the consumers to grow from the success of its brand by introducing a new product with their established brand name. Based on the categorization theory (Sujan 1985) consumers' brain tends to sort and classify an extended product, according to the parent brand image. The process may be one way or two ways where sometimes consumer tends to transfer his perception about parent brand to the extended brand or may transfer his experience with the extended brand to the parent brand (Fiske & Pavelchak 1986). This practice does not only include consumers' knowledge about a particular brand, but the evaluation of an extended brand also depends on overall attitude towards parent brand and its level of involvement (Nedungadi & Hutchinson 1985; Cohen & Basu 1987). The theory of categorization suggests that how individuals integrate the brand family information with the extended brand information and

create a belief about the new brand and update their overall perception about the brand family. Sujan (1985) suggested that brand extension evaluation primarily depends on consumer attitude towards the parent brand, and the overall transfer of affection between the parent brand and the extended brand, which is the basis of positive brand extension evaluation.

Credibility is defined as “the believability of an entity's intention at a particular time and is posited to have two main components: the willingness (i.e., trustworthiness) and the ability (i.e., expertise)” (Erdem & Swait 2004; Swait & Erdem 2007). Trustworthiness refers to the belief that the firm is willing to deliver on its promise while expertise means that the firm has the capabilities to meet the promises it has made. The credible relation was further elaborated as the exchange partner is trustworthy if he/she does not exploit the vulnerabilities of the other exchange partner (Huff & Kelley, 2005). Prior studies suggested credible brands are related to overall customer satisfaction, commitment, word of mouth (WOM) and purchase intention (Jeng 2016; Sweeney and Swait 2008).

Country of origin refers to the particular country or region from which the brand or the products originated or where they are endorsed (Thakor 1996). Past studies suggested that products that originate from developed countries have a more significant impact than those from developing countries (Josiassen & Assaf 2010; Magnusson et al. 2011). A study in Bangladesh involving the effect of image of the developed country on quality perception of durability and non-durability of goods concluded that the product originating from the developing countries are graded as low-quality as compared to the product originating from the developed countries (Kaynak et al. 2000). Likewise, product origin has a positive impact on brand assessment (Thøgersen et al. 2017) and product attributes (Hong & Wyer 1989).

Consumers with different personality traits have different behavioral intentions (Gountas & Gountas 2007). Consumer innovativeness is defined as the propensity to purchase new products more often and more quickly than other people (Roehrich 2004). Consumer innovativeness is basically associated with an inherent novelty-seeking trait in individuals. Hirschman (1980) in his seminal work on consumer innovativeness put forward distinctive conceptualizations of innovativeness and the way it affect the acceptance of newly introduced products. Goldsmith & Hofacker (1991) and Völckner & Sattler (2007) found empirical evidence that consumer innovativeness is related to the adoption of extended brands and the success of brand extension.

Value consciousness has been defined as “a concern for price relative to quality received” (Lichtenstein et al. 1993). According to Sharma (2011), value-conscious customers tend to be concerned equally about low prices and product quality. The consumers that are more value consciousness are more likely to be motivated to enhance their acquisition and transaction values than consumers with low-value consciousness. Whereas in the case of more value consciousness, the consumer will be more averse to risk and people with high-risk aversion are inclined to feel threatened by risky and ambiguous situations (Hofstede 1991). These individuals will try not to take a risk with a product that may expose them to the risk in terms of the quality of the product against the price they have paid to try that new product unless something assures them that the new product they are trying will expose them with less risk. Past studies suggested that value consciousness

is related to purchase decisions (Cho et al. 2006). However, there are also studies that found value consciousness is negatively related to brand loyalty, mainly in price-competitive and dynamic marketplaces (Garretson et al. 2002; Ismail & Ismail 2017).

From the rationale presented above, we have the following hypotheses:

*H1: Brand credibility of the parent brand relates positively to brand extension evaluation.*

*H2: Country of origin relates positively to brand extension evaluation.*

*H3: Consumer innovativeness relates positively to brand extension evaluation.*

*H4: Consumer value consciousness relates positively to brand extension evaluation.*

## RESEARCH METHODOLOGY

### Sample and Procedures

The unit of analysis for this study are individual consumers who have experience using or consuming different brands and have knowledge about the brands. This study used purposive sampling and the data were collected by using mall intercept method distributed via self-administered questionnaires technique. Five major shopping malls were selected at random for the data collection procedure; these include Sunway Pyramid, IOI Mall, Mines Shopping Mall, Tropicana City Mall, and Empire Shopping Mall. The study chooses Selangor because it is the most populous state in the country, with a population of 5.46 million people (Department of Statistic 2012). Moreover, the state represents a melting pot of entailing citizens from various backgrounds and regions across Malaysia. To increase the reliability of information, data was collected through different times of the day and different days of the week, including both weekends and weekdays (Aczel & Sounderpandian 2009; Malhotra 2010). This method has the benefit of attaining an adequate number of respondents in a short period of times, apart from enabling the researcher to elucidate the importance of the research to respondents (He et al. 2012).

Four companies that are established and well-known in Malaysia – namely Apple, Lenovo, Nestle, and F&N – served as our focal brand for this study; we considered both durable and nondurable goods (Euromonitor International, 2017). The countries of origin of these companies include both developed and developing countries, which enabled us to achieve variation in the credence and image of the country of origin construct. Additionally, to attain external validity, two brand extensions for each focal brand were determined through a pre-test. Each respondent was given a questionnaire asking about one brand. In the questionnaire, respondents were given a short introduction to the company with an extension scenario to allow them to reflect on the questions asked. For example: “Nestlé is planning to introduce a new line of juice machines. These machines are multi-purpose juicers and blenders. Company tests show that juice machines from Nestlé Juicers are reliable and durable. The juicers have a high capacity of extracting maximum nectar from the fruits. Nestlé Juicers will be available in different power watts.”

For this study, questionnaires were distributed to 550 shoppers. The reason for targeting a large sample is because, larger samples are generally better than smaller samples; it tends to minimize the probability of errors, maximize the accuracy of population estimates, and increases the generalizability of the results (Comrey & Lee 2013). A total of 447 responses were returned from the respondents, with a response rate of 81 percent. After removing incomplete responses, the total sample was further reduced to 421 questionnaires, which was used for data analysis.

## Measures

All the constructs were measured on pre-established scales and construct items were anchored on a seven-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). Brand credibility was measured by a seven-item scale from Erdem & Swait (1998). A sample item is “*This brand reminds me of someone who is competent and knows what he/she is doing*”. Country of origin credence was measured by the seven-items scale adapted from Yasin et al. (2007). A sample item is “*The country from which this brand originates is a country that has a high level of technological advancement*”. Value consciousness was measured by the four-item scale adapted from Burton et al. (1998). A sample item is “*I am very concerned about low prices, but I am equally concerned about product quality*”. Consumer innovativeness was measured by the four-item scale adapted from Pina et al. (2010) and Roehrich (1995). A sample item is “*I am usually the first to try new products*”. Extension evaluation was measured by four-item scale adapted from Park et al. (1991). A sample item is “*I will be pleased with the introduction of this product*”. Furthermore, for demographic information, the questionnaires specify the respondents’ information on gender, age, number of years using the service, ethnicity, and marital status. As suggested by Fraenkel and Wallen (2009), the researcher carefully included information on demographic and other characteristics of the sample studied. The majority of the age group (40 %) was in the category of 25–35 years old and the majority of the respondents (60 %) were single. Females (54.40 %) outnumbered the males (45.60 %). In terms of educational background, out of all the respondents, 235 (55.8) respondents have a diploma or bachelor degree, and 145 (34.4) hold master’s degree. As the data of this study were self-reported and collected from a single source (customers) via self-reported questionnaires, Harmon’s single factor test was used to assess the threat of substantial common method bias (Podsakoff et al. 2003). With a result of 25.3%, the first factor did not account for a substantial amount of common method variance.

## DATA ANALYSIS AND RESULTS

### Measurement model analysis

The research model was analysed using the Partial Least Square-Structural Equation Modelling (PLS-SEM) using SmartPLS 3.0 software. We opted for using PLS-SEM as a tool that is useful for developing and extending existing theory in marketing research (Hair et al. 2017). In order to evaluate the validity and reliability, the measurement model was tested before we proceeded to assess the structural model (Anderson & Gerbing 1988) (as illustrated in Table 1). In the measurement model, the reliability and validity of the constructs and the indicators were assessed using Cronbach’s alpha, factor loadings, composite reliability (CR), and average variance extracted (AVE). First, the Cronbach alpha for all the variables was evaluated and found that all were above the threshold value

of 0.7, indicating acceptable reliability (Hair et al., 2017). Second, we examined the loadings and cross-loadings values. We set a cut off value for loadings to be significant at 0.6 (Chen & Myagmarsuren 2011). After the screening process, three items were deleted. Third, was to check the convergent and discriminant validity of the scales (Venkatesh et al. 2010). The composite reliability (CR) of all the constructs exceeds 0.70 (Hair et al., 2017) and the average variance extracted (AVE) all exceeded the cut-off level of 0.50. Finally, the assessment of the discriminant validity of the measured constructs was inspected by comparing the square root of the AVE construct with the inter-construct correlation (Fornell & Larcker 1981). As depicted in Table 2, the square root of the AVE for each construct was greater than its correlations with other constructs, indicating discriminant validity had been achieved.

TABLE 1. Result of measurement model

| <b>Latent Variable</b>     | <b>MV</b> | <b>SD</b> | <b>Std Loadings</b> | <b>Cronbach's alpha</b> | <b>CR</b> | <b>AVE</b> |
|----------------------------|-----------|-----------|---------------------|-------------------------|-----------|------------|
| Brand Credibility          |           |           |                     | 0.886                   | 0.913     | 0.637      |
| BC2                        | 5.21      | .052      | 0.829               |                         |           |            |
| BC3                        | 5.13      | .053      | 0.827               |                         |           |            |
| BC4                        | 5.34      | .052      | 0.815               |                         |           |            |
| BC5                        | 5.59      | .057      | 0.815               |                         |           |            |
| BC6                        | 5.14      | .058      | 0.765               |                         |           |            |
| BC7                        | 5.58      | .058      | 0.734               |                         |           |            |
| Consumer Innovativeness    |           |           |                     | 0.862                   | 0.935     | 0.878      |
| CI3                        | 4.00      | .078      | 0.929               |                         |           |            |
| CI4                        | 3.59      | .080      | 0.945               |                         |           |            |
| Country of Origin          |           |           |                     | 0.897                   | 0.919     | 0.619      |
| CO1                        | 5.22      | .057      | 0.715               |                         |           |            |
| CO2                        | 5.38      | .052      | 0.804               |                         |           |            |
| CO3                        | 5.09      | .052      | 0.812               |                         |           |            |
| CO4                        | 5.19      | .048      | 0.845               |                         |           |            |
| CO5                        | 5.14      | .050      | 0.771               |                         |           |            |
| CO6                        | 5.08      | .051      | 0.793               |                         |           |            |
| CO7                        | 5.37      | .055      | 0.763               |                         |           |            |
| Brand Extension Evaluation |           |           |                     | 0.865                   | 0.908     | 0.712      |
| EE1                        | 5.35      | .060      | 0.84                |                         |           |            |
| EE2                        | 5.23      | .057      | 0.861               |                         |           |            |
| EE3                        | 5.07      | .059      | 0.871               |                         |           |            |
| EE4                        | 4.62      | .067      | 0.802               |                         |           |            |
| Value Consciousness        |           |           |                     | 0.739                   | 0.833     | 0.556      |
| VC1                        | 6.18      | .049      | 0.718               |                         |           |            |
| VC2                        | 6.23      | .048      | 0.816               |                         |           |            |
| VC3                        | 6.22      | .048      | 0.72                |                         |           |            |
| VC4                        | 6.31      | .042      | 0.723               |                         |           |            |

## Structural model

To test the structural model and hypotheses, a bootstrapping procedure (1000 samples) was applied in this study to estimate, using t-values, and the significance of the path coefficients. The values of  $R^2$  for brand extension evaluation is 0.268. According to Chin (1998),  $R^2$  values at 0.67, 0.33 and 0.19 are respectively considered as substantial, moderate and weak. Based on the above mentioned results, the model has a moderate explanatory capability (Chin, 1998) (refer to Figure 1).

TABLE 2. Discriminant validity analysis

|                                | BE           | BC           | CI           | COO          | VC           |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Brand Extension Evaluation(BE) | <b>0.843</b> |              |              |              |              |
| Brand Credibility (BC)         | 0.412        | <b>0.798</b> |              |              |              |
| Consumer Innovativeness (CI)   | 0.265        | 0.058        | <b>0.937</b> |              |              |
| Country of Origin (COO)        | 0.379        | 0.415        | 0.149        | <b>0.786</b> |              |
| Value Consciousness (VC)       | 0.153        | 0.212        | 0.016        | 0.238        | <b>0.745</b> |

Note: Diagonal (in bold) represent the average variance extracted while the other entries represent the squared correlations

In line with our theorizing, brand credibility ( $\beta = 0.305$ ,  $t = 5.082$ ,  $p < 0.001$ ), positively influenced brand extension evaluation; thus H1 is supported. Moreover, the results indicate that country of origin ( $\beta = 0.212$ ,  $t = 4.316$ ,  $p < 0.001$ ), and consumer innovativeness ( $\beta = 0.215$ ,  $t = 4.976$ ,  $p < 0.001$ ) have significant positive effects on brand extension evaluation. As such, this study concludes that H2, and H3 were supported. In hypothesis four, we assert that value consciousness will have a significant positive effect on brand extension evaluation. As depicted in Table 3 the results, however, suggest that value consciousness does not have a significant effect on the evaluation of brand extension ( $\beta = 0.034$ ,  $t = 0.792$ ,  $p > 0.001$ ). Therefore, H4 is rejected.

TABLE 3. Direct effect results

| Hypothesis | Relationship                                   | Std Beta | Std Error | t-value             | Decision      | $R^2$ |
|------------|--|----------|-----------|---------------------|---------------|-------|
| H1         | BrandCredibility -> Brand Extension Evaluation | 0.305    | 0.060     | 5.082***            | Supported     | 0.268 |
| H2         | CountryOrigin -> Brand Extension Evaluation    | 0.212    | 0.049     | 4.316***            | Supported     |       |
| H3         | ConsInnova -> Brand Extension Evaluation       | 0.215    | 0.043     | 4.976***            | Supported     |       |
| H4         | ValueConscious -> Brand Extension Evaluation   | 0.034    | 0.043     | 0.792 <sup>ns</sup> | Not Supported |       |

†  $p < .10$ ; \*  $p < .05$ ; \*\*  $p < .01$ ; \*\*\*  $p < .001$ , <sup>ns</sup> not supported

Note: Significant levels shown are one-tailed for hypotheses testing variables

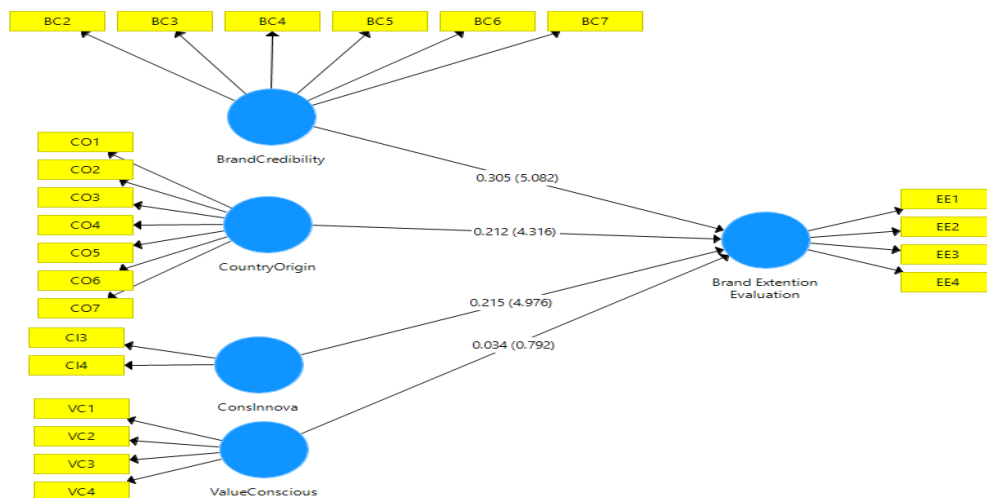


FIGURE 1. Structural model results

## DISCUSSION AND IMPLICATIONS

This study investigated the effect of brand credibility, country of origin, consumer innovativeness and value consciousness on brand extension evaluation. It was found that both brand credibility and country of origin significantly positively predict brand extension evaluation. This suggests that promoting a country's image and its credibility can indeed help brand extensions succeed. Therefore, the findings support previous studies that suggested that product country of origin has a positive impact on brand assessment (Thøgersen et al. 2017). In addition, the result is also consistent with past studies that found the relationship between brand credibility and brand extension evaluation. For examples, Swait and Erdem (2007) found the empirical effects of brand credibility on consumer choice and choice set formation. Similarly, Erdem and Swait (2004) also found that brand credibility can exert a positive influence on consumers' brand consideration and choice.

Moreover, this study attempted to assess the impact of key personal factors on the evaluation of brand extension. The two main factors that are more related to consumer behaviour in the context of this study are value consciousness and consumer innovativeness. From the result, it was found that the first factor that was value consciousness does not significantly affect brand extension evaluation. Although we had anticipated, the consumer who is more value consciousness tends to trust a product launched with a name of the brand that is already in the market, to which they have some acquaintance or interaction. The possible reason may be that consumer with high- value consciousness may still feel uncertain towards a new product, the one they have not used before and that they would prefer to use the product they previously used. As Hem et al. (2003) suggested that for many consumers, a brand extension is a risky choice while trying a new product. Moreover, the second personal factor that we have assessed is consumer innovativeness. The result of the study shows that individuals who are more innovative in nature tend to evaluate a brand extension more favourably. These result are consistent with the results of (Hem et al. 2003) who studied this in the context of services. They suggested



that consumer innovativeness can have a positive influence on consumer perception toward an extended brand.

This study offers vital managerial contribution, that is of relevance for the executives, who look after product development and are responsible for developing branding strategies. This study identifies credence factor as one of the key role player in the positive evaluation of brand extension and its success. The results suggest that country of origin credence have a positive effect on the success of brand extension. So the manager must consider highlighting the country credibility features through their marketing mix while introducing a new assortment through brand extension. An advanced country image is supposed to recommend positive attributes of the country attached to the product including used of advanced technology and highly skilled human force. Favourable country perceptions are known to lead to favourable perceptions of associated attributes such as product quality (Kinra 2006) for example, Japan is associated with electronics product and Sweden are known for its high-end cars. Companies while promoting their product in international markets, should develop such strategies that will also promote their country of origin, which can be an appropriate competitive strategy over their competitors. Another key implication of this study is that while introducing an extension, manager should identify the target market and the personal traits of their prospective target market. Because the target market of the extended brand may differ from the parent brand. Consumers with innovative nature are also suggested to contribute to the success of brand extension while introducing a new brand extension, the extension should be innovative and catch the attention of the consumer.

### **LIMITATIONS**

This study is not without limitations. First, the study selected a sample size of 421 Malaysian consumers in selected business complexes using purposive non-probability sampling method, therefore, the sample population may not be representative of the overall Malaysian population. Thus, the validity and generalizability of this finding may be limited. It is also not possible for us to generalize the findings beyond the studied population. Second, the current study is a cross-sectional study. A longitudinal study is required to conclude a causal relationship between the variables. Third, the study was limited to the Malaysian market which has a different profile as compared to more developed countries. Therefore, conducting this study in Europe and US market may give a different perspective. Future research studies in different samples that compliment questionnaire surveys with interviews are necessary to validate the links proposed in this study. We also suggest in future researcher may study the key moderating influences to gain a sound understanding of consumer behaviour in relation to brand extension evaluations.

### **ACKNOWLEDGEMENT**

The author would like to thank UKM in providing the grant: EP-2017-037 Tabung Kokurikulum PTJ and EP-2018-001 in assisting this research.

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