Available online at www.sciencedirect.com

ScienceDirect

Journal of Consumer Psychology 25, 4 (2015) 577 – 595

JCP JOURNAL OF CONSUMER PSYCHOLOGY

Research Article

Strategic benefits of low fit brand extensions: When and why?

HaeEun Helen Chun [a], C. Whan Park [b,*], Andreas B. Eisingerich [c], Deborah J. MacInnis [b]

[a] *School of Hotel Administration, Cornell University, Ithaca, NY 14853-6902, USA*
[b] *Marshall School of Business, University of Southern California, Los Angeles, CA 90089-0808, USA*
[c] *Imperial College Business School, Imperial College London, SW7 2AZ London, UK*

Received 20 November 2013; received in revised form 4 November 2014; accepted 6 December 2014
Available online 12 December 2014

Abstract

Brand extensions have the potential to both enhance liking of the brand extension and induce positive spillover effects on the parent brand. Such dual outcomes enhance the brand's growth potential. We propose and empirically demonstrate that three variables endemic to any brand extension decision (brand reputation, brand extension fit, brand extension benefit innovativeness) jointly impact these positive outcomes. For strong reputation brands, these dual outcomes are maximized when the brand extension is *low* in fit and offers innovative benefits because low fit motivates consumers to process innovative brand extension information more deeply. For weak reputation brands, these effects are maximized when the brand extension is *high* in fit and offers innovative benefits because high fit strengthens consumers' trust in the weak brand's ability to deliver promoted benefits. The results suggest two distinct brand growth strategies for strong and weak reputation brands respectively.

Keywords: Brand extensions; Spillover effects; Brand management; Brand schema; Brand associations

Introduction

Brand extensions are important strategic devices that allow a firm to grow by leveraging its current customer base and parent brand image. Specifically, by linking the new product to a known parent, they leverage parent brand knowledge to quickly and efficiently establish the new product's identity (Aaker & Keller, 1990; Broniarczyk & Alba, 1994; Park, Milberg, & Lawson, 1991; Smith & Park, 1992). They also have the potential to induce positive spillover effects on the parent brand by (1) adding new associations to the parent brand schema, (2) enhancing consumers' evaluations of the parent brand, and (3) increasing consumers' receptivity to future brand extensions offered by the firm.

These dual outcomes (favorable brand extension evaluations and positive spillover effects on the parent brand) have strong strategic value and they are potentially transformative to the firm given their synergistic effects on the firm's growth and revenue. Specifically, by achieving these combined outcomes firms can expand their current market base and revenue (through favorably evaluated brand extensions) and expand their future markets and revenue (by associations added to the parent brand and consumers' acceptance of future brand extensions), while also solidifying their current market base and revenue (by increasing parent brand liking). Given the importance of these combined outcomes, it is critical to understand the factors *directly under the control of firms* that may induce them.

We contribute to the literature theoretically and pragmatically by examining the joint impact of three factors that are endemic to any brand extension decision (brand reputation, brand extension fit, brand extension benefit innovativeness) on

* Corresponding author at: Department of Marketing, Marshall School of Business, University of Southern California, Los Angeles, CA 90089-0808, USA.
E-mail addresses: hc633@cornell.edu (H.H. Chun), choong@marshall.usc.edu (C.W. Park), a.eisingerich@imperial.ac.uk (A.B. Eisingerich), macinnis@usc.edu (D.J. MacInnis).

http://dx.doi.org/10.1016/j.jcps.2014.12.003
1057-7408/

both brand extension evaluation and spillover effects on the parent brand. Brand reputation is defined as the extent to which consumers respect the parent brand and hold it in high regard. Fit is defined as the extent to which the image and associations linked to the parent brand and the extension product are similar and go well with the extension product (Broniarczyk & Alba, 1994; Park et al., 1991). In line with prior work, this definition of fit goes beyond a traditional definition centered on a feature-based fit at the product class level and accommodates broader associations that tap into a relational match between the brand and the extension product.

Innovative benefits map the properties of innovative or creative ideas (Goldenberg, Mazursky, & Solomon, 1999; Moreau & Dahl, 2005), which conceptualizes innovativeness in terms of two critical factors: novelty and usefulness (functionality or appropriateness; Burroughs, Dahl, Moreau, Chattopadhyay, & Gorn, 2011; Sternberg & Lubart, 1999). Although novelty is often associated with innovativeness, usefulness is also an important component of the innovativeness construct (Moreau & Dahl, 2005). Both theoretical ideas (e.g., Sternberg & Lubart, 1999) and empirical findings underscore the importance of both dimensions as components of innovativeness (e.g., Goldenberg et al., 1999; Moreau & Dahl, 2005; Sellier & Dahl, 2011). Accordingly, we define benefit innovativeness as the extent to which the benefits of the brand extension are novel *and* useful to consumers. The opposite of innovative benefits are ordinary benefits, which are limited in novelty and less differentially useful to consumers since they are common to brands in the product category.

While parent brand reputation, fit, and benefit innovativeness are natural parameters for consideration by managers who are responsible for brand extension decisions and endemic to any brand extension decision, prior research has not examined their joint impact, let alone their joint impact on the two aforementioned growth drivers (i.e., favorable brand extension evaluations and positive spillover effects).

We make a unique and significant contribution by examining the joint effects of three variables that are under the control of firms on both brand extension evaluations and three indicators of positive spillover effects (novel associations added to the parent brand, favorable parent brand evaluations, and acceptance of future extensions to the parent brand). We propose and demonstrate that when brand reputation is strong, brands enjoy favorable brand extension evaluations and the most positive spillover effects when a brand offers innovative benefits and extends to a *low* fit category. In contrast, when brand reputation is weak, brands enjoy the most favorable brand extension evaluations and the most positive spillover effects when a brand offers innovative benefits and extends to a *high* fit category. These effects are replicated for functional (Study 1), symbolic (Study 2), and experiential brands (Study 3). As such, an important key takeaway from our work is that positive growth is greatest when an extension offers innovative benefits. Yet whether high fit or low fit extensions maximize growth potential depends on whether the brand reputation is weak or strong.

We also contribute to the literature on spillover effects. Past research has indicated spillover effects by (a) strengthened parent brand associations measured by categorization speed, recognition, and recall (Morrin, 1999), (b) changes in existing parent brand beliefs (John, Loken, & Joiner, 1998; Loken & John, 1993; Milberg, Park, & McCarthy, 1997), (c) extension evaluations (Aaker & Keller, 1990), or (d) the strength of parent beliefs and the favorability of parent brand evaluations (Ahluwalia & Gürhan-Canli, 2000). Balachander and Ghose (2003) measured the spillover effect with (e) a parent brand choice as a result of (the advertising of) brand extensions. Sullivan (1990) also analyzed spillover effects with (f) a depreciation rate in the used car market as a result of an extension. Notably, prior research has not examined the collective basket of spillover effects linked to brand growth potential (i.e., novel associations added to the parent brand, favorable parent brand evaluations, and acceptance of future extensions to the parent brand).

Findings from our studies are both significant and novel to the literature, yet they reinforce recent research. Barone and Jewell (2013) find that reputable innovative brands can employ nonnormative strategies without paying the penalty associated with using atypical strategies and indeed are rewarded for utilizing such approaches. Our findings also coincide with anecdotal evidence from the marketplace. BMW’s extension from automobiles to skateboards, Virgin’s extension from music records to airlines, and Red Bull’s extension from an energy drink to its own Formula 1 racing team illustrate the success of strong reputation brands’ extension to low fit categories.

Notably, the notion that low fit brand extensions can sometimes induce positive outcomes to the extension and parent brand is not inconsistent with prior research. Ahluwalia and Gürhan-Canli (2000) found that positive (vs. negative) information about low fit extensions induces positive spillover effects (which they call an enhancement effect) because positive information about the low fit extensions is more diagnostic than negative information. Additional research finds that the impact of fit is more malleable than previously thought. Malleability depends on a variety of factors in the decision context including the presence of attribute information (Klink & Smith, 2001) or visual cues (Meyvis, Goldsmith, & Dhar, 2012), levels of involvement and mood (Barone, 2005; Maoz & Tybout, 2002), holistic versus analytic thinking (Monga & John, 2010), construal levels (Ahluwalia, 2008; Kim & John, 2008), feelings of control (Cutright, Bettman, & Fitzsimons, 2013), and competitive context (Milberg, Sinn, & Goodstein, 2010; Milberg, Goodstein, Sinn, Cuneo, & Epstein, 2013). For example, Klink and Smith (2001) found that low fit extensions were evaluated favorably when consumers were given attribute information about the extension.

The present paper is organized as follows. We first develop a set of predictions about brand extension evaluations and spillover effects on the parent brand under varying conditions of brand reputation, extension fit, and extension benefit innovativeness. We then describe three studies that test and support our predictions. We conclude with a set of managerial implications and future research directions.