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**ADVANCED RESEARCH METHODS**  
**IN BUSINESS**

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**Research Proposal**

*“Brand Extension as A Firm’s Diversification Strategy:  
Consumer Evaluations of Brand Extensions in The NZ  
Service Context”*

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# RESEARCH PROPOSAL

## RESEARCH TOPIC

“Brand Extension as A Firm's Diversification Strategy: Consumer Evaluations of Brand Extensions in the NZ Service Context”

## INTRODUCTION

In marketing, brand extension is one of the most powerful strategic tools for firms to expand its core business into new businesses by leveraging its brand names already established (e.g. Minolta camera to Minolta copier). Since “the cost of introducing a new brand in some consumer markets has been estimated to range from \$50 million to more than \$100 million (Brown 1985)” “with a total cost estimated to run to \$150 million (Tauber 1988)”, a major motivation of brand extension is reducing the financial risk of a firm.

A well-known brand name can be used to launch new products since it “reduces the risk of introducing a product into a new market by providing consumers the familiarity of and knowledge about an established brand (Aaker & Keller 1990).” Also, “a strong brand name will grab the consumer's attention and may lead to new product trial. It will provide a foot in the door (Dickson 1994).” Furthermore, brand extension “can decrease the costs of gaining distribution and/or increase the efficiency of promotional expenditures (Morein 1975).” Thus, brand extension brings a number of benefits to firms and contributes to or even enhances the original brands. However, brand extension also involves risks of damaging brand names established and associations of the original brands.

On the other hand, “diversification has emerged as a central topic of research in strategic management (Ramanujam & Varadarajan 1989).” Traditionally, this topic has been widely and intensively studied by researchers from other related disciplines, such as economics, finance, law and marketing from a multi-disciplinary perspective. Ansoff (1957, 1958) from a managerial perspective developed a classical model of product-market expansion grid using two dimensions: product (existing vs new) and market (existing vs new) and argued a diversification as “the entry of firms into new markets with new products.” More recently, Ramanujam & Varadarajan (1989) defined a diversification as “the entry of a firm or business unit into new lines of activity...which entail changes in its administrative structure, systems, and other management processes.” The authors further argued that “simple product line extensions that are not accompanied by changes in administrative linkage mechanisms do not fall under the conceptualisation of diversification.”

A number of scholars have undertaken conceptual and empirical studies of diversification to gain insights on a successful diversification. Varadarajan & Ramanujam (1987) for instance examined the “relatedness” of products, markets and technologies. Chatterjee & Wernerfelt (1991) argued the importance of resources, especially firm's intangible assets such as brand names. On the other hand, Montgomery & Hariharan (1991) focused on the “fit” between the diversifying firm and the destination industry. However, no diversification studies have been conducted and discussed from the consumer side. As Romilla (1916) suggested “try to look at things from customer's side,” a diversification study from a marketing

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perspective will be conducted in order to gain insights and suggest management implications in terms of a successful diversification as a firm's strategy. Developing a diversification strategy based solely on the firm-side perspective and ignoring consumer perception would result in a poor business performance or even failure in future business expansion since "consumers" are the final judge of products or services.

Aaker & Keller (1990) in their paper "Consumer Evaluations of Brand Extensions" conducted an exploratory research in the consumer product setting to gain insights on how consumers form attitudes toward brand extensions by testing 4 hypotheses on brand extension based on 6 well-established brands, 20 hypothetical brand extensions (e.g. Heineken beer to Heineken wine and Heineken popcorn) and 107 samples. The authors concluded that the attitude toward the extensions was favourable when there was both a perception of "fit" between the original brand and the new products along one of three dimensions and a high quality perception for the original brand. However, the validity of the original brand extension study in the FMCG setting conducted in North America has not been tested in the service and NZ context.

In this research, a consumer reaction study based on Aaker & Keller (1990) will be conducted in the New Zealand (NZ) service setting by using "high fit" "medium fit" and "low fit" hypothetical brand extensions, such as a hotel chain and duty-free shops as a related or forward diversification and the retail banks as an unrelated or conglomerate diversification for Air New Zealand (hereafter TE as its former air carrier code) as the nation's large, established, flagship prestige airline.

The objectives of this research are three fold: 1) to test the validity and applicability of findings of the original study conducted by Aaker & Keller (1990) especially to the service and NZ context, 2) to gain insights on a successful brand extension as a firm's diversification strategy in the NZ service setting, and 3) to examine and identify critical factors for a successful diversification: the roles of brand "images" or "associations" and "fit" perceived by consumers (consumer-side) and the roles of intangible asset such as brand names, resources, competencies and the degree of "relatedness" (firm-side).

## RESEARCH QUESTION

How do consumers perceive and evaluate a different type of hypothetical brand extension as a firm's diversification strategy in the NZ service context? The goal is to identify critical factors on how firms should leverage its brand names already established in the original business when entering into a new business or taking on a new direction through the consumer reaction study. In particular, the following research objectives are addressed.

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## RESEARCH OBJECTIVES

1. What is the role of “images” or “associations” perceived by consumers toward brand extension and diversification?
2. How will consumers’ overall perceived quality of the original brand affect their evaluation of brand extension and diversification?
3. How will consumers evaluate the transferability of brand names (intangible asset), skills or know-how (resources and competencies) acquired in the original brand to its brand extension and diversification?
4. How will consumers perceive both “fit” or “similarity” between the original brand and its brand extension (service level) and the “relatedness” between core business and destination industry (industry level) and evaluate different types of brand extension and diversification?

## Hypotheses on Brand Extension & Diversification

- Hypothesis 1 Consumer perception of brand “images” or “associations” limits the scope of brand extension and diversification to a “high fit” extension and “related diversification”.
- Hypothesis 2 Higher QUALITY rating for the original brand by consumers is associated with more favourable *Attitude* only for a “high fit” extension and “related diversification”.
- Hypothesis 3 “Fit” between the original brand (core business) and brand extension (destination industry) has a direct association with *Attitude*.

## RESEARCH STRATEGY

An online survey (E-survey) as a new form of research method is conducted by harnessing the power of recently emerged and emerging information & communications technologies, such as the Web and email. To cover the weaknesses of quantitative survey questions, some open-end qualitative questions are also applied.

## RESEARCH METHODS

Targeting at academic and general staff and research students of the 7 universities in NZ: Auckland, Waikato, Massey, Victoria, Canterbury, Lincoln and Otago, a total of 1,000 people which is an approximately 10% of the entire population will be surveyed. To collect the minimum of 144 samples that fulfils the statistical significance requirement, people are asked about their attitude towards the hypothetical brand extensions based on the assumption that “*if Air New Zealand were to enter into the new business at its airline destinations, what would you think?*” Potential respondents are invited to complete the E-survey questionnaire facilitated by the new media.

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## ***Online Research***

There are two main reasons for conducting E-survey for the research. As Bowers (1998) pointed out that “online surveys are often used to determine the opinions and perceptions of the users for evaluation”, online surveys are ideal for the consumer reaction study. Another reason is its efficiency and effectiveness in sampling. “Getting feedback using traditional methods, such as paperbased surveys, can be time-consuming, expensive, and unsuccessful (Kvitka 1999),” whereas “the online medium does offer many reliable and effective sampling strategies (Bowers 1998).” Developing a new method for academic research sampling is not a main purpose of the research. However, attempting E-survey as a new form of research method must be beneficial for future academic researches in terms of its advantages over the traditional off-line methods and disadvantages and its ethical issues relating to the use of the new medium and methodology.

## ***Online Methods***

According to Bowers (1998), basically, there are three methods for conducting online surveys: e-mail surveys, HTML forms and downloadable interactive survey applications. Like the traditional methods: mail, telephone and personal, each method of E-surveys, as a new form of research methods, also has its advantages and disadvantages. For instance, less cost (setup & field), fast in field (1 to 10 days), simplicity, wide reach and time saving for both respondents (non-use of the Web) and researchers (setup & field) are the advantages of email surveys. Conversely, limited contents and internal audience-suited surveys are its disadvantages. On the other hand, Web-based surveys and downloadable interactive surveys are ideal for more complicated contents and interactivity. However, compared with the email method, these methods require considerable costs (setup & Web server hosting), time (programming & field: 3 to 15 days for Web-based surveys, 7 to 20 days for downloadable interactive surveys), respondents' and their equipment sophistication and higher incentives.

As the overall characteristics of E-surveys, reducing a regional sampling bias by easily covering major cities in NZ: Auckland, Hamilton, Palmerston North, Wellington, Christchurch and Dunedin is its advantage over the traditional methods. Conversely, “attractive demographics” as the computer users, which is characterised by above-average education, above-average income and technology-oriented (Belch & Belch 1998), would be one limitation of E-surveys since it limits samples to the upper to middle socio-economic class. Unlike business E-surveys using own customer databases, the number of publicly available email addresses or lists would be another limitation of the online academic surveys. For the consumer reaction study, a combination of the email method and the Web-based method will be used to take full advantage of these two methods.

## ***Research Population***

There are a number of reasons why academic groups were chosen as the target population. First, since E-survey is an online survey, the access to a computer and the Internet and the possession of email address are prerequisite. Second, unlike business firms holding their own customer email databases, the number of publicly available email addresses or lists is currently limited. Third, academic groups need to travel a lot due to their research and conferences, which must compliment the research using an airline company. Finally, academic groups represented by “attractive

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demographics’ also must compliment the study using a prestige airline. Such target population would represent the current “E-population” or cybercitizens in NZ.

## ***Research Procedures***

Prior to conducting E-survey, a temporary consumer database will be developed through exploring publicly available email addresses or lists on the Web. In order to increase response rate from potential participants, a Web-based “respondent-friendly” online-version survey questionnaire will be designed taking two things into account: the ease of answer and the length of survey. Potential participants will receive an initial invitation email only once with a clear survey objective, full researcher contact details and the “link” to the Website (personal URL). Then, participants answer the E-questionnaire to be submitted to the Web hosting server’s database. Responses submitted will be transferred to the researcher via email. Raw data collected from respondents will be printed out, numbered and stored in the researcher’s “stand-alone” computer. While quantitative data is stored into a SPSS, qualitative data is stored into a QSR Nudist. Once the data was processed, respondents’ data will be completely destroyed at the end of the sampling procedure.

## ***Questionnaire***

E-survey questionnaire and measures will be designed based on the research question and objectives. The consumer survey questionnaire will comprise three parts. Part I is to collect the information about respondents’ profile (demographics) and the overall associations in consumers’ mind on “relatedness” (from the business-side) and quality of the original TE brand as an airline. Part II, III and IV are to describe consumer expectations or anticipations on each brand extension, such as “hotel chain”, “duty-free shops” and “retail banks” using a scale.

## ***Instruments***

As the instruments for E-survey questionnaire, three “fit” or “similarity” measures will be used with a 7-point rating scale: **SUBSTITUTE**: perceived opportunity by consumers that an extension would replace the original (1. Low, 7. High), **COMPLEMENT**: consumers would be likely to use together in certain usage situations (1. Low, 7. High) and **TRANSFER**: the perceived ability or skills (perceived competencies) of branders in the original category to develop the brand extensions or diversification (1. Not at all helpful, 7. Very helpful). Other measures will also be used, such as **Attitude**: the average of perceived overall quality of the extensions (1. Inferior, 7. Superior) and the likelihood of trying the extensions (1. Not at all likely, 7. Very likely), **QUALITY**: the overall perceived quality of the original brand (1. Inferior, 7. Superior) and **DIFFICULT**: perceived difficulty in operating successful extensions (1. Not at all difficult, 7. Very difficult). Apart from the above original measures, the following question as a dependent or response variable will be added **Recommend**: “Would you recommend the service (e.g. TE’s hotel chain) to your family, relatives or friends?” (1. Not at all likely, 7. Very likely).

## **DATA ANALYSIS**

To summarise and analyse the data collected, two computer statistical packages will be used: a SPSS for the quantitative data analysis that accounts for approximately 80% of the total survey research and a QSR Nudist for the qualitative data analysis

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that accounts for the remainder. For the quantitative data, multivariate data analysis techniques will be applied: descriptive statistics, correlation analysis by the Pearson method, regression analysis by the stepwise method, mean value comparison by ANOVA and MANOVA to identify within and between group difference based on the demographic factors, such as gender: male vs female, age group: 20s, 30s, 40s and 50+, occupation: staff vs student and the past purchases with TE: presence vs absence. With these varieties of analysis, although the researcher will attempt to keep everything “simple”, tables, charts and some graphic representations, such as histograms, normal P-P plots and box plots will be used.

For the qualitative data, on the other hand, “images” and “associations” on both the original brand and its extensions obtained from respondents are stored in the form of “words” in a QSR Nudist to be coded. Research findings and insights gained from the consumer survey research will become the basis of implications, generalisation and future research agenda.

## ETHICAL CONSIDERATION

Conducting a consumer survey requires ethical considerations. Disclosure or leakage of the confidential information gathered from participants by researchers may give rise to irreparable injury to the parties involved. The sampling procedure of this research involves an E-sampling. Then, the difficulty in obtaining an informed consent from 1,000 potential participants exists. As the participants’ indicator, “visiting the Website (personal URL)” and “answering the questionnaire” are viewed as their “consensus” or “agreement” to the E-survey. An initial invitation email will clearly explain the objective of the E-survey, which enables participants to identify what is this questionnaire for. Furthermore, the researcher’s name and a digital photo would also be featured on the initial email to enable participants to identify who the researcher is.

Since all responses are anonymous, it is difficult to share research findings with respondents. Respondents however would be offered an opportunity to access to the research findings if they re-visit the same Website/URL after February 2001. Prior to conducting E-survey, an ethics approval by the Massey University Albany Human Ethics Committee would be gained to minimise any potential harm and protect all parties involved: participants, the brander, the University, the supervisor and the researcher.

## TIMETABLE

28 April 2000	Submission of a research proposal to the paper co-ordinator
31 May 2000	Reviewing a whole process, adjustments and re-planning
30 June 2000	Literature review on “Brand extension”, “Corporate Diversification” and “Online research” completed
31 July 2000	Experimental design and E-survey questionnaire completed
18 August 2000	Submission of a progress report to the paper co-ordinator
31 August 2000	Obtaining an ethics approval from the MUAHEC
10 September 2000	Pre-tests and re-tests of E-sampling completed

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30 September 2000	E-sampling, data entry and coding completed
15 October 2000	Data analysis completed
31 October 2000	Research findings, implications and conclusion completed
9 November 2000	Literature review enforcement and overall presentation
16 November 2000	Submission of a draft research report to the supervisor
30 November 2000	Submission of the final research report to the supervisor

### **BUDGET**

Photocopies for literatures/journal articles 15 pages X 30 journals @ 10c	\$45.00
Photocopies for consumer survey questionnaires 1 page X 150 @ 10c	\$15.00
Internet charges 30 hours X @ \$1	\$30.00
2-month Web server hosting costs (\$50 setup, 2 X \$35/month, plus GST)	\$135.00
Photocopies for the final report 100 pages X 5 @ 10c	\$50.00
Bindings for the final report 5 @ \$5	\$25.00
Contingency provision based on 10% of other costs	\$30.00
Total costs	\$330.00



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