Extending the Retail Brand to Non-traditional Products

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Abstract This study focuses on retail brand extension from the consumer perspective when non-traditional products—in this case over-the-counter pharmaceuticals—are offered with the private label brand. A model in which attitude towards the extension (ATE) mediates the impact of some antecedents—national brand preference (NBP), trust towards the retailer (T), fit (FIT), private label knowledge (PLK) and consumer innovativeness (INN)—impacting the intention to purchase the extended PL brand (INTB) is proposed and tested. Direct effects regarding NBP and FIT are tested too. 500 questionnaires were collected from a sample of retail customers. Structural equation modeling serves to test the hypotheses. The model shows a good fit and the hypotheses are supported—except for INN.

Keywords Brand extension • Retail brands • Attitude • Intention to buy

1 Introduction

Brand extension is a relevant and popular strategy that leveraged the interest of managerial practitioners and scholars since the 1980s. Business practitioners require to determine which brand extensions are consistent with their brand and could be rightly perceived by the clientele in order to be potentially successful. Scientifically, a rich empirical research, predominantly experimental, has been conducted in order to understanding the factors affecting a brand extension success (e.g. Aaker & Keller, 1990; Völckner & Sattler, 2006).

This study focuses on a proxy of brand success, i.e. intention to purchase the extended PL brand (INTB), proposing a model in which attitude towards the extension (ATE) mediates the impact of a number of antecedents—national brand

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preference (NBP), trust towards the retailer (T), fit (FIT), private label knowledge (PLK) and consumer innovativeness (INN)—on INTB, while some constructs (NBP and FIT) are expected to exert a direct effect too. This is operationalized through an in-store survey, collecting 500 questionnaires from retail customers. To test the model, Structural Equation Modeling (SEM) was employed.

This study contributes to the current literature on brand extension and retailing as follows. Most previous research into brand extension focused on manufacturer brands, while retail brand extension has been rarely examined in the literature (Dwivedi & Merrilees, 2013; Mitchell & Chaudhury, 2014) and very little is known about customer buying behavior when retailers extend their brands, in particular to non-traditional businesses. The increasing competition and emerging saturation in the grocery sector have strengthened grocery retailers in extending their assortments through their private labels (PL) (Colgate & Alexander, 2002). As a result, PLs now covers not only almost any Fast Moving Consumer Goods (FMCG) category, but also unusual non-food categories (e.g. clothes, over-the-counter pharmaceuticals, etc.) and services (travel booking, financial services, etc.). Consequently, a retailing context is an useful framework to study consumers' brand extension. Apart from Alexander and Colgate (2005) and Laforet (2008), no other specific research, to our knowledge, has addressed this issue.

2 Conceptual Model and Hypotheses

We develop a conceptual model to explain retail customers' INTB the PL extension product, considering a number of brand extension antecedents, adequately adapted to the retail context, impacting on attitude towards the product extension.

The non-traditional product category investigated is over-the-counter pharmaceuticals offered under the retailer PL. This is a recent offer in the assortment range of Italian grocery retailers and interesting to investigate as for the implications it can produce on consumers' health and that let us presume caution in buying and preference for NB vs. PL, with an important role played by trust in the supplier.

Several studies have found that consumers consider NBs to be superior to store brands (e.g. Bellizzi, Krueckeberg, Hamilton, & Martin, 1981) as for their perceived higher quality (Dick, Jain, & Richardson, 1995). Traditionally, compared to NBs, PLs have been positioned as low price/good value for money offerings in grocery categories. The consumer preference for NBs can result in a negative attitude towards the PL extension. Consequently, we can hypothesize as follows:

Hp1: Preference for national brands has a significant negative impact on ATE.

When consumers evaluate a brand extension, they tend to match the extension to the parent brand category. Prior results on brand extension research suggest that a higher degree of fit results in a better assessment of any type of extension (Boush & Loken, 1991; Carter & Curry, 2013), directly influencing consumers' attitude toward brand extension and playing a major role in this literature (Broniarczyk & Alba, 1994; Park, Milberg, & Lawson, 1991). Thus, we postulate that:

Hp2: Fit has a significant positive impact on ATE.

A retailer can be considered as a brand (Ailawadi & Keller, 2004) and the PL is actually a brand extension of a retailer as the parent brand. When consumers are unfamiliar with a product category and perceive high brand difference, they tend to rely on the company brand as for the level of trust they associate to it. However, there is little mention of brand trust in brand extension literature (Laforet, 2008). Aaker and Keller (1990) referred to this notion reporting a significant association between company credibility and brand extension acceptance. The relationship between brand trust and ATE was tested by Reast (2005). Thus:

Hp3: Trust towards the retailer has a significant positive impact on ATE.

Our conceptual model has theoretical underpinnings in the categorisation theory which postulates that consumers form categories based on prior knowledge (Ward, Bitner, & Barnes, 1992). In general, consumers possess richer knowledge structures for familiar product categories and this has been found to positively affect their attitudes toward the category (Alba & Hutchinson, 1987) and towards specific brands (Keller, 2008). Hence:

Hp4: PL knowledge has a significant positive impact on ATE.

Limited studies have been conducted employing consumer innovativeness as an antecedent of brand extension evaluation (e.g., Klink & Smith, 2001). These papers have observed that innovative consumers are more willing to try new brands and prone to accelerate the trial and acceptance of a new product (Hem, de Chernatony, & Iversen, 2003). We test this impact for retail brand extension:

Hp5: Consumer innovativeness has a significant positive impact on ATE.

Extant literature agrees in considering that attitude toward the product relates positively to purchasing behaviors (Ajzen & Fishbein, 1980), even if some authors proved a weak relationship between the constructs (Wicker, 1969). A PL is considered successful not only when it gains a favorable consumer perception, but mostly when it leads to strong purchase intentions. Several brand extension studies indicate that consumers' attitudes toward brand extensions positively influence their brand purchases (Bhat & Reddy, 2001). We therefore postulate that:

Hp6: Consumers' attitude toward the PL brand extension positively impact on INTB the extension PL product.

The prevailing literature on PLs found a negative influence of NB preference on the intention to buy a certain PL category (Dick et al., 1995). Likewise, we can postulate a similar relationship for unusual PL extensions:

Hp7: NBP has a significant negative impact on INTB the extension PL product.

The perceived similarity between the parent brand and the extended product category should result in a strong consumer predisposition to buy the extended product category. Therefore, our final hypothesis is as follows:

Hp8: Fit has a significant positive impact on INTB the extension PL product.

3 Methodology

To meet the research goal, an in-store survey was conducted, administering a structured questionnaire to a convenience sample of retail customers. The questionnaire was pre-tested and then administered to consumers in one hypermarket, located in North Italy and belonging to the retail market leader. Since now, only this retailer offers two pharmaceutical products under its PL on this country market. A convenience sample of 500 retail customers was interviewed.

Our sample consisted of a group of 500 respondents of which 30.6 % were male and 69.4 % were female. In terms of participants' age, 10.0 % were younger than 25 years of age, while just a 3.4 % were older than 65. Others age clusters are as follows: 25.4 % (25–35 years); 35.4 % (36–50 years); 25.8 % (51–65 years). Family composition is heterogeneous: 11.4 % were singles; 5.4 % live in a family of 5 or more members and the remaining 83.2 % live in family from 2 to 4 components.

Items were evaluated on a 7-point Likert scale. The psychometric analysis assessed good convergence and discriminant validity for the measurements. Cronbach's alpha showed a good level of internal reliability ($\alpha_{INTB} = 0.931$; $\alpha_{ATE} = 0.985$; $\alpha_{NBP} = 0.938$; $\alpha_{FIT} = 0.958$; $\alpha_{T} = 0.971$; $\alpha_{PLK} = 0.835$; $\alpha_{INN} = 0.898$).

SEM with Maximum Likelihood was conducted to assess the hypotheses validity, employing Lisrel 8.80. To test the convergent validity we verify that all items were significantly (t-values >13.244) and substantially (factor loading >0.545) loaded onto the expected latent constructs. Moreover, all constructs show good levels of average variance extracted (AVE) and composite reliability (CR) (Table 1). Furthermore, the square root of each construct AVE was greater than the correlations of that construct with the other constructs, showing that each construct shares more variance with its own measures than it shared with other constructs. Indicators showed a good overall fit of the model (Table 1).

Despite the good model fit, we verify the strength of the partial mediation of the perceived difference between NB and PL and the FIT on INTB, comparing the proposed model with a completed mediated model (Rival Model 1). The delta chi-square test (p-value = 0.000) confirms that INTB is influenced by the effects of T and PLK through the complete mediating action of ATE, and is subject to a partial mediation with respect of NPB and FIT. Furthermore, the complete mediation model shows a general worst adaptation to the empirical data (Table 2).

Table 1 Individual item factor loadings and reliability

References			Factor loadings	Cronbach's alpha	AVE	CR
	Intention to buy extension			***0.931***	***0.835***	***0.938***
Adapted by Dodds, Monroe, and Grewal (1991)	INTB1	I am willing to buy PL over-the-counter pharmaceuticals in the future	0.991*			
	INTB2	I am going to buy PL over-the-counter pharmaceuticals next time I will going grocery shopping	0.803*			
	INTB3	The likelihood of buying PL over-the-counter pharmaceuticals in the future is high	0.937*			
	Attitude towards extension			***0.985***	***0.958***	***0.986***
Aaker and Keller (1990), Hem, Iversen, and Olsen (2014)	ATE1	My attitude towards extending PL X to over-the-counter pharmaceuticals is very positive	0.976*			
	ATE2	Overall, I am very positive towards extending PL X to over-the-counter pharmaceuticals	0.990*			
	ATE3	My opinion about the extension of PL X to over-the-counter pharmaceuticals is positive	0.970*			
	National brands reference			***0.938***	***0.839***	***0.940***
Adapted by Dick et al. (1995)	NBP1	I prefer to buy NB over-the-counter pharmaceuticals	0.867*			
	NBP2	There is a great difference in active ingredients between NB over-the-counter pharmaceuticals and PL over-the-counter pharmaceuticals	0.961*			
	NBP3	There is a great difference in overall quality between NB over-the-counter pharmaceuticals and PL over-the-counter pharmaceuticals	0.918*			

(continued)

Table 1 (continued)

References			Factor loadings	Cronbach's alpha	AVE	CR
Bhat and Reddy (2001), Taylor and Bearden (2003)	*Fit*			***0 958***	***0.853***	***0.959***
	The extension of the PL X to over-the-counter pharmaceuticals is:		0.928*			
	FIT1	Not logical-logical	0.876*			
	FIT2	Not similar-similar	0.962*			
	FIT3	Not appropriate -appropriate	0.925*			
	FIT4	Incoherent-coherent				
	Trust towards the retailer			***0 971***	***0.920***	***0.972***
Chaudhuri and Holbrook (2001)	T1	I trust the retailer X	0.963*			
	T2	I rely on retailer X	0.977*			
	T3	I feel confidence in retailer X	0.936*			
	PL knowledge			***0.835***	***0.675***	***0.856***
Dick et al. (1995)	PLK1	I have much usage experience with PL grocery items	0.920*			
	PLK2	I am very familiar with the various PL grocery items available in the market place	0.939*			
	PLK3	I often buy PL's grocery items	0.545*			
	Consumer innovativeness			***0.898***	***0.692***	***0.899***
Hem et al. (2003)	INN1	I am continually seeking new ideas and experiences	0.887*			
	INN2	When things get boring, I like to find some new and unfamiliar experience	0.930*			
	INN3	I like surprises	0.696*			
	INN4	I like to experience novelty and change in my daily routine	0.794*			

CR and AVE coefficients
NFI = 0.974; NNFI = 0.980; CFI = 0.983; IFI = 0.983; RFI = 0.969; SRMR = 0.0488; GFI = 0.909
Note *All factor loadings are significant at the $p < 0.01$ level
Measurement model fit χ^2 (212) = 577.794, $p < 0.000$; $\chi^2/df = 2.73$. RMSEA = 0.0586, Close-Fit RMSEA < 0.05 = 0.000

Table 2 Nested models comparison

	Partial mediation model (proposed model)	Complete mediation model (rival 1)
χ^2	$\chi^2_{(212)} = 577.794$	$\chi^2_{(214)} = 651.950$
	p-value = 0.00	p-value = 0.00
RMSEA	0.0586	0.0634
GFI	0.909	0.899
SRMR	0.0488	0.0619

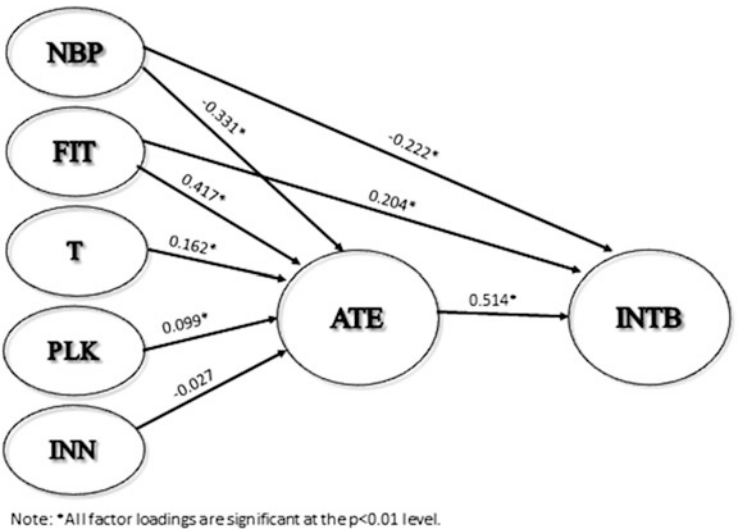

Fig. 1 Research model

4 Results

The path effect of ATE is positive and essential in explaining INTB. The greater ATE, the greater INTB, thus Hp6 is supported ($\beta = 0.514$, $p < 0.01$). In line with extant literature, when consumers perceive similarity between the core offer of the retailer and extended product classes there are positive effects on consumers' ATE and INTB because of the positive associations between the parent brand and the extension, to such an extent that it represents the major predictor of ATE. These evidences provide support for Hp2 ($\beta = 0.417$, $p < 0.01$) and Hp8 ($\beta = 0.204$, $p < 0.01$). The comparison between NBs and PLs creates negative effects both on ATE and INTB. Actually, to a major perceived difference between brands and PL corresponds a lower attitude and INTB the parent brand extension. So, Hp1 ($\beta = -0.331$, $p < 0.01$) and Hp7 ($\beta = -0.222$, $p < 0.01$) are supported. As expected, both T (Hp3: $\beta = 0.162$, $p < 0.01$) and PLK (Hp4: $\beta = 0.099$, $p < 0.01$) positively influence ATE, but their effect sizes are small (<0.2). Finally, conversely to the literature, INN does not approach significance in ATE ($\beta = -0.027$, $p > 0.2$), thus we reject Hp5 (Fig. 1).

5 Conclusions, Limitations and Further Research

The use of an established brand name to introduce a new product can be risky. Extension failures can damage the parent brand and reduce the sales of other products marketed under the same brand. Therefore, the decision to extend a brand, as well as its characteristics, should be subject to cautious strategic planning and management. Our findings aim to assist retailers in their brand extension decision-making and implementations, particularly when it comes to enter unusual and distant businesses. Into this perspective, our model confirms extant literature results in a retail setting too: INTB is strongly influenced by ATE and FIT is settled as the major ATE antecedents. Differently, we did not found a significant influence of INN on ATE. Moreover, our model contributes to the retail brand extension literature evidencing the good influence exerted by a relational construct, trust toward the retailer, whose empirical evidence lacks. If retailers want to be successful in extending their PL in distant product categories, they should create a positive attitude towards their product extension mainly leveraging FIT perceptions and reducing the perceived gap within NBs and PLs, as these antecedents act directly as well as indirectly on PL proneness. Stimulating trials and using communication tools retailers can also strengthen the level of trustworthiness they possess within customers and increase PLK.

This study has some limitations. It is focused on a single product category, while future research should consider also other PL extensions, such as financial services, car fuel offered through a retail branded fuel station, etc., as category characteristics can affect ATE (Hem et al., 2014). Moreover, mediation has been tested with a nested model comparison, while further analysis would also consider indirect effects. Additionally, other factors have been found to affect ATE and brand extension success, such as perceived product quality (Milberg, Goodstein, Sinn, Cuneo, & Epstein, 2013) or past purchasing behavior; these constructs could be investigated in future researches. Last but not least, in our next works we intend to survey the effect of brand extensions on the relationship equity of a parent brand (Dwivedi & Merrilees, 2013) in the grocery retail context.

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