

Service Brand Extensions

The Role of Corporate Image and Extension Similarity

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Introduction

For many companies the (financial) risks of entering new markets or launching new products or services are quite substantial (Boush and Loken 1991; John and Loken 1992). One way of dealing with these risks is to use the familiarity and prestige, or rather, the image of brands as a leverage for enhancing credibility and unobservable quality (Rao et al. 1997). Moreover, a strong corporate brand image can be used to increase communication efficiency, particularly if the new market is clearly beyond the current market scope of the firm (Keller and Aaker 1997).

Therefore, brand extensions are increasingly recognized as a strategic asset by many companies (Hart and Murphy 1998). As service extensions are taking place primarily in new and emerging markets (mobile telephony), innovativeness seems an important image priority.

Because service brand extensions are primarily associated with new market entry strategies, innovation-related image attributes, such as order of entry (i.e., pioneers versus followers) seems relevant. However, the impact of perceived innovativeness with respect to service brand extensions has remained virtually unexplored so far. In this article we attempt to gain a better understanding of aforementioned issues. It is structured as follows. First, we offer a brief discussion of brand extensions and the central role of image in corporate brand extensions in services markets. Subsequently, we report on the results of an experimental study that has examined empirically the impact of new market entry strategies on customer evaluations of service extensions in the mobile telecommunications market. In conclusion, we will address the theoretical as well as the managerial implications of our findings.

Brand Extensions: A Synthesis of the Literature

In general, studies of similarity or fit between the parent brand and the extension show a positive relation between the product

similarity and consumers' evaluations of the extension. When the similarity is high, consumers base their evaluation of the extension on their attitude towards the parent brand (Keller and Aaker 1997).

This means that extension evaluations are higher for well-established parent brands. When the similarity is low, consumers base their evaluation of the extension more on core attributes and benefits of the extension. However, in most cases, low similarity between parent brand and extension, whether in terms of related product class or related markets leads to lower levels of consumer acceptance, regardless of the strength of the parent brand (Keller and Aaker 1997; Boush and Loken 1991).

Corporate brands influence the consumers' evaluation of the brand extension in a way which is different from product brands (Keller and Aaker 1997). Corporate brands represent the manufacturer of products or provider of services and, therefore, company perceptions may provide credibility about the source. In the advertising literature it has been shown that source credibility is an important determinant of consumer evaluations and response. With regards to the success of corporate brand extensions, Andrew (1998, p. 187) argues that the 'credibility of the brand in its new role is the single most important predictor'. In the case of corporate brand extensions, corporate credibility will affect the consumers' evaluations of the extension. Consumers will evaluate the extension higher when corporate credibility is high. Corporate credibility is especially important with respect to the credence attributes associated with services (Zeithaml and Bitner 1996). These force consumers to rely more on cues and information signals that are generally available to them, such as corporate image. Rao et al. (1997) state brands convey important information about a company's image. Andrew (1998) argues that extensions of corporate brands are in effect image transfers. Therefore, we turn to the concept of corporate image in relation to extension of service brand extensions.

In the services marketing literature, the (corporate) image concept has not featured prominently. Although some attention has been paid to the conceptualization of corporate image in services positioning (Grönroos 1993), the concept has remained vague. From the marketing of goods literature, it has become clear that corporate image represents the impressions and associations, the beliefs and attitudes that are held in consumer memory with regards to the company (Barich and Kotler 1991; Keller 1993). It has been referred to as 'personality' (Arons 1961) as well as a collection of symbolic associations with regards to the product (Finn 1985). The corporate image has also been described as 'the picture that an audience has of an organization through the accumulation of all received messages' (Ind 1997, p. 48).

The nature of these messages may differ between goods and services. As services are often defined as performances, rather than objects, they cannot be seen, felt, tasted or touched in the same manner in which goods can be sensed. Therefore, it is particularly important for services providers to have a strong corporate image to ensure the quality of their services and to stimulate word-of-mouth communication. The role of image becomes even more significant when competing services are perceived as virtually identical on performance, price, and availability (Andreassen and Lindestad 1998).

Therefore, in the case of services, corporate image serves as an important factor influencing the perception of quality, consumers' evaluation of satisfaction with the service, and customer loyalty (Andreassen and Lindestad 1998). According to Grönroos (1993, p. 229) for service companies a corporate image is 'a filter which influences the perception of the operation of the company'. Consequentially, corporate image has been regarded as an information cue which may create a halo effect on customer judgments relating, for instance, to service provider credibility or the perceived quality of its services (Andreassen and Lindestad 1998). In new and emerging markets, a prevailing image priority has been the degree to which a company is perceived to be innovative.

Thus far, there has been little empirical evidence on the role of corporate image in services branding and its impact on customer evaluative judgments of service extensions in

new and emerging markets. Therefore, we will develop a number of hypotheses with regards to this topic in the next section.

Corporate Image in Service Brand Extensions: Development of Hypotheses

Due to inherent characteristics of services such as intangibility and the difficulty consumers have in evaluating services before the moment of purchase, the impact of perceived risk may instigate consumers to favor innovative late service providers. Therefore, we hypothesize that:

- H₁: Consumers will evaluate service extensions by companies with an innovative late mover image more favorably than service extensions by companies with an innovative pioneer image in terms of the following evaluative criteria:*
- a. corporate credibility*
 - b. expected service quality*
 - c. purchase intention*

Market relatedness or extension similarity may be regarded as a success factor. Taking into account relatedness to the new market we formulate the following hypothesis:

- H₂: Consumers will evaluate service extensions in a related market more favorably than services extensions in an unrelated market in terms of the following evaluative criteria:*
- a. corporate credibility*
 - b. expected service quality*
 - c. purchase intention*

Taking the interaction of both innovation entry image as well as market relatedness into account yields the following hypothesis:

- H₃: Consumers will evaluate service extensions by companies with an innovative late mover image in a related market more favorably than services extensions by companies with an innovative late mover image in an unrelated market in terms of the following evaluative criteria:*
- a. corporate credibility*
 - b. expected service quality*
 - c. purchase intention*

Given the perceived risk associated with entering new unrelated markets as well as pioneering service providers and the relatively large number of brand extension failures cited in the literature (Andrew 1998), we expect that the relative difference between companies with a late mover image and companies with a

pioneer image will be larger in unrelated markets. Therefore, we hypothesize that:

H₄: The relative difference between companies with a late mover image and companies with a pioneer image will be larger in unrelated markets in terms of the following evaluative evaluative criteria:

- a. corporate credibility*
- b. expected service quality*
- c. purchase intention*

An Experimental Study

Design and Manipulations

A between-subjects, fixed-effects factorial design consisting of two factors was designed to test the above-positated hypotheses. Corporate image was manipulated on three levels: (1) pioneer image, (2) innovative late mover, (3) control company with neutral image. The relation of the corporate brand extension with the current offerings of the service provider was manipulated on two levels: (1) extension into an unrelated market and (2) extension into a related market. As a research setting, the market of mobile telecommunications was selected. In total 299 respondents participated in this study. The respondents were randomly assigned to the six scenarios. Subjects were told that the purpose of the study was to learn more about the telecommunications market and the rapid developments that are taking place in it. Subjects were also told that they might normally make decisions about a new service on more information than would be provided by the scenario, but that it is important to learn how people evaluate a new service when they do not know much about the service and the company who is offering this service. In the sample, 66.6 % of the respondents were male and 33.4 % were female. Concerning the age of the respondents, most respondents were represented in the age group of 19 till 27 years. Of the respondents 1.9 % were aged between 10 and 18 years, 35.1 % between 19 and 27 years, 15.9 % between 28 and 36 years, 12.7 % between 37 and 45 years, 26.9 % between 46 and 54 years, and 7.5 % were

55 years or older. Finally, 16.2 % of the respondents already had a mobile telephone.

Results

Manipulation Checks

Manipulation checks were executed in order to assess whether the intended manipulations were understood by the respondents. The ANOVA-analysis demonstrates that the company with a pioneer image was seen as significantly more viewed as a trendsetter ($F=44.37$; $p<0.0001$) and this company was also significantly seen more as a first-mover ($F=30.85$; $p<0.0001$). The company with a late mover image was seen as significantly more perceived of as a follower ($F=72.00$; $p<0.0001$). The results also suggested that there were differences between the company which extended the new service in the same market and the company which extended the new service in a different market. The companies which offer the new service in the market they already operate in show more fit between the extension and the current offerings ($F=57.80$; $p<0.0001$), and between the extension and the company itself ($F=57.85$; $p<0.0001$). Consumers also perceived that it will be a logical step to offer the new service for the company which already operates in the market ($F=61.29$; $p<0.0001$).

Reliability and Validity of the Dependent Measures

We carried out principal components analyses to assess whether the three variables would load on separate components. Our analyses showed that each dependent variable loaded on high (>0.7) only on one component. This indicates that the three measures are tapping different concepts. Reliability analysis revealed that coefficient alpha for the three dependent measures exceeded 0.8.

Hypotheses Testing

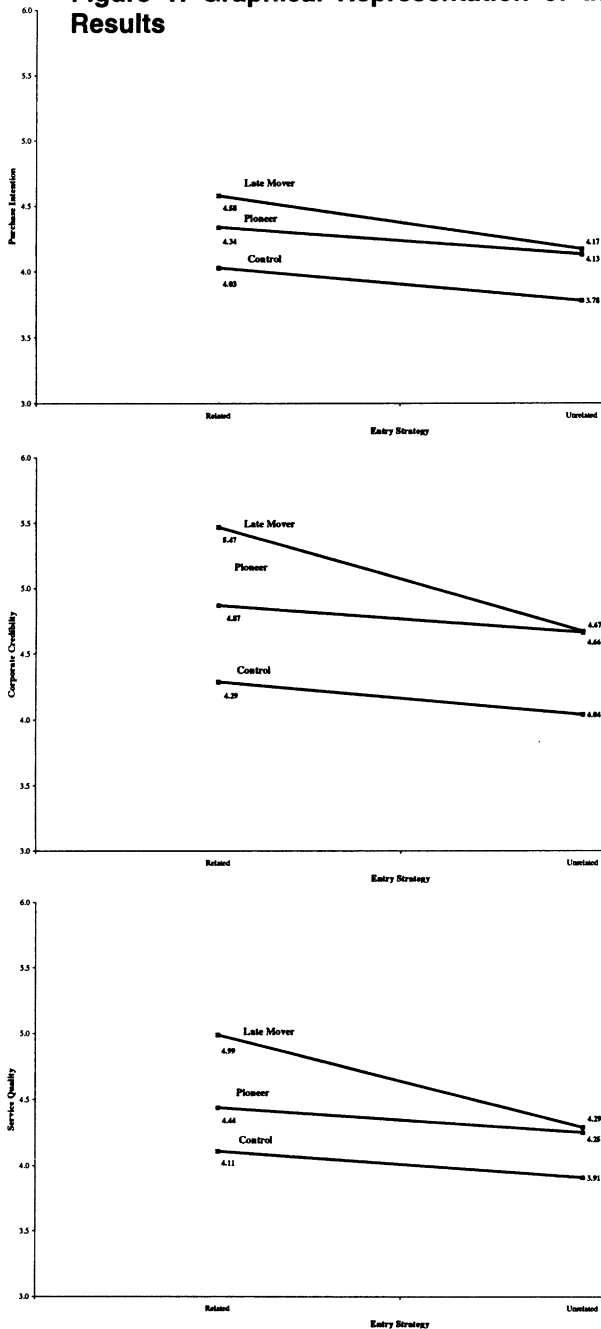
We started with testing whether the innovative late mover image and the pioneer image differ significantly from the control

Table 1: Results of MANOVA

Effect	Pillai-Bartlett trace (V)	F	P-value
<i>Main Effects</i>			
Corporate Image (CI)	0.02	1.12	0.35
Extension Similarity (ES)	0.05	5.05	0.02
<i>Two-Way Interaction</i>			
CI * ES	0.13	6.76	$p<0.001$

company with a neutral image. Using multiple single degree of freedom tests, we found that both the innovative late mover image and the pioneer image were significantly different from the control company with a neutral image using $\alpha=0.05$. Although the hypotheses are formulated in terms of cell means (Umesh et al. 1996), we initially used MANOVA to analyze the results of our study (Tabachnik and Fidell 1996).

Figure 1: Graphical Representation of the Results



The results of this analysis are summarized in [Table 1](#). We found an interaction effect for the interaction between corporate image (CI) and extension similarity (ES) ($V=0.13$; $F=6.76$; $p<0.001$). Furthermore, we found that extension similarity (ES) exhibit a significant main effect ($V=0.05$; $F=5.05$; $p=0.02$). For corporate image (CI) we did not find a significant main effect ($V=0.02$; $F=1.12$; $p=0.35$). These effects are supported by univariate analysis (ANOVA) for the dependent measures (Neter et al. 1990).

Regarding H_1 we find that service brand extensions by companies with an innovative late mover advantage are evaluated more favorable than companies with an innovative pioneer image in terms of corporate credibility ($t=1.90$; $p=0.029$) and expected service quality ($t=1.96$; $p=0.026$). For H_2 our results indicate that service brand extensions are evaluated more favorably in a related market than in an unrelated market in terms of corporate credibility ($t=3.20$; $p=0.01$), expected service quality ($t=2.97$; $p=0.015$) and purchase intention ($t=2.10$; $p=0.019$). With respect to H_3 the results of our analyses suggest that service brand extensions by companies with an innovative late mover image in a related market are more favorably evaluated than service brand extensions by companies with an innovative late mover image in an unrelated market in terms of corporate credibility ($t=2.67$; $p=0.004$) and expected service quality ($t=2.56$; $p=0.006$). Finally, with regard to H_4 we find that the relative difference between companies with an innovative late mover image and companies with a pioneer image will be larger in unrelated markets in terms of corporate credibility ($t=1.87$; $p=0.03$) and expected service quality ($t=1.66$; $p=0.048$). These results are graphically represented in [Figure 1](#).

Conclusions and Implications

In this study we examined the role of corporate image and extension similarity in the case of service brand extensions in the telecommunications market. In terms of two service provider evaluation criteria (i.e., perceived corporate credibility and expected service quality) it was found that consumers evaluate service extensions by providers with an innovative late mover image more favorably than service extensions by companies with a pioneer image. This is constant with findings from the marketing of goods literature (e.g., Golder and Tellis 1993). It appears that

consumers exhibit higher trust in both the corporate brand and the level of expected service quality of service providers that follow the moves of pioneering competitors. This may be attributed to the fact that due to the relative high degree of perceived risk associated with technology-based services, potential customers have a preference for service providers that learn from their competitors' mistakes. In addition, research into preference formation (Carpenter and Nakamoto 1994) suggests that by successfully dealing with problems, solutions offered by late innovators may set a new standard, thereby gaining an advantage over the pioneer. We also found that for two of the three service extension evaluation criteria (i.e., perceived corporate credibility and expected service quality) extension similarity is preferred over service brand extensions to unrelated markets. This finding is also consistent with previous research in the marketing of goods literature (e.g., Bridges 1992) which is indicative of the significant impact of the fit between the parent brand and the extension. Aforementioned findings are further nuanced by a significant interaction effect between corporate image and extension similarity. In addition we find that the relative distance between service providers with an innovative late mover image and pioneers is larger in related markets.

It should be noted, however, that the pattern described above does not appear to apply to consumer purchase intentions. Apparently, this type of customer evaluative judgment differs from the credibility and quality criteria. It may very well be that other (marketing mix) criteria, such as price or the range of the distribution network, rather than corporate image and extension similarity are determinants of customer purchase intentions. An additional explanation may be attributed to limitations of the research design. Part of the strength of any research project lies in recognizing these and taking them as points of direction for further research.

References

A complete list of references can be obtained from the authors.