Submission for the award of Masters by Research (Marketing)

Investigating the cross-category purchasing between brand extensions

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February 2019

Abstract

Brand extensions occur when a brand launches a product in a different product category (Kapferer 2008) and is a way of capitalising upon successful brand names (Farquhar 1989; Keller 1993). Brand extensions are said to be cheaper than releasing a new brand name (Aaker 1990; Smith & Park 1992; Tauber 1981, 1988), as well as encouraging purchase in the second category (Herr et al. 1993; Kapferer 2008). Further, brand extensions reduce the risks associated with releasing new products as consumers already have associations with the brand (Herr et al. 1993; Pitta & Katsanis 1995) Several studies have shown that users of a brand express intentions to purchase extensions at a higher rate than non-users (Chen & Liu 2004; Hem & Iverson 2003). The problem with these results, however, is they have been developed using attitudinal measures, rather than behavioural ones. Attitudinal measures are troublesome as they do not hold period to period (Dall'Olmo Riley et al. 1997; Ehrenberg et al. 1993), and tend to follow past behaviour (Sharp 2010a). Therefore, this thesis intends to bridge this literature gap by using behavioural data to analyse whether the buyers of a brand in one category purchase extensions at a higher rate than non-brand buyers.

A previous study by Mundt (2011) had a similar purpose. This study was conducted using UK household panel data, and used Duplication of Purchase (DoP) analysis to analyse 34 categories, finding purchasing a brand in one category increased a consumer's propensity to purchase an extension by 60 percent, compared to those who did not purchase the brand in the original category. However, this study is not without limitations, such as categorising brands by their corporate brand and category pairings analysed being the same category. Therefore, it is necessary to further explore this topic. Therefore, this thesis aims to replicate and extend this study to increase the understanding and generalisability of these findings. As brand extensions are said to positively impact choice of the brand, this thesis aims to understand whether this occurs in market.

Therefore, there are two objectives of this thesis. The first objective is to replicate Mundt's (2011) study using DoP analysis, in line with the previous study. DoP is a robust law which explains that two competing brands share customers predictably, with customer sharing falling in line with brand size (Ehrenberg et al. 2004). This law has been observed across a range of single product categories, however this thesis extends this two the level of duplication across two categories, extending results from Mundt (2011). The second objective is to extend the results of Mundt (2011) by understanding whether a number of factors affect variation in the level of cross category sharing achieved. This thesis will examine purchases made by approximately 60,000 US households across a 52-week period, utilising Nielsen Kilts panel data. This thesis examines 30 different category pairings, where at least one brand name is available in both categories, to understand whether brand extensions share customers at a higher rate than expected.

The first key finding of this research is the finding that brand extensions do experience higher levels of cross-category sharing than unextended brands. Purchasing a brand in one category makes consumers, on average, 2.4 times as likely to purchase the same brand in a second category than consumers who purchased a different brand in the first category. This finding suggests buyers of a brand are more likely to purchase an extension than non-buyers of the brand, and displays an effect of the brand name. While the average level of customer sharing across extensions is 2.4, this score varies across category pairings, from a maximum sharing of 8.8 times higher than the average for any other brand, to as low as 0.8 times, i.e. slightly lower than what is expected for any other brand in the market.

There are two further key contributions of this research. Brand extensions experience higher levels of cross-category sharing when they are in complementary categories. Extensions in categories complementary to the original product achieve 3 times more sharing than what is expected, compared to 2 times more sharing for extensions in substitutable categories. This finding suggests the level of complementarity between two products is an influence in the level of cross-category sharing they achieve. Further, the level of similarity between brand extensions does not explain difference in the level of cross-category sharing as much as extensions in complementary categories. Category pairings with high levels of similarity experience the same level of cross category sharing as pairings with moderate levels of similarity. This suggests the level of similarity between product categories is not a driving influence of cross-category sharing.

This thesis provides a methodological contribution by utilising Brand Name Multiple (BNM) analysis. This was first introduced by Mundt (2011), however this this demonstrates this analysis can be conducted across multiple data set. This analysis is useful as it allows researchers to understand the level of cross-category sharing an extension achieves, and whether this is higher or lower than expected based on brand size. Lastly, this thesis provides important contributions for practitioners to understand the expected level of cross-category sharing extensions achieve, as well as what factors influence this level of sharing. This understanding can help practitioners make more informed marketing decisions, and the introduction of a brand extension can increase the likelihood of a product being successful upon launch versus a new brand name.