

TAN BEE YING

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FAST MOVING CONSUMER GOODS BRAND EXTENSION
IMPACT ON CUSTOMER PERCEPTION

TAN BEE YING

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

SUPERVISOR'S APPROVAL

‘I hereby declared that I had read through this thesis and in my opinion this thesis is adequate in terms of scope and quality which fulfill the requirements for the award of Bachelor Degree of Technopreneurship’

Signature :

Name of Supervisor : IR. BUDIONO HARDJONO

Date :

Signature :

Name of Panel : DR. CHEW BOON CHEONG

Date :

FAST MOVING CONSUMER GOODS BRAND EXTENSION IMPACT ON
CUSTOMER PERCEPTION IN MELAKA

TAN BEE YING

This thesis is submitted in partial fulfillment of the requirements for the award of
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DECLARATION OF ORIGINAL WORK

I declare that the work I am submitting for assessment contains no section copied in whole or in part from any other source unless explicitly identified in quotation marks and with detailed, complete and accurate referencing.

Signature :

Name : TAN BEE YING

Date :

DEDICATION

Special thanks to my beloved family members

Friends

Thank you to my supervisor and panel

IR Budiono Hardjono

Dr. Chew Boon Cheong

For all the spirituals and moral support that had been given to me all the time.

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ABSTRACT

The cost of launching a totally new product or brand is usually very high accompanied by risk of failure of new brands in an overcrowded market. Therefore, brand extension strategy is used due to its built in advantages. This research examined in depth, the influence that the factors of brand extension bring to customer perception in fast moving consumer goods (FMCG) sector. There were four variables like brand fit, perceived quality, brand familiarity and customer innovativeness, have been used to establish the relationship with the dependent variable (Customer Perception). Questionnaire was developed and distributed to 200 respondents from hypermarket FMCG products' consumers in Melaka city. In this study, the customer views, perception and acceptability of brand extension in FMCG sector was examined. The hypotheses developed for this study were tested statistically with the help of Statistic Package for Social Science (SPSS) version 22.

Keywords: Brand extension, Customer perception, FMCG

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CHAPTER 1

INTRODUCTION

1.1 Background

People nowadays are surrounded by all kinds of brands and brand extensions are introduced by companies to expand their brand. However, some of the customer only concern on the brand they consume and do not notice the others. A greater starting point for a brand to success can be said depends on the customers' awareness and consciousness on the brand. Due to the intense competition in the market, almost every industry shows the fact that a rise of number of products become similar to the competitors' ones (Blomquist and Holm, 2004). Therefore with the perceive of customers on the brand, companies can then take brand extension as one of their marketing strategy to differentiate their products from the others and at the same time try to acquire more market shares.

A brand extension occurs when a firm extends an existing brand name to launch another product in a different category (Keller, 2013). Using Ansoff's Growth Matrix as a useful perspective to understand brand extension, the growth strategies can be categorized according to whether they rely on existing or new products and market. Aaker and Keller's (1990) model of consumer brand extension attitude formation has triggered additional brand extension research in various countries. This exploratory research provided valuable insight into which extension constructs influence the attitude of consumers towards the extended brand.

As mentioned above, there are replication of Aaker and Keller (1990) study have done by researchers in different sectors since 1990s using the similar variables in order to test whether the model of brand extension applies to different setting as well (Arslan and Altuna, 2010). For example, Sunde and Brodie (1993) in New Zealand, Nijssen and Hartman (1994) in Holland, Bottomley and Doyle (1996) in United Kingdom, replicated Aaker and Keller (1990) study. Riel et al (2001) repeated and extended Aaker & Keller (1990) model in the services context.

Besides, some researchers have study on the effect when introducing brand extension such as Keller and Aaker (1992) and Bosinakis and Johansson (2009). The study of consumer evaluation towards functional brand extension using functional features has also been done by numerous researchers which the results are different in differing variables that influencing on the extension evaluation. There were still a lot of researches related to brand extension in different aspect which bring contribution to both industry and academic are conducted.

Brand extension strategy was extremely important decision for a company. This is because the incorrect decision on the extension could bring a brand dilution which may be costly to alter the affected image of the brand (Soomro et al. 2013). In order to be familiar with the factors that most affected the success ability of brand extension, marketers should know the phenomena regarding which factors that consumers consider when choosing the product and how the factors affect the consideration that lead to positive and favourable perception towards the extension.

In this context, this study is positioned more specifically in fast moving consumer goods (FMCG) sector. FMCG constitute a large part of consumers' budget in all countries (Çelen et al., 2005) and Malaysia is no exception. FMCG sector is defined as relatively inexpensive, frequently purchased and rapidly consumed items on which customers exert only minimal purchasing effort (Leahy, 2011). According to Leahy (2011), the customers' perspective relationship are not exist in FMCG markets and that the nature of exchange in such markets is not relationship based. This research conducted to determine the influence of brand extension on customer perception and will indirectly finds out whether the variables can affect the customer perceive in FMCG sector.

1.2 Problem Statement

New product launch is always good for business growth. However, the rates of new product fail have increased tremendously over the last few decades. Therefore, companies always launch new product using brand extension strategy. This is because, with brand extension, customers will easily accept a new product, the promotion cost is lower and there are comparatively less chances to face failures if compared with launching a totally new product. According to Taylor (2006), most companies use brand extension strategy because of its lower cost and it is a less risky way of launching innovation than creating a new brand.

In fast moving consumer goods (FMCG) segment, the companies are also applying brand extension strategy because of the in-built advantages. The study that done by Nielsen, a market research firm in United State, shows that there is five times more successful to extend existing FMCG brands than launching a new brand in India (Beura, 2016). In Malaysia, the consumer purchasing power in FMCG sector gained the traction in the first quarter of 2016 and most of the categories, include household, registered a healthier growth. From this it can be seen that there stands a far better opportunity of growing in Malaysia's FMCG sector. However, the influences of brand extension on consumer consciousness studied in the FMCG industry has not been tested in Malaysia especially in Melaka's context.

With the rapid development of FMCG sector, more and more FMCG brands have appeared in the market. When a brand introduced a new product with potential to attract consumers' favour, its competitors will create a similar or better product to compete and maybe share the market. Hence, there will be a lot of similar products or products with similar function appear in the market within the alike period. Although consumers will have more choices on those products but at the same time confusion happened as they were exposed into similar products with vary brands.

In this case, if a company launch a new brand or extended brand without careful consideration, it will mostly resulting in a failure for the corresponding brand. Therefore, the factors that will influence the customer perception are necessary to be aware by the company to ensure the successfulness of the brand. The company need

to know the most influential element that will alter the customers' evaluation to increase the opportunity to achieve the success. Those adverse factors have to reduce in order to prevent a waste of time and resources.

A lot of researches and studies about success factors of brand extension are done, for example, Nijssen (1999) and Afzal (2013). Moreover, much recent research has been conducted concerning factors that consumers use for evaluating the brand extension strategy or the factors that directly or indirectly influence whether the brand extension that carried out is success or fail. Though, there is still a lack when focusing on how to introduce brand extension using established brand in order to get good perception in FMCG industry. Due to lack of research in these aspects and much advantage for companies make this area more important for further study.

1.3 Research Question

- What is the influence of demographic profile of consumers on brand extension elements?
- What is the relationship between brand extension and perception of customer towards brand?
- What element of brand extension affects the most towards customer perception?

1.4 Research Objective

- To determine the effect of demographic profile of consumers on the elements of brand extension.
- To examine the relationship of brand extension elements towards customer perception.
- To identify the most effecting element of brand extension on customer perception.

1.5 Research Hypothesis

H1: The brand fit between parent brand and extended brand has a positive impact on customer perception.

H2: The perceived quality of brand brings positive impact on customer perception.

H3: The familiarity of brand of customer will bring positive impact on customer perception.

H4: The customer innovativeness towards brand has a positive impact on customer perception.

1.6 Scope of the study

The study is concern on the effect of brand stretch bring to the customers perception towards the brand in FMCG segment in Melaka. Furthermore, the study also discusses the factors that consumers use to evaluate whether the extension is acceptable or not.

The study was conducted in Melaka city with involvement of a sample of 200 respondents from the hypermarket FMCG products' consumers. The respondents are given questionnaires with questions come out from the main purpose of the study.

1.7 Research Limitation

There are a few limitations when doing this study. Firstly, the respondents are inadequate of knowledge on the research topic. Secondly, the respondents may slight over when answer the questions. They probably not answer the question earnestly. Besides, low quality of data will be collected if the researcher assumed that respondents have the interest on answering brand extension related questionnaire. These may affect the final result of the data analysis which obtained data from the questionnaires that distributed to the respondents. Moreover, the respondents are

only focusing on selected hypermarket consumers in Melaka city. The range can expand to the other states throughout Malaysia to find out the overall respond of the consumers towards the brand extension in FMCG industry and their perception on the extension. In addition, more accurate results may be obtained via longitudinal research.

1.8 Research Significance

In this study, an in-depth knowledge of brand extension in affecting customer perception towards FMCG products will be presented. The result of this study will provides an overview and a comprehensive knowledge of brand extension in order to let entrepreneur realized the importance of elements of brand extension in attracting the customers to purchase the extended products. Entrepreneurs able to get more detail information about the influence of brand extension and customer needs and expectation to make sure customer have a positive attributes on customer perception outcomes towards the extended brand. The limited research and publications of the brand extension within FMCG sector has given researchers the opportunity to contribute more to the development of theory in the brand extension field.

1.9 Summary

In this chapter, a brief introduction about the research focuses on the impact bring by brand extension towards the perception of customer was carried out. The background of the study and the problem of statement were discussed at the front section of this chapter. Based on the problem statement, the research objective and research question were suggested. The hypotheses and research gap of this study were then presented. Besides, this chapter also described the scope, limitation and significance of study. In Chapter 2 will continue the study by reviewing the literature for each variable in this research in order to give a clear explanation for the concept of this research and proposed a theoretical framework.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The intention of this study is to have a better knowledge and understanding of the brand extension in association with perception of customer on the brand. Hence, this chapter will provide literature reviews related to brand extension and its elements on customer perception. This chapter consisted reviews of brand extension, factors of brand extension that will affect customer perception which are brand fit, perceived quality, brand familiarity and innovativeness, and customer perception. This chapter reviewed the concept theories of previous studies that are relevant to this study in order to provide a direction and support to this study. There are many books, journals, and existing researches will be utilized as reference. Moreover, the research theoretical framework will also be developed after reviewing the past literature in order to ensure the relationship between all the variables is logical.

2.2 Previous Research

There are researches which have been conducted about brand extension and customer perception. On inspection of brand extension literature, it can be seen that one of the pioneering and most-cited studies is that of Aaker and Keller conducted in 1990. They make two researches that are designed to evaluate the perception of

customer on a brand. They study the factors that affect the customer evaluation on a brand. The result of the first study state that customer associations with any specific brand can either harm or improve the customer evaluation on the extension. The well recognized and well positioned the parent brand, the higher the acceptability of the brand extension by the customer. The attitude towards the extension was higher when there was perception of 'fit' between extended and parent brand. In second study, they examined the effectiveness of different positioning strategies of extension. The result shows that there are potentially negative associations can be neutralized more effectively by elaborating on the attributes of the brand extension than by reminding customers of positive associations with the original brand.

Sunde and Brodie (1993) also conducted a study that provide basis for customer brand evaluation by adopted the same methodology and hypothesis tested by Aaker and Keller in 1990. The relationship between the difficulties of extends a brand and the attitude towards the extension was not significant according to their result. However, if the perceived quality of parent brand is high, the customer will accept the extension easier. The Aaker and Keller conclusion of the fit between the product class of parent brand and the product class of extension brand has a positive association with the attitudes towards the extension are also supported by Sunde and Brodie result.

Another study that conducted by Bottomley and Doyle (1996) is replication of Aaker and Keller study. They found that the two factors that make customer association with brand extension are perceived quality and perceived fit of the parent brand. The result of their study did not support the previous result which state that it is easy to extend a brand is viewed as more favourable by the customer.

Kim et al. (2001) conducted a study about the evaluation of customer on vertical brand extension. They made two experiments to measure customer evaluations on both core brands and vertical brand extensions. They had included the effects of direction of brand extension (step up and step down) and distancing techniques (close, medium, far). The result of study shows that either step up or step down extension has a negative impact on customer evaluation on the core brand.

However, by increasing the perceived distance between the core brand and the extended brand the negative impact on the core brand is reduced.

The research that carried out by Arslan and Altuna (2010) in Turkey showed the results which quality and fit of brand extension have the greatest impact on product brand image after a brand is stretched. The other two factors, attitude and familiarity, have less impact on brand image. The purpose of this research is to investigate the effects of brand extension on product brand image. It has the same purpose as the research conducted by Martinez et al (2008) in UK and Spanish market. The distinction between these two studies is that Martinez et al have examined the effects of brand extension on both general brand image and product brand image while Arslan and Altuna investigated only the general brand image.

Moreover, Saha (2014) carried out a study examines in depth, the perception and behaviour of the consumers of Kolkata towards brand extensions in the FMCG segment. The study also determines the factors that influence the acceptability of customer on brand extensions in the FMCG segment. The researcher examines the factors, include perceived similarity and fit between parent brand and its extended brand, reputation of the parent brand and its impact on extended brand, the nature of consumers of Kolkata - whether they avoid perceived risk involved in the new brands or not, in the study. The results show that consumer in Kolkata are low risk takers. The image similarity and category fit between the parent brand and extended brand which help the consumer to associate with the new products gives a positive impact on the consumers' mind as well as the reputation of the parent brand.

There was a research conducted with the aim to find out how customer evaluate brand extension by Soomro et al (2013). Four variables, which consist of innovativeness, multiple brand extensions, brand concept and consistency and brand extension fit, are used to establish the relationship with customer evaluation of brand extension (dependent variable). There were four FMCG brand extensions finalized to be studied in this research. Both consumer level of innovativeness and the brand extensions that have a strong reputation for introducing multiple brands show positive impact on the customer evaluation of brand extension.

Another similar research was carried out in Odisha's context. Beura (2016) conducted the research which focused at finding out the influence of various factors like perceived risk, similarity, reputation, consumer innovativeness, perceived quality and brand concept consistency in case of FMCG segment on consumer buying behaviour. The findings showed that the buying behaviour is positively influence by all the factors listed except reputation and perceived quality.

According to Keller (2016), there are many factors affect whether a brand extension is successful and how customers evaluate brand extension. Based on the previous researches conducted by different researchers in various contexts, there are four variables chosen to study their impact towards the perception of customer. The variables are (1) brand fit, (2) perceived quality, (3) brand familiarity, (4) customer innovativeness. The following section will discuss about the brand extension, the chosen factors and the customer perception.

2.3 Brand Extension

A brand is defining as a “name, term, sign, symbol, or design, or a combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors” by the American Marketing Association (AMA). A marketer has created a brand whenever he or she creates a new name, logo, or symbol for a new product (Keller, 2013).

Companies always use different methods to extend their business to various market and different segments. Regarding different market strategies, brand extension is one of the most popular methods in order to grow and expand their business. This is because brand extension can easily enter a new market due to its existing good image and equity of brand. According to Aaker and Keller (1990), the leverage of a strong brand name can substantially reduce the risk of launching a product into a new market because of its familiarity and knowledge of an existing brand are provided to consumers. A good image and status of the parents brand in the market enable the extension to start a good growth in the respective market.