

## **Exploring Brand Extensions in the Context of Franchising**

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## **Exploring brand extensions in the context of franchising**

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### **Abstract**

Although the brand concept is at the very core of franchising success, as it is the aspect of the business which allows for the franchisor's reputation and goodwill to be transferred, there has been minimal literary discussion on the importance and use of the brand leverage as a growth mechanism. More specifically, there has been no direct primary research involving franchise brand extensions and consumers' perceptions of these. This study, therefore, explores and compares consumer perceptions of brand extensions within the non-franchise sector and the franchise sector. Fifteen semi-structured interviews were conducted and analysed and the results reveal three unique findings that are categorised under (1) quality perceptions transfer; (2) difficult extensions, and (3) brand extension attitude override. In doing so, the foundation for further research in this important area is laid.

### **Introduction**

The growth in franchising services in Australia has been significant and franchise service organisations increasingly play a dominant role in the sector (Frazer, Weaven & Wright, 2006). However, the importance and success experienced by the Australian franchising sector is significantly linked to branding issues as all forms of franchising involve establishing, building and leveraging brands (Beshel, 2001; Tauber, 1981; Oxenfeldt & Kelly, 1968). Franchisors invest in building strong brands as they aid in the recruitment of franchisees and maintaining and growing existing market share (Hoffman and Preble, 2004). As franchise brand equity is inextricably linked to brand building and brand extension practices (Hoffman & Preble, 2004; Tauber, 1981) a better understanding of the effectiveness of franchise systems' brand building approaches, through the eyes of consumers, is warranted. This research is one of the first consumer studies undertaken in the context of franchising and, as such, makes a significant contribution to our body of knowledge in this important area of research.

### **Literature Review**

Franchising is a means of doing business in which the owner of a business providing a product or service (a *franchisor*) assigns to independent people (the *franchisees*) the right to market and distribute goods or services, and to use the business name for a fixed period of time. (Franchise Council of Australia, 2007; Pfister, Deffains, Doriat-Duban & Saussier 2006). In particular, franchising represents a continuing relationship in which the franchisor provides the licensed privilege to franchisees to conduct business operations, along with assistance in organizing training, merchandising and management in return for a financial consideration from the franchisee. In essence, franchising utilises a similar premise to that of brand extension theory by providing a means for entrepreneurs to benefit through establishing, building and leveraging a brand name and an entire business system (Beshel, 2001; Oxenfeldt & Kelly, 1968).

In recent years, the strategy of introducing new products as brand extensions has become widespread both within Australia and globally (Dickinson & Heath, 2006; Grime,

Diamantopoulos & Smith, 2002; Aaker & Keller, 1990). The balancing act between financial cost and incremental brand building is increasingly being managed by organisations capitalising upon their brand equity (Dickinson & Heath, 2006). Relevant examples can be seen in the burgeoning business portfolio of the Jim's Group franchise, now inclusive of mowing, roofing, pool care, security doors and many more, and Clark Rubber's move into the pool retail and maintenance sector. These organisations are effectively leveraging the consumer awareness, brand equity and impressions of their business operations conveyed by their brand name.

### **Brand extension framework**

The risks, benefits, successes and failures of brand extensions are inextricably linked to consumer behaviour and consumer brand verdicts of the parent brand and the extension. Brand extensions in the business sector have been shown to be primarily perceived and judged by consumers on the basis of three important areas; 1) the attitude and overall brand held toward the parent brand, 2) the fit between the original and extension product classes and 3) the perceived difficulty for organisations to make the extension (Dickinson & Heath, 2006; Broniarczyk & Alba, 1994; Boush & Loken, 1991; Aaker & Keller, 1990; Tauber, 1981). These three areas provide a basis of a consumers' acceptance or rejection of the extension and hence, recognition of these aspects of brand extensions can potentially influence the success or failure of a brand extension.

Although each extension variable (discussed above) is important in generating positive perceptions among consumers, it is not essential that all generate a positive relationship. In particular, in many cases extensions can be successful even though one or more variables are not positive. An example is provided by ski hardware manufacturer Rossignol which now also manufactures ski clothing. Although there are favourable brand associations within the skiing community and the fit of the extension is significant, difficulties have been identified in relation to the vastly different manufacturing environment between ski hardware and apparel. Success, however, relied on the first two variables; the favourable brand associations present and a significant fit between the original brand and the extension. Nevertheless, what has been demonstrated is that the most successful brand extensions are predominantly those that are perceived by consumers to fit with the original branded offer and, where a high perception of the original brand exists and where the extension is regarded as not too easy, nor too difficult to make (Dickinson & Heath, 2005; Broniarczyk & Alba, 1994; Boush & Loken, 1991; Aaker & Keller, 1990; Tauber, 1981).

### **Franchise building and brand extensions**

Although the brand concept is at the very core of franchising success (Hoffman & Preble, 2004; Tauber, 1981) as it is the aspect of the business which allows for the franchisor's reputation and good will to be transferred, there has been minimal literary discussion on the importance and use of the brand leverage as a growth mechanism. More specifically, there has been minimal direct primary research upon franchise brand extensions and consumers' perceptions of these. The strategy of introducing new products, services and concept extensions however, is becoming more widespread within the franchise sector (Hoffman & Preble, 2004; Tauber, 1981). Hoffman and Preble (2004) outlined the best global opportunities for franchise owners, of which 50 percent involved the offering a low-cost product or service. The significant cost efficiencies created by brand extension strategies (Tauber, 1981) allow for the offering of a lower cost product or service when compared to

alternate new product development methods. Examples such as the Poolwerx extension into retail shopfronts, McDonald's foray into coffee shops with McCafe, Boost Juice and its Boost Health Bar extension (O'Neill, 2004) attest to the fact that Australian, and global, franchises are increasingly leveraging their brand equity to enter new product markets.

There are significant differences between the franchise and non-franchise sectors of the Australian economy. However, the strategy of introducing new products, services and concept extensions continues to grow equally within the franchise sector and the non-franchise sector. Though, there has been minimal direct primary research upon franchise brand extensions and consumers' perceptions of these. Significant attention must be given to, not only the importance of franchise branding, but also the process and success of brand extensions within franchise organisations from a consumers' perspective. Therefore, on the basis of the prior discussion and identified gaps in the literature, the following broad research questions are proposed;

***RQ1:** To what extent are there differences between consumer perceptions of brand extensions within the non-franchise sector and the franchise sector.*

## **Method**

Data were collected via 15 semi-structured interviews with current and potential consumers of franchise brand extensions, encouraging a 'series of successive approximations' (Dick, 1990, p.3). The interview sessions were conducted via the telephone to reduce the expense of travel and limit any sampling bias. Participants were asked semi-structured, qualitative, open-ended questions on their service interaction with a franchise brand extension. All interviews were audio-taped, with the respondents' consent, to ensure accuracy in transcription and data analysis. Following each interview the researcher listened to the recording and documented a verbatim transcription of everything that was said, including word-for-word quotations of the participants' responses as well as the interviewer's descriptions of the participants' characteristics, enthusiasm and overall tone and mood during the interview. The researcher and supervisor analysed each transcription prior to subsequent interviews. This method facilitated the capture of salient themes that were measured with each subsequent interviewee – either converging or diverging with the original themes (Dick, 1990). Therefore, the questions which were asked in successive interviews narrowed in focus as different themes and perceptual frameworks were seen to emerge.

Emerging themes and common issues were identified and coded through a three phase qualitative coding technique (Neuman, 2003). Coding is a process of creating categories and assigning them to selected data (Darlington & Scott, 2002). As coding is an integral part of the analysis and the chosen themes influence subsequent parts of the research (Neuman, 2003; Darlington & Scott, 2002) the themes uncovered by the researcher were triangulated with the themes identified the research supervisor. This cross-checking increased the validity of the research and helps to eliminate researcher bias (Dick, 1990). Interviews were conducted until all patterns of convergence were felt to be satisfied and any major diversions were explained.

## **Results & Discussion**

The attitudes and perceptions of the parent brand, the fit between the original and extension product classes and the perceived difficulty for organisations to make the extension are all

important brand extension variables that have received considerable attention within the context of non-franchise brands over the past three decades. Using these variables as a basis for discussion, interviewees were asked a series of questions relating to non-franchise and franchise brand extensions, so as to gauge their opinions on the differences they saw (if any) between the products based within the non-franchise sector and the service-based franchise sector. This resulted in the identification of three distinct themes that are unique to the franchise sector and which contrast findings within the existing literature. These are categorised under the areas of (1) quality perceptions transfer; (2) difficult extensions, and (3) brand extension attitude override.

### **Quality perceptions transfer**

An emerging theme arose when interviewees recalled positive perceptions and reactions to franchise brand extensions, when they held previous negative perceptions and reactions to the original franchise brand. Much of the extant literature proposed that the relationship between an original brands perceived quality and the attitude toward the extension should be unambiguously positive (Broniarczyk & Alba, 1994; Keller, 1993; Aaker & Keller, 1990). That is, if the brand is associated with high quality, the extension should benefit, or conversely, if associated with inferior quality, the extension would most likely be negatively affected. However, this was not confirmed in the research findings. This is evidenced by the following interviewee comment.

*“I would have pigeon-holed them (the original franchise brand) as a cheap, unhealthy junk food source... I was very impressed (with the franchise brand extension). It was almost as if I was in a different fast food chain.”*

It is evident that, although many consumers of franchise brand extensions perceive and react to the extension in similar ways to the original franchise brand, this is not always the case. The findings show that consumers are not inhibited from evaluating the brand extension more favourably than the original franchise brand. This represents an important finding given that it contrasts previous findings within the branding literature.

### **Difficult extensions**

Favourable perceptions of franchise brand extensions when extended into vastly different areas of business, perceived as difficult to make by the consumer, arose, when compared to similar extension practices in the non-franchise sector. A not uncommon, yet organisationally challenging brand extension strategy in the non-franchise sector, was found to be evaluated negatively in contrast to similarly difficult franchise brand extensions which were evaluated quite favourably. As mentioned previously, although many interviewees perceived the franchise brand extensions as difficult to make, they had favourable reactions to them. The results would suggest that consumers' had more faith in difficult franchise brand extensions that they do with non-franchise brand extensions. For example, the following two interviewee comments demonstrate these opposing views.

*“I have negative views toward this (non-franchise brand) extension, as I know them as car makers and wouldn't trust their ability to make a television.”*

*“I don't think it would have been easy at all (to make the franchise brand extension)...I had heaps of fun...I enjoyed it”*

## **Brand extension attitude override**

The third and most unique of the emerging trends uncovered within this research is the ability of the franchise brand extension to dramatically change consumer perceptions of the original franchise brand. For example, interviewees commented:

*“I often think that the strength of brand extensions is definitely linked to the strength of the original product and brand.... But in the Jim’s antennas case, it kind of works backwards, I had a good experience with the extension, and then I thought, yeah, Jim’s mowing is ok...My feelings (toward the original franchise brand) were more favourable for sure (after the service interaction with the franchise brand extension)”*

*“The interaction made my thoughts more favourable to the extension and to the original brand... I was surprised and more confident in their ability as a brand and definitely would frequent the extension again...It gave me somewhat more faith in the original brand as I knew they were providing something different from their normal service which I had been disappointed by previously.”*

The extant brand extension literature centred on the non-franchise sector overwhelming demonstrates that a negative perception of the original brand would result in a similar negative perception of the brand extension. This research provides some evidence that franchise brand extensions are more likely to transform existing negative perceptions of franchising brands to positive perceptions, rather than reinforce negative pre-conceptions. This is an important finding, particularly for franchised businesses who are looking to re-invent or re-position themselves.

## **Implications**

In summary, it was a common theme in the interviews that franchise brand extensions had a significant favourable effect upon parent franchise brands in terms of the attitudes and perceptions of consumers. In many cases, when the original franchise brand was perceived negatively a positive service interaction with the related franchise brand extension resulted in not only favourable perceptions of the franchise brand extension, but significantly improved, favourable perceptions of the original franchise brand. This should provide managers and franchising practitioners with an opportunity to alter original brand perceptions through the careful employment and management of brand extensions. While franchise brand extensions should not be considered as a definite method to positively affect the original franchise brand, this knowledge may be employed by managers to foster the creation of favourable brand associations and communicate positive linkages to the original franchise brand, resulting in a circular and positive brand development cycle.

This research has both extended our current knowledge within the brand extension literature, and provided unique insight into new and emerging themes within brand extensions in franchising. The theoretical contributions offered in this research will assist in providing a preliminary understanding of the factors that influence consumer perceptions and reactions to franchise brand extensions. This inductive research will assist in providing the basis for any future research in this area.

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