

Why do Some Apples Fall Far from the Tree? The Study on Indofood's Brand Extension

Dini Turipanam Alamanda
 Faculty of Economics
 Garut University
 Garut, Indonesia
 Alamanda.dini.2017@gmail.com

Abdullah Ramdhani, Pupung Pundenswari
 Faculty of Social and Political Sciences
 Garut University
 Garut, Indonesia

Grisna Anggadwita
 School of Economics and Business
 Telkom University
 Bandung, Indonesia

Abstract—Brand extension strategy emerged as an alternative strategy that must be understood along with the increasing number of companies that use it as the main strategy in marketing new products. This research is intended to explore the factors influencing the success of brand extension, where the success of brand extension strategy is measured from consumer attitudes toward the expanded brand. The study was conducted in Indofood's fast moving consumer goods. The result shows that the model built has score of RMSEA 0.019 and GFI 0.906 as the criteria of conformity. The overall test shows that the perceived quality, advertising, similarity, and corporate image significantly affects the success of the brand extension strategy. While testing individually, only corporate image variable that do not significantly affect the success of brand extension.

Keywords—brand extension; perceived quality; similarity; corporate image

I. INTRODUCTION

Product development requires the company to determine what benefits will be provided by the products. It is additionally called new product management, a progression of steps that incorporates the conceptualization, design, improvement and promoting of recently made or recently rebranded goods. The goal of product development is to develop, maintain and increment a company's market share by satisfying a consumer request [1].

A product can be classified as tangible or intangible. An intangible product is a product that must be seen perceived indirectly. Among the intangible aspects, brand is the most important aspect for the company. Most marketing strategies tend to focus on the brand name (including all the elements it adds, such as type, logo or tagline) as compared to the product being sold [1].

Davis states that a strong company in the world can be successful because of its brand strength [2]. They and other organizations tend to manage brands as key business assets and

make the brand a very important foundation for the company's long-term strategy. As one of the important assets, according to Keller cited by Sattler et al., mentioned that the typical association, the ability to attract new customers, customer loyalty, ease of entering new markets and the barriers to entry of new competitors is the belief of the brand value [3].

The launch of new products using established brand names is known as brand extension. This brand extension is part of an increasingly popular brand strategy. The reason for many companies using this alternative strategy because it requires a cheaper cost of launching new products than the costs required to introduce a new brand [4]. The lower cost of brand launch using brand extension strategy comes from promotional costs when introducing the new product [4,5].

The explanation of Keller [6] about the benefits of brand visibility is similar to Viot who believe that it will provide a source of energy for a brand and defensive strategy [7]. Furthermore, Keller said that brand extension is able to prevent competitors to exploit the market owned by the company [6]. Although it has many benefits, brand extension also has risks [8].

Viot emphasizes that the existence of brand extension can benefit the company even very large, but can also be a threat because the brand image of the parent brand is diluted [7]. However, it could be a new brand that appears to make existing brands in the market become eroded [6] or other possibilities, the new brand is rejected retailers because it can damage the brand image of the main brand [4].

PT Indofood has been a leading company in food manufacturing for over 20 years [9]. Indofood received several awards such as Top 3 Most Powerful Consumer F&B Brand in Indonesia in 2016, Best Managed Companies (ranked 6th) in 2016, in the same year, Indofood receive award as Top 50 Companies, Indonesia Best Brand Award 2016 for Indomie and Pop Mie, etc. The list of success and failed brand extension of Indofood brands are shown at table 1.

TABLE I. SUCCESS AND FAILED BRAND EXTENSION OF INDOFOOD BRANDS

No	Brands of Indofood	Category	Ranking	Top Brand Index	Success/ failed
1	Bumbu Racik Indofood	Food Seasonings	Top of Brand	45.5%	Success
2	Indomie	Noodles	Top of Brand	78.7%	Success
3	Pop Mie	Noodles	Top of Brand	46.5%	Success
4	Chitato	Snack foods	Top of Brand	55.0%	Success
5	Tepung Ayam Indofood	Flour	Not in rank	5.4%	Failed
6	Indofood	Food Seasonings	Not in rank	2.4%	Failed

The success of brand extension is greatly determined by how consumers figure out extension [3]. Over the last few decades there has been much research on extensions and their impact on core brands. In many categories of consumer products, the failure rate of brand extension is about 80% [3]. This suggests that although brand extensions are well known in general, but in practice does not guarantee success. Therefore, understanding the factors consumers use in evaluating brand extension strategies is crucial to consider. Based on information above, this research aims to see the effectiveness of consumer steps in evaluating the effect variables of the parent brand, such as perceived quality, advertising, corporate image, and similarity of product toward the success of brand extension.

II. METHOD

A. Model and Hypotheses

There are one main hypothesis and six hypotheses tested in this research. The main hypothesis in this paper is "Consumer evaluation factors have an influence on the success of brand extension." Further, sub hypothesis of each consumer evaluation factor on the success of brand extension depicted by attitudes to brand extension are as follows.

1) *Image is reality, therefore image development and improvement program must be based on reality:* If the image is negative, one of them may be due to a problem with regard to quality, both technical and functional [10,11]. The impression of quality can be defined as a customer's perception of the overall quality or superiority of a product or service regarding the intended purpose [6,12]. Further, Perceived quality affects corporate reputation [13] and brand image. Therefore, the hypothesis formulated in this research is:

H1: Perceived quality has an influence on the formation of corporate image

2) *When the consumer has a good experience with a company, then the consumer will have a positive image of the company:* Corporate image is also a concern of consumers in evaluating new products [10,14,15]. Thus the formulated hypothesis is:

H2: Corporate Image will affect the success of brand extension

3) *The quality of parent brand is a variable that has been widely considered in various studies on brand extension:* The underlying assumption is that quality impressions can be exploited by introducing brand extensions, by using a particular brand to enter the new product category [6]. A strong brand in terms of quality impression will be able to expand further, and will have greater likelihood of success than a weak brand.

H3: perceived quality has an influence on the success of brand extension

4) *In the development of a product, the company determines what benefits will be provided by the product:* These benefits are communicated and should be met by product attributes based on the product level [1]. The determination of product attributes varies greatly, depending on the level of product characteristics. In the context of brand extension, these attributes are very important factors to be communicated to consumers when the company does brand extension [16,12]. Advertising as marketing communication mix can help consumers identify common attributes between the initial brand and its extension [17].

Research conducted by Boush shows that can strengthen or weaken the brand extension, among others, is the advertising slogan [18]. The slogan can attract the attention of the brand extension as a new brand as well as the same brand. To understand the effect of advertisement in relation to brand extension, the crucial factors must be considered, so that the brand perception in accordance with its brand extension [16]. Klink and Smith reveal that in the context of brand extension, the frequency of exposure will lead to high levels of perceived fit [17]. Therefore, the hypothesis proposed in this study are:

H4: Advertising has an influence on the success of brand extension

H5: Advertising has an influence on the fit/ similarity between the parent brand and its extension.

5) *The result of research on brand extension emphasize the fit or similarity between two classes of products involved in the form of evaluation of brand extension [17,18]:* A key element in forecasting successful brand development is when the attribute is consistent with the parent brand based on customer's perspective. Various studies have found that the greater the perceptual fit between the initial brand and the expanding brand is, the greater the impact of initial brand toward its extension brand. Therefore, the level of fitness is very important to the development of the brand. One reason is because that the transfer of brand quality will be high if two classes of products are compatible [16].

H6: The similarity between the parent brand and its extension affect the successful of extension brand

Based on the theoretical study and hypothesis, the model of structural equation is illustrated on figure 1.

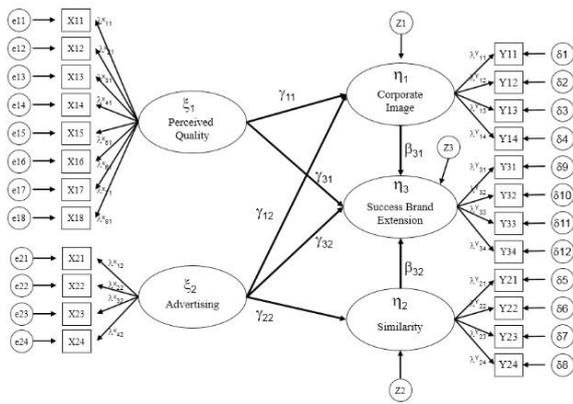


Fig. 1. Structural equation model of factors influencing the success of brand extension strategy.

B. Data

By adopting survey method, the questionnaires were distributing toward 201 respondents. The number of respondents was determined through iteration. And by using simple random sampling method the questionnaires spread through the target of population which is the respondents who shop in mini market and department store in Garut City area. The list of questions is listed on table 2. The type of questionnaire was closed questionnaire and Liked scale was chosen as measuring instrument.

TABLE II. VARIABLES OF RESEARCH

No.	Variable	Item	Symbol
1	Perceived Quality	Confidence in product quality	X11
		Confidence in product performance	X12
		Product Durability	X13
		Product Reliability	X14
		Consistent in product quality	X15
		Product packaging	X16
		Product Impression	X17
		Satisfaction toward overall product	X18
2	Advertising	Confidence toward ad slogan	X21
		Frequency of ad is served	X22
		Interest after seeing the ad	X23
		Assessment toward overall advertising information	X24
3	Corporate Image	Confidence in corporate quality	Y11
		Trust on the corporate success	Y12
		Corporate Social Responsibility	Y13
		Corporate competency	Y14
4	Similarity	Alignment between Parent brand with extension brand	Y21
		Consumer awareness level	Y22
		Trust on brand extension	Y23
		Trust in company resources	Y24
5	Attitude (success of brand extension)	Satisfaction in consuming	Y31
		Confidence in brand	Y32
		Assessment of the brand	Y33
		The consumer's tendency in taking action	Y34

III. RESULTS AND DISCUSSION

The result shows that the data is normally distributed. This is indicated by the critical value ratio between -2.58 to 2.58 ($-2.58 \leq CR \leq 2.58$). Likewise, multicollinearity testing is done by determining the covariance matrix. The determinant value is very small or close to zero, indicating the existence of multicollinearity problem, so it cannot be used for continuing research. The determinant value of sample covariance matrix is 3,864, the value is relatively far from zero so it can be said that there is no multicollinearity problem.

Outlier testing is shown at the Mahalanobis distance or Mahalanobis d-squared value. Mahalanobis value greater than Chi Square table or p value <0.001 is said to observe the outlier. In the research, there is no outlier observation data, where the value of p1 and p2 > 0.001. Stages of model testing on SEM analysis tools are used to see the reliability of the research thinking framework for further could be adopted or need to be modified. The result of model conformance testing is summarized in table 3 below:

TABLE III. GOODNESS OF FIT TEST

Criteria	Cut-Off Value	Model	Note
Chi-Square (CMIN)	Expected Small	263,976	Not Fit
Significance Probability	$\geq 0,05$	0,206	Fit
RMSEA	$\leq 0,08$	0,019	Fit
GFI	$\geq 0,90$	0,906	Fit
AGFI	$\geq 0,90$	0,886	Relative
CMIN/DF	$\leq 2,00$	1,073	Fit
CFI	$\geq 0,95$	0,787	Relative

Based on the table 3, the model is fit since the value of Root Mean Square Error of Approximation (RMSEA), Goodness of Fit Index (GFI), and the minimum sample discrepancy function (CMIN/DF) is greater than cut off score. The score pf Chi Square is great, but still in accepted value, considering Chi Square is greatly impacted by the size of samples, where the greater the sample size the greater the score of Chi Square produced.

To tighten the testing of goodness of fit test results, standardized residual matrix value was tested. If a residual value > 2.58 or a statistical z score at a significance level of 1%, it can be interpreting that the model needs to be modified. Test result shows that there is no standardized residual matrix > 2.58. Thus, the model is acceptable and no modifications are required.

The next step after testing the research model is to examine the causality relationship that has been developed in the research model. Test results can be interpreted each path coefficient. To answer which factors are the most dominant use in assessing brand extension by the consumer, individual testing is done. The table 4 summarizes the results of individual tests.

TABLE IV. THE RESULT OF CAUSALITY TEST BETWEEN VARIABLES

Variable	Coef	T _{calculation}	t _{table}	Note
Perceived Quality (PQ)→Corporate Image (CI)	0,838	21,692	1,972	Significant
Corporate Image (CI)→Success Brand Extension (SBE)	-0,047	-0,667	1,972	Not Significant
Perceived Quality (PQ)→Success Brand Extension (SBE)	0,182	2,593	1,972	Significant
Advertising (ADV)→Similarity (SM)	-0,059	-0,834	1,972	Not Significant
Advertising (ADV)→Success Brand Extension (SBE)	0,212	3,052	1,972	Significant
Similarity (SM)→Success Brand Extension (SBE)	0,207	2,977	1,972	Significant

Based on the table 4 above, it can be seen that Corporate Image does not give a significant effect on the success of brand extension strategy. The success of the brand extension strategy is more dominated by perceived quality toward parent brand, advertising and similarity. Although perceived quality has a great effect in shaping corporate image, however, corporate image is not a factor that consumers consider in expanding the brand of Indofood products. This may be due to the observed product characteristics that has low involvement product with consumer purchase decision. Thus, in terms of the purchasing decision process, consumers do not need to search for deeper information. Consumers tend to use their past experiences.

The effect of advertising toward similarity shows insignificant results. In this case, consumers perceive that advertising between each product does not reflect adaptability in terms of ad orientation, although each product is produced in the same company, Indofood. The influence model hierarchy shows that consumers tend to believe in advertising statements and imagine that the performance of a product will be the same as that advertised. Therefore, when consumers are often exposed to an advertisement, it will build not only high brand awareness and association, but also facilitate the expanded brand to be known by consumers.

The direct effect based on the greatest value rating on the success of the Brand Extension Strategy (SBE) is advertising with value of 0.212, similarity of 0.202, and perceived quality of 0.182. Based on calculation of the coefficient of structural equation, the simultaneous influence of these variables is 0.342. This means that simultaneously / total of direct and indirect influence of research variables (Perceived Quality, Advertising, Corporate Image, and Similarity) to the success of brand extension is 0.342.

The success of Indofood's brand extension strategy based on consumer perceptions and attitudes depends on the credibility and popularity of the brand itself, so marketers must strive to implement various programs/ strategies in order to maintain the core brand's credibility with its brand extension through advertising planning that further illustrates the similarity of characteristics beside the similarity of brand name/ logo in promotional activities.

Jaulent et al. argue that brand extension is a method created by companies where companies need to create a more modern brand and can be known by its customers [19]. Kotler and Amstrong illustrates that the best-selling product can add its market by using brand extension [20]. Research of Yoo provides information stating that brand loyalty, perceive quality and brand equity have a positive relationship to brand extension [21].

Related to research on fast moving consumer goods, the low contribution of corporate image variables directly to the success of brand extension requires adjustment of research variables related to brands, such as brand image. While the advertising variables that have a low indirect effect need to pay attention to the concept of advertising in delivering message/ slogan and time of ad serving. Considering that consumption products that have low involvement in the purchasing process of consumers, it should be done by using the same model for durable goods products to see the similarity and different research results obtained in consumption products.

IV. CONCLUSION

The success of brand extension strategies is influenced by perceived quality, advertising, corporate image, similarity, and success of brand extension strategy. In addition, the success of the brand extension strategy is measured by how the consumer's attitude toward the brand of extension. Individual test results show that corporate image does not significantly affect the success of brand extension strategies. Likewise, with advertising to similarity. Variables that significantly affect the success of brand extension strategies are perceived quality, advertising and similarity.

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