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IMAGE EFFECTS RESULTING FROM BRAND EXTENSIONS OF NICHE AUTOMOBILES

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Rationale and topicality of brand extensions and associated effects

The topicality of this study stems from the fact that the review of extant literature exhibits scarcity of research works in the field of downward brand extensions of niche luxury cars. While some studies examine potential differences between consumer evaluations of brand extensions (defined as functional and luxury), recent studies emphasize that the mere distinction between functional and luxury brands may be inadequate as the latter vary widely on the basis of perceived prestige and price. In view of this it is important to determine the influencing factors and trends predisposing downward extensions of luxury automobiles.

This study of class F automobiles on the consumer market for new cars in Bulgaria is build on factors related to the extension of the brand and the resulting forward and feedback effects. The focus of the research differs geographically and in terms of scope from previous investigations in the field. An important point in this paper is not only studying the nature of the impact, but also identifying and sizing the image effects stemming from brand extensions. From marketing point of view, such technological and image evolution represents both an attention-grabbing practical challenge and an interesting business transformation resulting from brand extensions and detailed market segmentation.

Subject matter and scope of the dissertation

Niche luxury automobiles in Bulgaria are purported to entail higher social status, exclusivity and positive self-image, which determines the researcher's interest for studying the extensions' influence on parent brands. In particular, *the scope* of this research covers customers of niche luxury automobiles (class F) on the consumer market for new cars in Bulgaria. *The subject matter* encompasses the image effects

(desirable, undesirable, and factual) from downward brand extensions of class F automobiles over the image of the parent brands in the research country. The desirable effects may include positive transfer of: exclusivity, social status, reputation, emotional bonds with the brand, perceived value, brand awareness, brand trust, and synergy between the parent brand and the extension (and vice versa). The undesirable effects may involve, but are not limited to: transfer of negative image from the extension to the parent brand (according to the abovementioned variables), loss of control over brand trust and synergy, and others. The factual effects are intended to reflect the practical results on the image of the parent brand as a result of the downward brand extension(s) of niche luxury automobiles of class F in Bulgaria.

Research thesis, aim and objectives of the dissertation

The thesis of this research is that the detailed segmentation of the consumer market for niche luxury automobiles (class F) is a significant reason for downward brand extensions targeting higher sales, but this phenomenon may cause undesirable brand dilution effects to the parent brand(s).

The aim of the dissertation is through scientifically-reasoned analysis, theoretical concepts and study of the strategic orientation of class F companies and the respective customer reactions to design and test a methodology for analysis and evaluation of the image effects of downward brand extensions of niche luxury automobiles and in this regard – to highlight some practical aspects (that can serve the needs of companies from various business areas) and to formulate conclusions and recommendations for minimizing the potential negative feedback effects. Particularly, the dissertation sets out the following *research objectives*: (1) to identify, analyze, classify, and summarize different conceptual frameworks of niche and extension strategies and the factors determining the possible brand dilution effect resulting from downward brand extensions; (2) to identify, describe, analyze, evaluate, reconcile and further adapt the relevant factors that determine the effects of downward brand extensions; (3) using the established conceptual and methodological basis to develop and test methodology for measuring the effects of downward brand extensions of niche luxury automobiles in Bulgaria.

Major theoretical findings in the dissertation

The following conclusions can be made after the theoretical examination of extant literature: (1) market niches are limited in scope; (2) niche marketing requires specialized skills that help achieving differentiation and added value; (3) niche markets can be protected through establishment of barriers to entry (product quality,

customer relationships, etc.); (4) brand extension is a strategy whereby the same name is applied to different products in order to increase the value of the brand and it is important to observe similarity and congruence with parent brands (Pina et. al., 2010). Despite the proven benefits of this strategy, companies must try to strike the balance between organizational reasons for extending the brand and the desires of customers who are advocates of the parent brand and the proponents of the downward extensions; (5) Brand extension can be motivated by the potential profitability in the new segment, while under nichemanship the emphasis is on individual clients rather than homogeneous groups of such. Brand extension strategy is normally applied to markets that are developing dynamically and attract multiple competitors. Conversely, niche companies target markets with little or no rivalry where customer needs are unmet.

Niche luxury automotive brands that have broad product portfolio can potentially engender low levels of customer disapproval, but not when it comes to those models which differ greatly from the companies' core products. Therefore, this study focuses on associations and characteristics of the parent class F niche luxury brands and juxtaposes them to those of downward extensions.

Summary and conclusions about the branch

The analysis of the characteristics and specificities of "Trade of lightweight and commercial vehicles up to 3.5 tons" branch in Bulgaria allows making the following inferences: 1) demand for new automobiles has been fluctuating over the past five years (the highest selling class being "C"). On the other hand, the demand for used cars is dominant despite the high average age of the fleet in the country. Experts are predicting a slow revival of the market in the future; (2) almost all world automotive brands are represented on the new cars market in Bulgaria. Due to the "downsizing" trends in demand, supply is concentrated on models from lower classes; (3) the analysis of micro-environment shows that the participating experts share the opinion that the branch is unattractive at the moment, which is caused by the high fixed costs, low customer switching costs and fast counter-reactions of main rivals in the country. Specialists also confirm and established tendency of imposing and adopting European positioning strategies in Bulgaria; (4) the analysis of the macro-environment reveals negative demographic trends, but demonstrates positive economic forecasts. The latter can contribute to the expectations of experts for growth in sales of new cars in Bulgaria; (5) Upon examination of the known world and European automobile classification schemes and placement of the classification adopted by the ACM in this context, it becomes obvious that the change in the model range of major producers is

taken into account with considerable time lag in the country. A partial reason for that may be the fact that a large number of unsold models still remain at the premises of dealerships that (in some cases) even went out of production; (6) The trends in the development of niche luxury automobiles reveal a blurring of the boundaries between classes and a general focus on downward extensions by premium brands.

Methodological framework of the study of the image of effects from brand extension

In order to distinguish the main structural contexts related to image effects of downward brand extension the conceptual model is divided into three fields: *(Field 1)* includes six general variables affecting customer attitudes (affective, behavioral and cognitive) and henceforth exerting influence on the parent brand image: (1) relationship with the self-image; (2) social needs; (3) need for uniqueness; (4) fashion trends; (5) conformism; (6) customer experience with automobiles. *(Field 2)* incorporates another six general variables related to image of the parent brand and the extension: (1) exclusivity; (2) status; (3) reputation; (4) affective bond; (5) customer value; (6) awareness. In this field the researcher also juxtaposes the abovementioned variables with the security and trust variables. *(Field 3)* examines the image effect of downward extensions of niche luxury (Kim et. al., 2010) brands and their possible projections on the image of the parent brand(s).

Target respondents have been reached in through: (1) pre-selection, using personal contacts in different regions of the country and (2) authorized dealerships of niche luxury automobiles in Bulgaria. The predominant array of respondents has been secured at the discretion of the dealers as the latter have demonstrated interest in the results of the study and have therefore actively participated in the distribution of questionnaires. A range of general and specific variables is applied for studying each included construct, underlying in the conceptual model. The researcher uses 5-point Likert scales across the questionnaire.

For sizing the effects of downward extension the researchers uses a combination of quantitative and qualitative methods. The results are entered and processed in the statistical software SPSS. They are also analyzed and critically examined in the context of the extant literature in the field. The reliability of the applied scales for the variables set out in the conceptual model is tested using the Cronbach's Alpha estimate. Dependences between variables are tested through the χ^2 analysis (Zhelev, 2000).

Research results and some practical aspects

The analysis and approbation of the designed methodology gives reason to conclude that downward extensions exert influence on the image of the parent brands in the studies class of automobiles. Alternatively, the researcher has found two-way influence between the main brand and the extension (and their respective general and specific variables). The existence of differences in the average estimations of some specific variables and the results of the regression and correlation analyses allow to make the inference that there is little evidence of feedback brand diluting effects (Milberg et. al., 1997; Pullig, et. al., 2006) from the extensions to the parent brands.

On the basis of the manifested relationships between the constructs in the conceptual model the researcher sums up that the effects from downward brand extensions should not only be analyzed and evaluated. They also need to be systematically managed especially given the aforementioned marketing and financial restrictions of the authorized dealerships in Bulgaria. Provided the dynamically developing market environment, this can create prerequisites for establishing balance in the relationships between suppliers and customers with regard to the unambiguous understanding of image of evolution of class F brands. The process of managing some of the effects can only be successful if it is perceived as an integral part of the activities of authorized dealers. In this respect, some of the basic principles that must be followed when deciding on whether to launch extensions or not in industries like the automotive, consumer electronics, IT, designer products, etc. are the following: (1) brand extensions are not reasonable in case the parent brand does not boast good awareness and reputation among the users on the new market; (2) brand extensions must be logical and consistent with customer expectations; (3) extensions should provide opportunities for transfer of distinguishing characteristics from the parent brand to the new product (category) so as a competitive advantage can be established; (4) marketers should avoid launching extensions that can cause confusion or affect negatively both their own image and the image of the parent brand; (5) extending into multiple categories carries the risk of brand dilution in the long run.

Conclusions

The dissertation can serve as a methodological framework for the study of downward brand extension projections over products from distinct classes / categories in different geographical regions. The inclusion of experts and real respondents helps avoiding the shortcomings of some previous studies. Classifying the practices and strategies of nichemanship and brand extensions as well as the designed and

approbated methodology for measuring the image effects of downward extension can be used both for marketers of premium brands and researchers who may conduct a replica-study for other automotive classes and/or industries like: consumer electronics, IT, designer products, etc.

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