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## **Understanding the Simultaneous Effects of Category Fit and Order of Entry on Consumer Perceptions of Brand Extensions**

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# Understanding the Simultaneous Effects of Category Fit and Order of Entry on Consumer Perceptions of Brand Extensions

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## EXTENDED ABSTRACT

In brand extension research, category fit of the brand extension with the parent brand has received significant attention, both independently and interdependently with other conditions of interest. What has yet to be studied in conjunction with category fit, however, is order of entry. Drawing on the depth of research concerning order of entry effects and pioneering advantage, the present study is designed to analyze the combined effects of brand extension order of entry and category fit with the parent brand on consumer response. In doing so, we attempt to explicate the conditions under which a pioneer is likely to maintain their pioneering advantage, and those conditions under which subsequent entrants are better positioned to gain favorable consumer evaluations and overcome the pioneer's first to market advantage. These findings will contribute not only to our understanding of consumer evaluations of brand extensions and the conditions surrounding the successful introduction of such extensions, but also to our understanding of the pioneering advantage and consumer preference formation.

It is typically believed that the first company to bring a product to market obtains an advantage in doing so. This so-called pioneering advantage is expected to be sustainable over time (Carpenter and Nakamoto 1989; Kardes et al. 1993; Robinson and Fornell 1985). However, subsequent research has called into question the very existence of a pioneering advantage (Golder and Tellis 1993), while additional research into the pioneering advantage has identified several boundary conditions for its existence (Bohmann, Golder, and Mitra 2002; Carpenter and Nakamoto 1989; Muthukrishnan 1995; Muthukrishnan and Kardes 2001; Shankar et al. 1998; Zhang and Markman 1998). Thus, the interesting question is no longer whether there is an inherent advantage to getting to market first, but rather when such an advantage is sustainable and when it can be overcome.

In the eyes of consumers, brands are much more likely to introduce successful brand extensions if the category in which the extension is being introduced bears some similarity to the category or categories in which the parent brand traditionally operates (Aaker and Keller 1990; Boush and Loken 1991; Broniarczyk and Alba 1994; Herr et al. 1996; Park et al. 1991). While it may be possible for marketing communication efforts on the part of a brand to influence the perceived fit between a brand and an extension category (Bridges et al. 2000), the concept of category fit plays a large role in consumer evaluations of brand extensions, both empirically and theoretically.

## Hypotheses

The above discussion has identified that there are conditions under which consumers ascribe an advantage to the brand that gets to market first, and there are other conditions where consumers may display a preference for brands that come to the party later. Similarly, there are conditions whereby consumers evaluate a brand extension favorably and other conditions where such favorable evaluations are much harder to come by. The above discussion has focused on the concept of category fit as one of these primary conditions. As such, the fit between the extension category and the

parent brand will be of focal interest in the present study, combined with a study of order of entry effects. The principle outcome for all of the following hypotheses is consumer evaluation of the brand extension.

In understanding how these two fit together, we expect to the theoretical concepts of assimilation and contrast to assist in explication. A high fit pioneer will be assimilated into the parent brand category, and though will maintain a general preference amongst consumers, will be vulnerable to competitive offerings. A lower fit pioneer will induce a contrast effect whereby they are credited with the establishment of a new category with their moderately incongruent extension. A high fit brand that enters the market as a follower will not be assimilated, but rather will be contrasted with the lower fit pioneer, opening the door for positive consumer evaluations.

From this, we propose the following four hypotheses:

- H1: High fit brands will receive improved evaluations and higher shares of purchase intentions as a follower rather than a pioneer (Assimilation/Contrast)
- H2: High fit brands will achieve a considerable share of purchase intentions, regardless of order of entry (Category Fit).
- H3: Lower fit brands must be first to market to obtain favorable evaluations and reasonable shares of purchase intentions (Assimilation/Contrast, Order of Entry).
- H4: Pioneer brands that have a lower fit will receive larger shares of purchase intentions if the first follower is not a high fit brand (Assimilation/Contrast, Order of Entry).

## Method

In the study, participants engaged in a three stage market simulation. In the first stage, participants were exposed to a pioneer brand offering a new brand extension in the coffee category. This pioneer brand exhibited a high fit with the extension category, a moderate fit, or a low fit with the category. In the second stage, the participants were exposed to a second brand entering the category with a brand extension of their own. In the third and final stage, a third brand enters the category, following the two previous brand entrants.

The experiment consisted of a 2 (order of entry) x 3 (category fit) mixed factorial design. A total of 369 undergraduate students participated as part of an introductory marketing course requirement. Instructions and stimuli were presented via computer. Participants proceeded through the three stages of the experiment on a self-paced basis. At the end of each stage, dependent measures representing evaluation and choice were collected.

## Results

In support of *Hypothesis 1*, the choice results for the high fit brand as a pioneer are lower than when it enters the market 2<sup>nd</sup> or 3<sup>rd</sup>, i.e., the high fit brand performs better as a follower. In fact, the scenarios in which consumers showed the highest tendency to choose the high fit brand are when it was the 3<sup>rd</sup> entrant. In support of *Hypothesis 2*, the high fit brand also performs well regardless of

order of entry. *Hypothesis 3* states that brands with a low category fit are best served by entering the market as a pioneer, and the results show support for this hypothesis. In support of *Hypothesis 4*, the low fit brand is also able to hold its largest share of the market when followed by a moderate fit entrant.

The pattern of evaluation scores for the high fit brand is very interesting. When the high fit brand is the pioneer, its evaluation scores are on par with the other brands in their pioneer conditions. However, when the high fit brand enters the market as a follower, its evaluation scores increase considerably, and peak when it is the 3<sup>rd</sup> entrant. These results for the evaluation scores are consistent with those from the choice data described above—the high fit brand performs the best when it is the last to enter the market, outperforming the conditions where it enters 1<sup>st</sup> or 2<sup>nd</sup>.

### Conclusions

Overall, high fit brands are preferred over low and moderate fit brands, regardless of order of entry. High fit brands are also imbued with the strongest pioneering advantage among the three levels of fit tested. In order for low fit brands to compete at all, they must be first to market. If a low fit brand waits to see how the market reacts to other brands entering the extension category, it holds little to no chance of gaining a foothold in the consumer's eye and wallet. However, a high fit brand actually benefits from waiting for a lower fit brand to enter the market first and establish the category. The contrast effect explains this interesting result that high fit brands are best served by waiting and allowing a lower fit brand to serve as the pioneer.

A high fit brand has a great deal of flexibility in deciding when to enter the extension category—the high fit brand performs well from a choice perspective whether it enters 1<sup>st</sup>, 2<sup>nd</sup>, or 3<sup>rd</sup>. However, from both a consumer evaluation and a choice perspective, the high fit brand performs the best when it enters the market 3<sup>rd</sup>. A follower strategy serves two purposes for the brand: 1) investment risk is reduced as the high fit brand can verify that a consumer market exists prior to making its own investment, and 2) consumers have a competitive brand to which the high fit brand can be compared, resulting in potentially higher evaluation ratings than the high fit brand extension would receive in isolation. On the other hand, a low fit brand has significantly less flexibility in their decision of when to enter the extension category. If the low fit brand waits for other competitors to pioneer the category and establish a market, it risks losing any opportunity to capture a reasonable share of the market.

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