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# BRAND NAME AND PRICE CUE EFFECTS WITHIN A BRAND EXTENSION CONTEXT

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## ABSTRACT

*This research considers brand name and price cue interaction effects on perceived quality judgments within a brand extension context. A lab experiment was conducted within the context of a new grocery product and brand name quality was manipulated at two levels, high and moderate. Price information was manipulated at two levels, high and low. Results suggest that high price information may enhance perceived quality evaluations of new offerings extended from moderate quality parent brands, and that there may be a limit to the enhancing effect of high price on perceived quality evaluations of a new offering extended from a high quality parent brand. Further, results showed that low price information was interpreted as an indicator of strong value as opposed to low quality for extensions introduced by both high and moderate quality brands. The findings have important implications for manufacturers of moderate quality brands in particular, and brands that are pursuing growth opportunities by a brand leveraging strategy. The findings, along with theoretical and managerial implications, are discussed.*

## INTRODUCTION

Consumers often base new product quality judgments on extrinsic quality cues such as brand name or price when intrinsic information about new product quality is not available (Kirmani & Rao, 2000). The present research examines the joint use of extrinsic quality cues and considers their subsequent impact on perceived quality and value judgments (cf. Rao & Monroe, 1989; Dodds, Monroe & Grewal, 1991; Purohit & Srivastava, 2001; Miyazaki, Grewal & Goodstein, 2005). The research is conducted within a brand extension context because many consumer product firms leverage brand equity by extending brands into new product categories (Keller, 2008). Finally, the research focuses on high and moderate quality brand name cues. Extant research on quality cue effects generally considers low and high brand name quality cues, but not moderate quality brand cues.

Similar to information economic models of search behavior (Stigler, 1961; Salop & Stiglitz, 1977), this research assumes that consumers approach new product judgments with beliefs regarding the distribution of brands on a quality continuum ranging from low to moderate to high quality (Urbany, 1986; Moorthy, Ratchford & Talukdar, 1997). Consumers conceptually place each brand along this continuum. In this conceptualization, a brand's quality, or strength, is derived from

consumer familiarity with the brand as well as the specific associations consumers hold about each brand. The highest quality, or strongest, brands are those that are well-known to consumers and that possess favorable and unique associations that are strongly held by consumers (Keller, 1993). Consequently, high quality brand are familiar brands that enjoy strong, favorable, and unique brand associations. Moderate quality brands are also familiar brands, but these brands generate only moderately favorable brand associations and these associations may be held with less strength. Finally, low quality brands are less familiar to consumers and may even generate unfavorable brand associations.

Results from this research suggest that new grocery products extended from moderate quality brands may receive a significant increase in perceived quality evaluations when paired with a high price, and that there may be a limit to the enhancing effect of high price on the product evaluations of a new grocery product extended from a high quality brand. The findings from this research have implications for manufacturers of moderate quality brands in particular, and brands that are pursuing growth opportunities by a brand extension strategy. Manufacturers following an exploit brand equity strategy by introducing extensions farther away from the parent brand often have concerns that less similar extensions may be received unfavorably, especially when introduced by parent brands perceived as moderate quality (Völckner & Sattler, 2006; Keller & Aaker, 1992). The present research suggests that firms leveraging moderate quality brands may enhance perceived quality evaluations by following an initial higher price strategy.

### **THE PRICE-PERCEIVED QUALITY RELATIONSHIP**

The price - perceived quality research originally tested consumer price - quality inferences in the absence of other informational cues, and was heavily criticized because of that limitation (Olson, 1977). In response, the research shifted to examine how the presence or absence of other cues may moderate the price - perceived quality effect (cf. Rao & Monroe, 1989; Monroe & Krishnan, 1985; Dodds et al., 1991). Within that literature, two opposing predictions exist. One line of thinking predicts that price becomes a stronger signal of quality when other quality cues, such as brand name, are present (Monroe & Krishnan, 1985). Rao & Monroe's (1989) meta-analysis results support this prediction as the price - perceived quality main effect from multiple-cue studies (e.g., brand name available) was larger than the price - perceived quality main effect from single-cue studies. Other results support the conflicting prediction, that price becomes a weaker signal of quality when other, perhaps more diagnostic, cues are present (Dodds et al., 1991; Dickson & Sawyer, 1984; Della Bitta & Monroe, 1980; Olson, 1977).

Recent research attempts to explain these contradictory findings focus on cue utilization theory (cf. Feldman & Lynch, 1988, Purohit & Srivastava, 2001), and on quality cue consistency (Miyazaki et al., 2005, Voss, Parasuraman & Grewal 1998; Gupta & Cooper, 1992). These perspectives generally propose that extrinsic quality cues will be more diagnostic in a quality

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judgment when multiple quality cues are consistent (e.g., a high quality brand paired with high price) as the cue information is reinforcing. (Diagnosticity has been defined as the degree to which a first judgment is perceived to correctly answer a second related judgment (Feldman & Lynch, 1988). An input is used in a judgment to the degree that its relative diagnosticity and accessibility in memory are high.) The enhanced cue diagnosticity leads the cues to be jointly used in a subsequent quality judgment, boosting the evaluation in the direction of the valence of the consistent cues. When quality cues provide inconsistent information, the cue consistency framework suggests that the information contained in the negative cue is perceived to be more useful, and thus becomes more salient in the evaluation (cf. Anderson, 1996).

### **The Cue Scope Framework**

The cue scope theoretical framework (Purohit & Srivastava, 2001), based on cue diagnosticity and cue utilization theory, adds a significant conceptual element to the cue consistency predictions. A central idea of the cue scope framework is that it is critical to differentiate between cue types in understanding how multiple cues interact to affect quality perceptions. By distinguishing between what are termed high and low scope quality cues, the framework predicts that the diagnosticity of low scope cues depends on the presence and valence of high scope cues. High scope cues are developed over the long- term, such as brand name and reputation. The distinguishing characteristic of a high scope cue is that valence is developed over time, and is therefore relatively difficult to change. Because of their long development period and difficulty to change, the framework predicts that high scope cues are good quality predictors and consequently are perceived as diagnostic quality cues. Low scope cues however, such as price or warranty, are easier to change quickly and are somewhat transient. Therefore, low scope cues may not predict quality as accurately as high scope cues. Because the valence of a low scope cue can be expediently changed, compared to a high scope cue, the cue scope framework predicts that when high and low scope cues are presented together, the low scope cues will generally be perceived as less diagnostic than the high scope cue. Further, the framework predicts that the diagnosticity of the low scope cue will depend on the valence of the high scope cue.

The predictions derived from both the cue consistency (Miyazaki et al., 2005) and cue scope frameworks (Purohit & Srivastava, 2001) are consistent with respect to cue enhancement effects. Both frameworks predict an enhancing effect on product evaluations when high price is paired with a high quality brand. However, when a high quality brand is paired with a low price, the cue consistency framework predicts an attenuating impact of low price on quality evaluations, while the cue scope framework considers the scope of the cues.

## **Brand Name and Price Interaction Effects**

Considering joint processing of brand name and price cues, the cue scope framework (Purohit & Srivastava, 2001) suggests that the high scope cue, brand name, should be the anchor cue and be more diagnostic than the low scope price cue. Further, the high scope brand name cue should even influence the interpretation of the low scope price cue. The interpretation of the low price information is important because, unlike other quality cues, price information is subject to alternative interpretations (Dodds et al., 1991). One interpretation of price is suggestive of quality (i.e., high price suggests high quality and/or low price suggest low quality), while the other interpretation of price is suggestive of value (i.e., low price suggests high value, not necessarily low quality). Predictions derived from the cue scope model, where the diagnosticity and interpretation of price information depends on brand name information are presented next.

### **High Quality Brand and Price Cue Information**

The cue scope model predicts that when quality cues are consistent, as in the case of a new product introduced from a high quality parent brand with a high price, consumers should find the high price cue credible in light of the high quality brand cue, resulting in an augmented favorable quality judgment.

*H1: When a new brand extension is introduced from a high quality parent brand, quality evaluations will be more favorable when the extension is paired with a high price compared to a high quality control.*

Similarly, the strong and favorable associations from the high quality brand name cue should also impact the interpretation of a low price cue. That is, strong, positive quality associations from the high quality parent brand should mitigate the effect of low price information that otherwise might suggest lower quality based on low price – low quality inferences. Because the high quality brand name conveys much information in the form of positive quality and corporate associations (Brown & Dacin, 1997), a low price cue may be interpreted as providing high value as opposed to suggesting low quality. Therefore, quality evaluations remain favorable and are not heavily influenced by a low introductory price strategy. The rationale being that consumers suspend their price – perceived quality inferences (cf. Lichtenstein & Burton, 1988), and make attributions that the manufacturer's objective is to generate initial trial of the product via the low introductory price or to provide strong value via the low price. This prediction is consistent with past theorizing suggesting that favorable associations for high quality brands keep quality perceptions for those brands from being attenuated by the perceptual impact of low price (Gupta & Cooper, 1992).

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*H2a: When a new brand extension is introduced from a high quality parent brand, quality evaluations will not be significantly different when the extension is paired with a low price compared to a high quality control.*

*H2b: When a new brand extension is introduced from a high quality parent brand, perceptions of value will be significantly more favorable when the extension is paired with a low compared to a high price.*

### **Moderate Quality Brand and Price Cue Information**

Neither the cue scope nor the cue consistency frameworks consider the case of a quality cue containing moderate valence. A high scope brand name cue of moderate valence suggests a brand that generates moderate quality associations not held as strongly as those of high quality brands. Such a judgment occurs when consumers cannot clearly identify a familiar brand cue as either low or high quality, but rather believe its quality lies somewhere in between. Research involving brand name cues generally considers the polar cases of high and low quality, and has not considered how a moderate quality brand cue may function. While understandable from a methodological perspective, moderate quality brands are a marketplace reality, as described next.

In many product categories, private-label brands are perceived as lower quality brands, and high market share national brands are considered as higher quality brands (Richardson, Dick & Jain, 1994). Yet, in many instances, there appears to be a moderate quality tier made up of lower market share national or regional brands that are clearly not store brands, and clearly not high quality national brands. For example, consider Consumer Report's objective ratings of ice-cream quality. National brands Edy's, Haagen-Dazs, Ben & Jerry's, and Breyers rate as either excellent or very good. Approximately ten additional brands are rated, in order of declining quality ending with Wal-Mart's store brand Sam's Choice. Non-store brands Mayfield, Mayfair, Blue Bell, Turkey Hill, and Blue Bunny all rate below the high quality national brands but above many of the lower quality store brands, suggesting moderate quality. Quality ratings in other consumer product categories reveal similar quality tiers, indicating a distribution of brand quality rather two well-defined groups of high and low quality. This notion is further supported by research showing geographic variation in market shares, perceived quality, and local dominance of national brands (Bronnenberg, Dhar & Dubé, 2007).

In contrast to high and low quality brand names, moderate quality brands are unlikely to elicit either strong high or low quality inferences. In effect, the lack of clearly being able to categorize a moderate quality brand as either high or low quality likely reduces the diagnostic value of the high scope brand cue. The reduced diagnosticity of the brand name cue should in turn increase the diagnosticity of the low scope price cue, resulting in stronger effects of price. Consequently, a moderate quality brand introducing a high (low) priced extension may be enhanced

(attenuated) if consumers use the price information to interpret the moderate valence of the brand name information. Similar to the high quality brand, value perceptions of the moderate quality extension should be stronger for the low compared to high price. The following hypotheses summarize these ideas:

*H3: When a new brand extension is introduced from a moderate quality parent brand, quality evaluations will be more favorable when the extension is paired with a high price compared to a moderate quality control.*

*H4a: When a new brand extension is introduced from a moderate quality parent brand, quality evaluations will be less favorable when the extension is paired with a low price compared to a moderate quality control.*

*H4b: When a new brand extension is introduced from a moderate quality parent brand, perceived value will be more favorable when the extension is paired with a low compared to a high price.*

The previous discussion regarding how price information will impact quality evaluations of high and moderate quality brands, leads to the following summarizing hypothesis:

*H5: Price and brand name information will interact such that the price cue will have a greater impact on brand extension evaluations when paired with an extension from a moderate quality parent brand than from a higher quality parent brand.*

## METHOD

### Overview and Design

The hypotheses were tested in a 2 (brand quality) x 2 (price) between subjects design laboratory experiment. To improve the generalization of the results, the experiment also included two product replicates. In addition to the experimental cells, four brand name only control conditions were included; price information was absent in these conditions. Parent brand quality was manipulated at two levels, high and moderate, using non-fictitious brand names. Price level was manipulated between subjects at two levels, low and high price. The experiment was conducted in the context of commonly purchased consumer grocery products introduced as brand extensions.

## Pretests

Three pretests were conducted with the objective of identifying brands, prices and product categories that could be used in the experiment. Constraints for the brand names and product categories used were that each be relevant to student subjects, that subjects perceive substantial variation in price and quality across available brands in the product categories chosen, and that the high and moderate quality brand names be of approximately equal familiarity to subjects. On the basis of the multiple pretests involving 155 subjects, pretzels and frozen pizza were chosen for the two product replicate categories. Brand names Lays (high quality) and Wise (moderate quality) were used as the non-fictitious brands. Both brand names had high levels of subject familiarity. Table 1 summarizes the product category stimuli set, including the price manipulations used in the experiment.

	Moderate Quality Parent Brand:			High Quality Parent Brand:		
	Wise			Lays		
Extension	Low Price: \$.93	High Price: \$2.19	No Price	Low Price: \$1.45	High Price: \$3.69	No Price
Replicate One: Frozen Pizza	4.82 (1.22)	5.52 (1.39)	4.80 (1.36)	5.85 (1.41)	5.52 (1.55)	5.60 (1.24)
Replicate Two: Pretzels	5.74 (1.16)	6.11 (1.30)	5.80 (1.11)	6.41 (1.49)	6.40 (1.22)	6.84 (1.17)

<sup>a</sup> Stimuli manipulations appear in italics.

## Measures

The key dependent variable, perceived brand extension product quality was assessed as the average of three 9-point bipolar scales anchored by: low quality / high quality; inferior / superior; worse than most brands / better than most brands (cf. Taylor & Bearden 2002). A perceived value measure was also included in the experimental conditions, and was assessed as the average of two 9-point Likert-type scales that considered whether the new product was a good value for the money, and whether the new product looked like a good buy. A manipulation check measure of the perceived quality of the parent brand was assessed as the average of the same items used to measure perceived new product quality. A manipulation check measure of perceived price included a 9-point scale anchored very high price to very low price. Finally, a control measure assessed the perceived similarity of the brand extension to the parent brand because research suggests that price-quality inferences are more likely for brand extensions that are perceived to leverage brand equity by

extending further away from the parent brand (Taylor & Bearden, 2002). Perceived similarity was measured by a 9-point bipolar scale asking subjects to rate the overall similarity of the brand extension to the parent brand product anchored by dissimilar / similar (cf. Boush & Loken, 1991; Broniarczyk & Alba, 1994).

## **Procedure**

To increase the experimental realism of the study, a ruse stemming from Keller & Aaker's (1992) procedure was followed. Subjects were told that the objective of the study was to aid in the development of a new product testing service to eventually be used in commercial market research. Subjects first responded to a set of warm up questions relating to their usage in each product category. Next, subjects were told that because of time constraints, they would evaluate only one new product, but that their responses would be merged with responses from other consumers who evaluated different new products. The target new product was then presented to subjects in a short descriptive paragraph discussing the product. The order of the mention of price and brand information was counterbalanced across subjects. Finally, subjects responded to the dependent and manipulation check measures. Subjects were then thanked, debriefed and excused. The debriefing results revealed no evidence that subjects questioned the research ruse.

## **RESULTS**

### **Preliminary Analyses**

A total of 383 undergraduate students at a large public university participated in the experiment. Cell sizes ranged from 31 to 35. Examination of the intercorrelations of the three perceived quality items revealed that the items were intercorrelated, with an average item intercorrelation of approximately .71. The quality evaluation construct had three indicators, a mean of 5.79, standard deviation of 1.42, and a coefficient alpha estimate of internal consistency reliability of .88.

Analyses of the means of the manipulation check measures indicated that the manipulations of the independent variables were perceived as intended. First, the moderate quality parent brand (i.e., Wise) and the higher quality parent brand (i.e., Lays) differed as intended (Parent Brand Name Evaluation:  $M(MQ) = 5.85$  vs.  $M(HQ) = 7.45$ ;  $t(381) = 10.04$ ,  $p < .01$ ). The prices of the extensions were also perceived as expected (Price:  $M(LP) = 3.78$  vs.  $M(HP) = 5.98$ ;  $t(255) = 9.19$ ,  $p < .01$ ). Lastly, both product replicate brand extensions (i.e., frozen pizza and pretzels) were perceived as relatively dissimilar to the parent brand as the similarity judgment means on the 9-point scale were well below the scale midpoint ( $M\text{-Replicate } 1 = 2.70$  and  $M\text{-Replicate } 2 = 3.44$ ).



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## Tests of Hypotheses

The summary hypothesis predicts that price information will have a stronger impact on quality evaluations of moderate compared to high quality brands. A full three factor ANOVA was performed to assess H5. Results indicated a significant main effect for product replicate ( $F(1,249) = 19.05, p < .01$ ), a significant main effect for brand quality ( $F(1,249) = 8.57, p < .05$ ), and a significant price by brand name interaction ( $F(1,249) = 4.37, p < .05$ ) on the quality evaluation measure, as predicted by H5. Mean quality evaluation scores are reported in the Table, and results of the planned contrasts testing the other hypotheses are presented next.

### Tests of H1 – H2

Planned contrasts comparing the experimental conditions to related control conditions were conducted to test H1 and H2. H1 considered the impact of high price information on perceived quality in the presence of a high quality brand name cue. Consistency between the high quality parent brand name cue and the high price cue should provide diagnostic information about the quality of the extension, resulting in significantly more favorable new product evaluations when the high quality parent brand is paired with a high price versus a no-price control. The enhancing effect of high price information on perceived quality evaluations, however, was not supported by results from either product replicate (EVAL –Replicate 1:  $M(\text{HQ-HP}) = 5.52$  vs.  $M(\text{HQ-Control}) = 5.60$ ,  $t(61) = .25, p > .05$ ; EVAL –Replicate 2:  $M(\text{HQ-HP}) = 6.40$  vs.  $M(\text{HQ-Control}) = 6.84$ ,  $t(61) = 1.48, p > .05$ ), and H1 was not supported.

H2 predicted that the high quality associations from the brand name cue would prevent an attenuating impact of low price on perceived quality (i.e., H2a), and lead to more favorable perceptions of value (i.e., H2b). H2a was supported as planned contrasts comparing the high brand quality – low price condition to the high quality control showed no significant difference in evaluations in either product replicate (EVAL –Replicate 1:  $M(\text{HQ-LP}) = 5.85$  vs.  $M(\text{HQ-Control}) = 5.60$ ,  $t(61) = .73, p > .05$ ; EVAL-Replicate 2:  $M(\text{HQ-LP}) = 6.41$  vs.  $M(\text{HQ-Control}) = 6.84$ ,  $t(62) = 1.31, p > .05$ ). Contrasts assessing the perceived value between the high quality – high price and high quality – low price conditions were conducted to test H2b. In both product replicates, results indicated that low price was perceived to provide significantly more value than high price (VALUE-Replicate 1:  $M(\text{HQ-LP}) = 6.26$  vs.  $M(\text{HQ-HP}) = 5.31$ ,  $t(60) = 1.82, p < .05$  two-tail; VALUE-Replicate 2:  $M(\text{HQ-LP}) = 6.80$  vs.  $M(\text{HQ-HP}) = 5.39$ ,  $t(61) = 3.00, p < .001$ ). Consequently, it appears that when paired with a high quality brand cue, the low price information was interpreted to mean strong value as opposed to low quality.

### Tests of H3 – H4

H3 considered the impact of high price information on perceived quality in the presence of a moderate quality brand name cue. The modest favorable evaluation of the moderate quality brand cue, established by the brand quality manipulation check results, was expected to boost the diagnostic value of price information, resulting in an enhanced quality evaluation when the moderate quality brand was paired with a high price cue versus a moderate quality control. Replicate one results showed a significant price effect when the moderate quality brand cue – high price group was compared to the moderate quality control (EVAL-Replicate 1:  $M(MQ-HP) = 5.52$  vs.  $M(MQ-Control) = 4.80$ ,  $t(64) = 2.15$ ,  $p < .01$ ). Replicate two results provided directional support, yet did not achieve statistical significance (EVAL-Replicate 2:  $M(MQ-HP) = 6.11$  vs.  $M(MQ-Control) = 5.80$ ,  $t(63) = 1.04$ ,  $p > .05$ ). Therefore, H3 was partially supported.

H4a predicted less favorable quality evaluations when low price information is combined with a moderate quality brand cue compared to the moderate quality control. However, contrasts showed no significant difference in evaluations when the moderate quality brand – low price group was compared to the moderate quality cue control (EVAL-Replicate 1:  $M(MQ-LP) = 4.82$  vs.  $M(MQ-Control) = 4.80$ ,  $t(61) = .08$ ,  $p > .05$ ; EVAL-Replicate 2:  $M(MQ-LP) = 5.74$  vs.  $M(MQ-Control) = 5.80$ ,  $t(60) = .19$ ,  $p > .05$ ), and H4a was therefore not supported. H4b was assessed by comparing the perceived value between the moderate quality – high price and moderate quality – low price conditions. Similar to results from the high quality brand cue, the replicate one moderate quality – low price offering was perceived as a better value than the moderate quality- high price offering (VALUE –Replicate 1:  $M(MQ-LP) = 5.69$  vs.  $M(MQ-HP) = 4.66$ ,  $t(65) = 2.19$ ,  $p < .05$ ). The replicate two results provide directional support, but did not achieve significance (VALUE-Replicate 2:  $M(MQ-LP) = 6.33$  vs.  $M(MQ-HP) = 5.83$ ,  $t(63) = 1.19$ ,  $p > .10$ ). Therefore, H4 was partially supported. Table 2 provides a summary of the hypotheses and indicates whether each is supported.

Hypothesis	Replicate One	Replicate Two
H1: When a new brand extension is introduced from a high quality parent brand, quality evaluations will be more favorable when the extension is paired with a high price compared to a high quality control.	Not Supported	Not Supported
H2a: When a new brand extension is introduced from a high quality parent brand, quality evaluations will not be significantly different when the extension is paired with a low price compared to a high quality control.	Supported	Supported

Hypothesis	Replicate One	Replicate Two
H2b: When a new brand extension is introduced from a high quality parent brand, perceptions of value will be significantly more favorable when the extension is paired with a low compared to a high price.	Supported	Supported
H3: When a new brand extension is introduced from a moderate quality parent brand, quality evaluations will be more favorable when the extension is paired with a high price compared to a moderate quality control.	Supported	Directional Support
H4a: When a new brand extension is introduced from a moderate quality parent brand, quality evaluations will be less favorable when the extension is paired with a low price compared to a moderate quality control.	Not Supported	Not Supported
H4b: When a new brand extension is introduced from a moderate quality parent brand, perceived value will be more favorable when the extension is paired with a low compared to a high price.	Supported	Directional Support
H5: Price and brand name information will interact such that the price cue will have a greater impact on brand extension evaluations when paired with an extension from a moderate quality parent brand than from a higher quality parent brand.	Supported	

## DISCUSSION

### Research Overview

This research considered cue utilization effects, using brand name and price cues, within a brand extension context. The manner in which price and brand name cues are jointly used in the formation of quality evaluations is an issue of managerial importance and is timely as many retailers are reacting to increasing consumer price sensitivity by making price-centered appeals focal points in their merchandising efforts. Further, price and brand name effects are pertinent to brand manufacturers as many firms are experiencing intense competition from private label products (Keller, 2008; Shocker, Srivastava & Ruckert, 1994; Quelch & Harding, 1996; Kahn & McAlister, 1997) and many are responding with either deep price cuts or with value pricing strategies.

Apart from prior academic research which generally considers low and high quality brands, the present research considered both high and moderate quality brands. In this conceptualization, high quality brands enjoy strong, favorable brand associations whereas moderate quality brands

generate less favorable brand associations that are held less strongly. While consumers are likely familiar with both, consumers' associations regarding moderate quality are markedly less favorable than those for high quality brands. Considering quality cue effects when a moderate quality brand is present is an important practical consideration given the marketplace existence of moderate quality brands in many consumer product categories. Results of this research showed a significant brand name by price interaction on the brand extension quality evaluation measure indicating a difference in the perceptual impact of price information between the high versus moderate quality brand. Results showed that high price information produced enhanced quality evaluations for an extension from a moderate but not a high quality parent brand.

### **High Quality Brand Cue Results**

High price information did not enhance perceived quality evaluations for an extension from a high quality brand. Rather, considering a new brand extension within a grocery product category, the high quality brand cue results suggest that there may be a limit to the enhancing effect of high price information on the subsequent product evaluations of a new offering extended from a high quality parent brand.

A robust finding in the brand extension literature shows that new products extended from higher quality parent brands receive more favorable evaluations than those extended from less well regarded parent brands (Völckner & Sattler, 2006; Keller, 2008; Keller & Aaker 1992; Boush & Loken 1991), as the high quality brand name cue reduces uncertainty about the quality of the new extension product. That is, because the new product extends a brand already known to be high quality, and in so doing risks the high quality brand's reputation with the introduction of the new extension, the brand name cue is perceived as highly diagnostic of quality, and evaluations of new product are heavily influenced by the parent brand quality associations (Keller & Aaker, 1992). Similarly, in processing the low risk grocery product extension, as opposed to a higher risk durable product, subjects likely found the high quality brand name information to be sufficiently diagnostic of quality such that evaluative processing stopped once the high quality brand information was identified.

As predicted by the cue scope framework, there was no attenuating perceptual impact of low price on perceived quality evaluations for the high quality brand name cue. The favorable associations from the high scope parent brand seemed to mitigate the effect of low price that otherwise might suggest lower quality based on low price – low quality inferences. Because the brand name conveys information in the form of positive quality associations, a low price cue may be interpreted as providing strong value as opposed to suggesting low quality. Therefore, quality evaluations may remain favorable even when a low introductory price strategy to generate initial trial is followed. Results supporting this explanation showed that the brand name cue was diagnostic of quality and inoculated the new brand extension offering against 'low price-low quality'

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inferences, as the low price information was associated with stronger perceptions of value, but not low quality.

### **Moderate Quality Cue Results**

Moderate quality brands generate modest quality associations held with less strength than the associations regarding high quality brands. The attenuated strength of the associations that do exist for moderate quality brands reduces the diagnostic value of the high scope brand cue. The reduced diagnosticity of the brand name cue should in turn increase the diagnosticity of the low scope price cue, resulting in stronger effects of price. Consequently, a moderate quality brand introducing a high priced extension may be enhanced if consumers use the price information to interpret the moderate valence of the brand name information. Results from replicate one in particular, suggest that price information affected interpretation of the brand name information. The pairing of the moderate quality brand cue with high price information resulted in significantly more favorable quality evaluations compared to the moderate quality control. Results from replicate two provided directional support, but were not statistically significant.

Prior theorizing regarding brand extension pricing may help to explain the inconsistency between the two product replicates when the moderate quality parent brand was paired with high price. Price perceived quality effects are thought to be more likely to the degree that extensions are perceived as less similar to the parent brand (Taylor & Bearden, 2002). Quality evaluations of the less similar extension, replicate one, from a moderate quality parent brand were enhanced when paired with high price information. Quality evaluations of the more similar extension, replicate two, from a moderate quality parent brand were not significantly enhanced when paired with high price information. These results support prior theorizing suggesting that price effects are more likely for less similar extensions as price information is perceived to be more diagnostic because the extension is dissimilar to the parent brand.

An alternative explanation for the stronger price effect in replicate one is the possibility that the price manipulation used in replicate one, frozen pizza, was perceived to be larger than the price manipulation used in replicate two, pretzels. This possibility was investigated by subjecting the price manipulation check measure to a three factor ANOVA. Results of this analysis indicated an expected significant main effect for price ( $F(1,249) = 86.06, p < .01$ ), an expected a significant main effect for product replicate ( $F(1,249) = 6.76, p < .01$ ), but no interactions. Interpretation of the price manipulation check means indicated that the strength of the price manipulation between the replicates was approximately equal. Therefore, the suggestion that the results observed in this research were due to a stronger perceived price manipulation for replicate one than replicate two, which would have produced price by product replicate interaction, seems unlikely.

Finally, the perceptual impact of low price on an extension from a moderate quality brand was predicted to reduce perceived quality. However, results from neither product replicate showed

this attenuating impact of low price. Rather, the moderate quality brand seemed to transfer quality associations significant enough to counteract the low price effect on perceived quality. Like the high quality brand cue, the pairing of the moderate quality brand cue with low price information resulted in more favorable value perceptions.

### **Limitations**

The results of the study reported here should be generalized with caution as results are based on the experimental study of two consumer product categories. Hence, the findings may not generalize to other product categories, brand names and price levels. In addition, the caveats associated with experiments are appropriate. Moreover, subjects were asked to evaluate new products on the basis of new product concept information that was provided in paragraph form. Future research should replicate these results with other moderate quality brands in different consumer product categories, as well as moderate quality brands of consumer durable products. Future research might also explore cue consistency effects for moderate quality brands when additional quality cues other than price, such as warranty, advertising intensity, or store name, are provided. Lastly, future research might reinvestigate these effects by incorporating additional brand quality and price levels.

### **CONCLUSION**

The findings of this research are most relevant to manufacturers of well-known moderate quality products. Results suggest that a high introductory price strategy may be effective in enhancing perceived quality evaluations for brand extensions introduced from brands perceived to be of moderate quality. This finding is strategically important if a brand manager's objective is to improve perceived quality over time and to grow brand equity. Research has shown that numerous managerial advantages result from developing strong brands. Higher quality brands enjoy greater customer loyalty, stronger margins, greater support from trade partners, enhanced effectiveness of marketing communications spending, and offer more opportunities for licensing and further extension of the brand (Hoeffler & Keller, 2003).

In practice, managers attempting to improve brand equity and perceived quality should not rely on high price alone to communicate high quality. An introductory high price strategy should be part of an overarching brand strategy aimed at enhancing consumer quality evaluations by communicating a high quality position. This effort may require reminding consumers of existing quality associations and may even offer new quality associations. Alternatively, a moderate quality brand may need to enhance the relevance of the brand if consumers perceive it to be dated. This repositioning may involve updating the user profile and brand elements (e.g., product packaging, logos, characters) to convey the brand's new relevance (Keller 2008, p 568). In conclusion, a high

introductory price strategy for a new brand extension introduced by a parent brand of moderate quality may successful in communicating higher quality. However, managers should also invest in advertising that communicates a high quality position or otherwise educates consumers about the brand's value added attributes.

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