Brand - Extension Price Premium : An Enquiry on the Role of Perceived Fit Among Users of a Consumer Durable in India

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Abstract

Purpose : The objective of this study was to ascertain the association between perceived fit and the brand extension price premium. It further studied the moderating role of performance risk, financial risk, and social risk on the association between fit and brand extension price premium.

Design : The sample consisted of a total of 335 respondents who were existing users of Sony (registered trademark) LCD TV. The related brand extension product was an advanced 3D Sony LED TV and the unrelated brand extension product was Sony wet and dry vacuum cleaner (fictitious product), whose fair prices were quoted based on competitor market prices. The comparable prices and features were explained to the respondents for both the products.

Findings: The hypothesis (H1), fit leads to an increase in brand extension price premium, was accepted for both related and unrelated extensions.
The hypothesis (H2), for the extension category, the financial risk positively increases the effect of fit on brand extension price premium, is rejected.
The hypothesis (H3), for the extension category, the performance risk positively increases the effect of fit on brand extension price premium, is accepted for both related and unrelated extension.
The hypothesis (H4), for the extension category, the social risk positively increases the effect of fit on brand extension price premium, is accepted for both related and unrelated extension.
The main effect of financial, performance, and social risks was not directly significant in determining the price premium of product brand extensions.

Originality/Value : The respondents of this study were actual users of a brand unlike the previous study which was conducted using an experimental design among students. It also looks into the external validity from an Indian context.

Keywords: **related and unrelated brand extension, price premium, social risk, performance risk, financial risk**

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A strong brand with an intangible benefit is a differentiator, which augments the product to stay above the competition, making imitation nearly impossible. A strong brand acts as an engine for growth when introducing new products and entering new markets, as companies find it easy to lever the intangibles for their newer extensions. Staying focused on the core brand values, maintaining its clarity, being consistent, and ensuring the credibility matters. In short, a brand is a promise and fulfilling the promise consistently is an investment. Strong brand extensions are easy ways to capture market share with less investments and always

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command a price premium. Brand extensions and their impact on market share and advertising effectiveness has been studied earlier (Aaker, 1996; Smith, 1992 ; Smith & Park, 1992).

How much of a price premium can a new product (brand) extension capture is an important question, because if the price ceiling is not identified properly, the company bottom lines can be adversely affected (Marn & Robert, 1992). Hence, understanding price premiums in the context of brand extension is of tremendous importance. This knowledge is of utmost value for better understanding branding theory and also helps in appreciating consumer choice by means of brand names. Marketing practitioners prefer a high fit in brand extensions, which helps to capture higher market share than new brand launches. The best way a brand advantage can be leveraged in extensions for commercial success is to understand the advantage, recognition, relevance, and credibility of the existing brands and use them (Chogle, 2013).

Contribution of the Study and Research Gap

The respondents of this study are actual users of a brand unlike the previous study which was conducted using an experimental design among students. It also looks into external validity from an Indian context. The major difference between this study and the work of DelVecchio and Smith (2005) is in terms of the sample profile itself. The respondents of this study were users of a brand. This creates a necessary homogeneity within the respondents and at the same time, makes the respondents evaluate the situations more from their personal experience. This experience among respondents could make them answer the question better, why or not are they willing to pay a premium for a related extension and an unrelated extension?

This study on fit and brand extension price premiums in an oriental context further gained significance following the studies and conclusions of Diamantopoulos, Smith, and Grime (2005) and Buil, de Chernatony, and Hem (2009). As per an earlier study, irrespective of the brand extension fit, brand personality is unaffected. However, longitudinal studies which are replicated in different brand and type of extensions and consumer segments are needed to figure out any long term effects. Cross sectional studies cannot capture long term effects (Diamantopoulos et al., 2005).

In the later study, it states that high fit is desirable in brand extensions for positive evaluations from consumers, and such a scenario leads to lesser parent brand equity dilution. Higher the equity of the parent brand, higher is the possibility of dilution if the fit is lower. Cultural differences play a major role in such associations, and hence, different types of products and brands in different cultural contexts need to be studied. Standardized brand extension strategies are to be carefully considered before taking practical managerial decisions (Buil et al., 2009).

Literature Review

Brand names reflect the values, the beliefs, and attributes around a brand, gathered from experience (Gurhan - Canli & Maheswaran, 1998 ; Sujan & Bettman, 1989). It helps consumers to reduce the perceived risk around the brand (Cox, 1967; Wernerfelt, 1988). An important dimension of the present study is to understand what the consumers feel when a new product brand extension is in fact close to the original brand values (called perceived fit).The higher the fit, the greater is the ability of the product brand extension to command a better price premium. Fit refers to the holistic similarity between the extension product category and the existing products affiliated with the brand (Morrin, 1999 ; Park, Milberg, & Lawson, 1991 ; Tauber, 1988).

The degree of risk associated with the extension category is sensitive to the brand-extension price premium. If the original brand name is able to reduce the risk, then the inherent risk for a brand extension category will be lower, provided there is a good fit between the brand and the brand extension category. Such product category brand extensions with higher fit command a higher price premium. This is because like financial investors, consumers are also risk adverse (Erdem, 1998). Therefore, the identity a new-product extension is able to establish with a

successful brand name is a natural testimony to its credentials inspite of being new in the market. A brand which powerfully establishes itself among customers has strong brand equity, which assists firms to manage competition and maintain market share. A brand extension with a better perceived fit ensures product success (Madhavi & Rajakumar, 2004).

A brand's latent value (Srivatsava & Allan, 1991) is the brand values' contribution to the success of new products. This is calculated as the variation between the discounted value of expected future cash flows between a well-known brand extension and a novel (new) brand extension. Latent value can also be captured as the difference in price premium between a well-known brand extension and a novel brand extension.

(1) Perceived Risk on Brand - Extension Price Premium : Purchase decisions are affected by three risks: performance, financial, and social (Dowling & Staelin, 1994 ; Taylor, 1974). On purchasing a wrong product, risk arises either when the product performance is lower than the satisfactory level or when positive benefits are foregone from the competing brands. These can lead to perceived risk associated with purchase decisions (Bauer, 1967; Cunningham, 1967). The perceived risk can be minimized when purchasing well-known brands because it has over long periods fulfilled the implied promise of a brand viz-a-viz the customer expectations (Erdem & Joffre, 1998; Wernerfelt, 1988). Hence, customers are found to rely on brands to mitigate risk (Montgomery & Wernerfelt, 1992 ; Roselius, 1973; Sheth & Venkatesan, 1968). In short, brand extension makes it possible for consumers to draw from their experiences with other products of the brand as a proxy experience with the novel brand extension, because a brand name is a disguised link for the new product category's quality (Wernerfelt, 1988).

(2) Fit Among Brand and Extension Category : Fit refers to the holistic similarity between the extension product category, and the existing products affiliated with a brand (Morrin, 1999; Park et al., 1991; Tauber, 1988). There are four basic factors for measuring the degree of fit, that is, needs fulfilled by the product (Smith & Park, 1992), situations in which they are used (Dacin & Smith, 1994), skills desirable to manufacture them (Aaker & Keller, 1990), and physical features (Smith & Park, 1992).

As fit increases between the brand and the brand extension, consumers see a favourable association which leads to constructive evaluations of the brand extension (Aaker & Keller, 1990 ; Gronhaug, Hem, & Lines, 2002) and diminishes perceived negative outcomes for the brand extension (DelVecchio, 2000).

↳ **H1:** Fit leads to an increase in brand extension price premium.

(3) Risks Related with Extension Product Category : As seen, more the fit between a well-known brand and a brand extension, the lesser is the uncertainty associated with brand extensions. Lesser the fit, the higher will be the three types of risk, which are discussed as follows :

(i) Financial Risk : Financial risk refers to economic loss if the product does not perform (Grewal, Gotlieb, & Marmorstein, 1994). As an investor chooses a bond by paying more for the one (may even accept lower returns) with higher rating, the consumer also pays higher price premium for a familiar product brand extension (high fit brand extension). The financial risk moderates the relationship between a well-known brand and its product brand extension price premium. When fit is high, consumers are willing to pay a high-price premium and when fit is low, consumers pay a lower price premium. To add further, as the financial risk increases (economic loss risk), the price premium for brand extensions further increases and vice-versa.

↳ **H2 :** For the extension category, the financial risk positively increases the effect of fit on brand extension price premium.

(ii) Performance Risk : Performance risk refers to diminished utility and physical or emotional harm consequential from shoddy performance (Bauer, 1967 ; Grewal et al, 1994). Under conditions where the extension category quality variance is high (high risk of obtaining a low performance brand extension), the consumers are willing to pay a higher price premium for an extension category to obtain a highly regarded brand to reduce the performance risk.

The performance risk moderates the relationship between a well-known brand and its brand extension price premium. The more the performance risk, the consumers will have to forfeit an elevated price premium for an extension category to obtain a highly regarded brand to reduce the performance risk.

↳ **H3 :** For the extension category, the performance risk positively increases the effect of fit on brand extension price premium.

(iii) Social Risk : Social risk refers to the peer evaluation that happens when the consumer chooses a brand (Harrell, 1986) and also arises due to the public nature of the product consumption (Bearden & Etzel, 1982). Visibly branding a product by manufacturers, as in the case of an athletic shoe, is another reason for social risk. Social risk affects one's brand choice (Bearden & Etzel, 1982 ; Childers & Rao, 1992). The social risk moderates the relationship between a well-known brand and its brand extension price premium. The more the social risk, the consumers will have to pay a higher price premium for an extension category to acquire a highly regarded brand to diminish the social risk.

↳ **H4 :** For the extension category, the social risk positively increases the effect of fit on brand extension price premium.

Objective of the Study

The primary focus of this study is to ascertain the association between perceived fit and the brand extension price premium. It further studies the moderating role of performance risk, financial risk, and social risk on the association between fit and brand extension price premium.

Methodology

The study is descriptive in nature.

(1) Sample : The sample consists of a total of 335 respondents who were existing users of Sony (registered trademark) LCD TV. A total of 850 potential respondents were contacted, of which only 335 (39%) agreed to participate in the study. A source list of Sony LCD TV owners was obtained from Sony dealers in Kochi, Kerala for the purpose of the study. The data collection was spread across three months from January - March 2015.

(2) Product Types Used in the Study : The related brand extension product used was an advanced 3D curved Sony LED TV whose fair price (floor price) was quoted as INR 200,000, based on information related to competitor prices in the market. The unrelated brand extension product used for the study was Sony wet and dry vacuum cleaner (a fictitious Sony product) whose fair price (floor price) was quoted as INR 9,000 based on real competitor prices. The comparable prices and features were explained to the respondents for both the products.

(3) Method of Data Collection : The respondents were visited in person at their homes, and they were assisted to

fill in the schedule. The respondents were, in advance, briefed about the objective of the visit over e-mail (or phone), and they were visited subsequent to getting their consent.

Among Sony LCD TV users, consumers were asked the scheduled questions to find their perceived fit. Similarly, their financial risk, performance risk, and social risk were also measured. The respondents were then introduced to a related product extension, that is, Sony 3D curved LED TV. The procedure was repeated for Sony vacuum cleaner (fictitious unrelated extension in India). The respondents were divided into high and low groups for all the measured variables, that is, fit, financial risk, performance risk, and social risk as well. For both the products, the same set of respondents were used.

(4) Variables Studied and their Operational Definitions : A 5- point Likert scale from *strongly disagree* (1) to *strongly agree* (5) was used to measure the constructs. The schedule was converted to vernacular Malayalam. Fit refers to the similarity between the extension product category and the existing products affiliated with the brand.

This was measured using the following questions :

(i) Sony LCD TVs are similar to other Sony products in terms of the needs they satisfy (Smith & Park, 1992).

(ii) Sony LCD TVs are similar to other Sony products in terms of the need situations in which they are used (Smith & Park, 1992).

(iii) Sony LCD TVs are similar to other Sony products in terms of the skills needed to manufacture them (Smith & Park, 1992).

(iv) Sony LCD TVs are similar to other Sony products in terms of their physical features (Smith & Park, 1992).

(v) There is a good fit between Sony brands and Sony LCD TV (Keller & Aaker, 1992).

(vi) It is logical for Sony to make LCD TVs (Keller & Aaker, 1992).

(vii) It is appropriate for Sony to make LCD TVs (Keller & Aaker, 1992). *A score of five indicates high fit.*

Financial risk refers to the economic loss if the product does not perform. This was measured using the following questions :

(i) Considering the investment involved, purchasing a Sony LCD TV would be risky (Grewal et al., 1994).

(ii) Given the financial expenses associated with purchasing a Sony LCD TV, there is substantial financial risk (Grewal et al., 1994).

(iii) I would worry about the cost of purchasing a Sony LCD TV (DelVecchio & Smith, 2005).

(iv) Given the financial commitment, I may regret purchasing a Sony LCD TV (DelVecchio & Smith, 2005).

(v) I could lose a significant amount of money if I ended up with a Sony LCD TV that didn't work (DelVecchio & Smith, 2005).

(vi) Due to the financial commitments, I am unlikely to buy a Sony LCD TV (DelVecchio & Smith, 2005). *A score of five indicates high financial risk.*

Performance risk refers to the reduced utility and physical or emotional harm resulting from shoddy performance. This was measured using the following questions :

(i) I am certain that the Sony LCD TV would work satisfactorily (reverse coded question) (Bearden & Terrence, 1982).

(ii) If a Sony LCD TV malfunctions, the consequences can be fairly severe (DelVecchio & Smith, 2005).

(iii) Buying the wrong LCD TV can lead to very negative outcomes (DelVecchio & Smith, 2005).

(iv) You need to be careful when buying a LCD TV since a lot can go wrong when you use it (DelVecchio & Smith, 2005).

(v) There is little that can go wrong when using a LCD TV (reverse coded question) (DelVecchio & Smith, 2005). *A score of five indicates high performance risk.*

One question that was deleted for low inter-item correlation among other questions is :

(i) You are likely to have problems with the performance of your Sony LCD TV (DelVecchio & Smith, 2005). This will not have an adverse effect on the face validity.

Social risk refers to the peer evaluation that happens when a consumer chooses a brand and also due to the public nature of the product consumption. This was measured using the following questions :
Social risk (evaluation by others) :

(i) If I buy a LCD TV, other people are likely to know that I own and use it (Bearden & Etzel, 1982).

(ii) If I buy a LCD TV, other people are likely to evaluate my purchase (DelVecchio & Smith, 2005).

(iii) If I buy a LCD TV, people will see me using it (DelVecchio & Smith, 2005).

(iv) If I buy a LCD TV, people will ask me questions about it (DelVecchio & Smith, 2005).

(v) If I buy a LCD TV, I will probably have to explain to some people how I chose it (DelVecchio & Smith, 2005).

Social risk-(brand prominence- evaluation by self) :

(i) When you look at a LCD TV, it is easy to identify the brand name of the manufacturer (DelVecchio & Smith, 2005).

(ii) It is easy to tell one LCD TV from another by looking at it (DelVecchio & Smith, 2005).

(iii) Brand names are likely to be prominently displayed on LCD TVs (DelVecchio & Smith, 2005). *A score of five indicates high social risk.*

Price premium refers to the situation where the consumer is willing to pay a higher price for the brand extension. The price premium intention was captured using the following questions :

(i) For the related brand extension, given that the fair price for an advanced 3D curved LED TV is INR 200,000, what price are you willing to pay for a Sony advanced 3D curved LED TV? (Quote your price in rupees) (DelVecchio & Smith, 2005).

(ii) For the unrelated brand extension, given that the fair price for a wet and dry vacuum cleaner is INR 9,000, what price are you willing to pay for a Sony wet and dry vacuum cleaner?(Quote your price in rupees) (DelVecchio & Smith, 2005).

Since various financing options are available for purchase of these expensive LED products, there were moderate number of existing LCD customers who had bought these advanced 3D curved LED TVs as an additional TV.

(5) Statistical Tools Used : The study predominantly uses descriptive statistics and also inferential statistics like *t*-test and regression analysis.

Analysis and Results

The standardized Cronbach's alpha for each of the scales used in the measurement has a reported value above 0.70 (Nunnally, 1978). Among the 335 respondents, there were graduates (36.7%), post graduates (49.8%), and doctoral degree holders (2.68%) ; 63% of the respondents (211) were in the age category of 21-30 years, 15.5% (52) were in the age category of 31-40 years, and 18.8% (63) were in the age category of 41-60 years. The circumstances affirm the fact that younger respondents (21-30 years), being more tech savvy, were active decision makers for their parents when purchasing a home TV.

When the brand extension (BE) is unrelated, to reduce risk, it is seen that across age categories, the percentage who were not willing to pay a premium are smaller (Table 1). When the brand extension is unrelated, to reduce risk, it is seen that among women and men, the percentage of respondents not willing to pay premium is smaller (Table 2). In the case of related brand extension, due to lesser perceived risk, the percentage of respondents not willing to pay premium is 6% more (53%) than those willing to pay a premium (47%). In the case of unrelated

Table 1. Age and Willingness to Pay Price Premium

	BE related	BE Unrelated
	Percentage not willing to pay premium	Percentage not willing to pay premium
Age (in years)		
21-30	55	52
31-40	54	46
41-60	51	49

Table 2. Gender and Willingness to Pay Price Premium

	BE related	BE Unrelated
	Percentage not willing to pay premium	Percentage not willing to pay premium
Gender		
Female	49	45
Male	55	53

Table 3. Descriptive Statistics for Variables

Descriptive statistics for variables (for existing LCD customers)		
Variables	**Mean**	**Std. Dev**
Brand Extension Fit	3.42	0.82
Financial Risk	2.99	0.73
Social Risk	3.40	0.92
Performance Risk	3.28	0.81
Valid *N* (335)		

Table 4. Descriptives for Related Product Brand Extension

Descriptives for related Product Brand Extension (LED TV)					
BE Related		**Fit**	**Financial Risk***	**Social Risk**	**Performance Risk**
Willing to pay premium	*N*	158	158	158	158
	Mean	3.64	2.92	3.65	3.49
	Std. Dev	0.64	0.76	0.60	0.61
Not Willing to pay premium	*N*	177	177	177	177
	Mean	3.22	3.04	3.17	3.09
	Std. Dev	0.91	0.70	1.08	0.91

*Independent sample *t*-test $p > .05$ (not sig). All other groups $p < .05$. (Homogeneity of variance not assumed).

Table 5. Descriptives for Unrelated Product Brand Extension

Descriptives for unrelated Product Brand Extension (Vacuum Cleaner)					
BE Unrelated		**Fit**	**Financial Risk***	**Social Risk**	**Performance Risk**
Willing to pay premium	*N*	167	167	167	167
	Mean	3.67	2.96	3.73	3.54
	Std. Dev	0.60	0.77	0.57	0.59
Not Willing to pay premium	*N*	168	168	168	168
	Mean	3.17	3.02	3.07	3.03
	Std. Dev	0.93	0.68	1.08	0.92

*Independent sample *t*-test $p > .05$ (not sig). All other groups $p < .05$. (Homogeneity of variance not assumed)

Table 6. Summary of the Main and Interaction Effects

	Summary of the Main and Interaction Effects						
	Related Extension(LED TV)			Unrelated Extension(Vacuum Cleaner)			Interaction or Moderation
	Standardised Beta	***t*-value**	***p*-Value**	**Standardised Beta**	***t*-value**	***p*-Value**	
FIT	0.22	4.15	0.00	0.31	5.96	0.00	
Financial Risk	-0.11	-1.88	0.06	-0.09	-1.59	0.11	
FIT * Financial Risk	0.05	0.79	0.43	-0.01	-0.09	0.93	No
FIT	0.08	0.98	0.33	0.13	1.72	0.09	
Social Risk	0.10	1.25	0.21	0.11	1.41	0.16	
FIT *Social Risk	-0.15	-2.12	0.04	-0.19	-2.85	0.01	Yes
FIT	0.13	1.68	0.09	0.15	1.97	0.05	
Performance Risk	0.01	0.18	0.86	0.07	0.97	0.34	
FIT * Performance Risk	-0.16	-2.50	0.01	-0.22	-3.42	0.00	Yes

Dependent variable: Brand extension price premium

brand extension, due to higher risk, the number of people not willing to pay a premium is 50%. When risk is more in unrelated brand extension, more percentage of respondents are willing to pay a premium.

The independent sample *t*-test was conducted to verify whether there is a mean difference between the two categories : willingness to pay premium and not willing to pay premium. For all the variables, there is a significance ($p < .05$, there is a difference between the means), but for financial risk. The results are equally good for related brand extension and unrelated brand extension (Tables 4 and 5).

The social risk and performance risk has a moderating effect on the relationship between fit and price premium for both related and unrelated extension (Table 6). The fit between the existing brand and brand extension decreases as the performance risk increases ; thereby, consumers are willing to pay a higher premium to negate the performance risk by purchasing a well-known brand with high fit (Tables 6 and 7). Similarly, the fit between the existing brand and brand extension decreases as the social risk increases, thereby consumers are willing to pay a higher premium to negate the social risk by purchasing a well-known brand with high fit (Tables 6 and 7).

Discussion

As per hypothesis H1, fit leads to an increase in brand extension price premium. The respondents those who were willing to pay a premium had a higher value for fit (mean scores) for both related and unrelated product category extensions (Tables 4, 5, 7). The mean score difference from those willing to pay a premium and not willing to pay a premium is significant ($p < .05$) as well across related and unrelated brand extension categories (Tables 4 and 5).

As fit increases between the brand and the brand extension, consumers see a favourable association, which leads to positive evaluations of the brand extension (Aaker & Keller, 1990 ; Gronhaug et al., 2002). Fit also reduces perceived negative outcomes for the brand extension (DelVecchio, 2000). Therefore, the higher the fit, the more is the willingness to pay a price premium (DelVecchio & Smith, 2005).

The arguments are relevant and are aligned with the managerial context as well. Marketing practitioners prefer a high fit in brand extensions, which helps to capture higher market share than new brand launches. The best way a brand advantage can be leveraged in extensions is to understand the advantage, recognition, relevance, and credibility of the existing brands and use them (Chogle, 2013). A brand which powerfully establishes itself among

Table 7. Percentage of Respondents Willing to Pay Price Premiums

Percentage of respondents willing to pay price premiums (Respondents willing to pay more than the prescribed benchmark price)			
Scenarios	**Related brand extension**	**Unrelated brand extension**	**Observation**
High Fit (> 3)	55.2	57.7	For both categories, more the Fit, more % of respondents willing to pay premium and vice-versa.
Low FIT (<=3)	31	28.7	
High Financial risk (FR) (>3)	47.2	49.3	No clear pattern
Low Financial risk (FR) (<=3)	50.3	50	
High Performance risk (PR) (>3)	55	57.6	For both categories, more the PR, more % of respondents willing to pay premium and vice-versa.
Low Performance risk (PR) (<=3)	35.8	34	
High Social risk (SR) (> 3)	55.6	58.9	For both categories, more the SR, more % of respondents willing to pay premium and vice-versa.
Low Social risk (SR) (<=3)	29.9	25.3	

customers has strong brand equity, which assists firms to manage competition and maintain market share. A brand extension with a better perceived fit ensures product success (Madhavi & Rajakumar, 2004).

The respondents of the study have higher scores for perceived fit across related and unrelated brand extensions (high mean scores), and this is reflected in their decision to pay a higher premium, which confirms the hypothesis as per the previous studies. Since all the respondents were existing Sony users, the brand has an average fit score as high as 3.67 and as low as 3.17 for even an unconventional (unrelated extension) product like vacuum cleaner (Table 5). For an advanced 3D curved LED TV, the brand fit average is as high as 3.64 and as low as 3.22 (Table 4). For an advanced 3D curved LED TV, existing users of Sony LCD TV find a high natural fit, and hence, the percentage of respondents willing to pay a premium (47%) is relatively less compared to unrelated product extension, vacuum cleaner (50%), which is an indication towards moderation of certain other variables.

As per hypothesis H2, for the extension category, the financial risk positively increases the effect of fit on brand extension price premium. The study fails to find a moderating role for financial risk in the relationship between fit and price premiums (Table 6). The results are contrary to the results obtained by the study of DelVecchio and Smith (2005), where the moderating role is significant (p <.05). Financial risk refers to economic loss if the product does not perform. The respondents were users of Sony, and all the respondents have had a qualifying appreciation for the brand, and they never associated any financial risk. There is no difference in mean scores between respondents who were willing to pay premium and those not willing to pay the premium for both related and unrelated brand extensions (Tables 4, 5, and 7). The number of respondents who were willing to pay a premium for related extension and unrelated extension is not different from those not willing to pay a premium for both the categories (Table 7).

As per hypothesis H3, for the extension category, the performance risk positively increases the effect of fit on brand extension price premium. The study finds a moderating role for performance risk (Related extension -0.16, p <.05 ; Unrelated extension - 0.22, p <.05) (Table 6). The results are contrary to the results of DelVecchio and Smith (2005), where the moderating role is not significant (p >.05). Among the respondents willing to pay a premium, the performance risk is higher (mean scores) for both related and unrelated product category extensions (Tables 4, 5, and 7).

Performance risk refers to the reduced utility and physical or emotional harm resulting from shoddy performance (Bauer, 1967; Grewal et al., 1994). Under conditions where the extension category quality variance is high (high risk of obtaining a low performance brand extension), the consumers are willing to pay a higher price premium for an extension category to obtain a highly regarded brand to reduce the performance risk.

Even though consumers had a neutral opinion (mean score near around 3) for financial risk, the performance risk even for a reasonable good brand like Sony is towards a higher side. For related product brand extension (LED TV), those consumers who perceived higher performance risk were willing to pay a higher premium (Table 4). Among respondents for an unrelated product brand extension (Sony vacuum cleaner), those who perceived higher performance risk were willing to pay a premium (Table 5). For both related and unrelated product brand extension, those who perceived lower performance risk were not willing to pay any premium (Tables 4, 5, and 7).

As per hypothesis H4, for the extension category, the social risk positively increases the effect of fit on brand extension price premium. The study finds a moderating role for social risk (Related extension - 0.15, p <.05; Unrelated extension -0.19, p <.05) (Table 6). The results are similar to the results obtained by DelVecchio and Smith (2005), where the moderating role is significant only at p <.10 and is not significant at p <.05. Among the respondents willing to pay a premium, the social risk is higher (mean scores) for both related and unrelated product category extensions (Tables 4, 5, and 7).

Social risk refers to the peer evaluation that happens when the consumer chooses a brand (Harrell, 1986) and also due to the public nature of the product consumption (Bearden & Etzel, 1982). Visibly branding a product by manufacturers, as in the case of an athletic shoe, is another reason for social risk. Social risk affects one's brand choices (Bearden & Etzel, 1982 ; Childers & Rao, 1992).

Both the products used in the study, LED TV and vacuum cleaner, are not having very high public nature of consumption. For related and unrelated product brand extension, the respondents who perceived high social risk were willing to pay a premium (Tables 4, 5, and 7). Similarly, for both related and unrelated extensions, the respondents who perceived a lower social risk were not willing to pay a premium.

The main effects of financial, performance, and social risks are not directly significant in determining the price premiums of product brand extensions. The results are similar to the results obtained by DelVecchio and Smith (2005), reporting at the 5% level of significance. Cultural differences play a major role in such associations, and hence, different types of products and brands in different cultural contexts need to be studied. Standardized brand extension strategies are to be carefully considered before taking practical managerial decisions (Buil et al., 2009).

Managerial Implications

The general understanding that can be of use to managers from the present study is that more the fit between an established existing brand and the product brand extension, the more is the willingness to pay the premium since the established existing brand is having high brand equity, and its trust factor is high. If the well-known brand comes out with an unrelated brand extension, then due to higher perceived risk, the consumers look out for the best brand available and are willing to pay a higher premium. If the parent brand is new and not well established, the fit of the extension brand is not important as the believability and trust of the parent brand itself is under question, and the consumer seeks for a well-known brand extension for a higher premium.

All the three types of risk, that is, financial, performance, and social risks are important. Even though the direct effects may not be significant as seen in the study, they have a specific role in determining the relationship between fit and willingness to pay price premium. All these risks are not relevant every time, but their importance and role vary under different contexts like; the brands chosen ; the type of product under consideration ; duration of usage of the product ; cost of product replacement ; the price floor (minimum price) attached to each product ; cultural, social, personal (particularly age, life cycle, and personality/self-concept), and psychological aspects.

Financial risk refers to economic loss if the product does not perform (Grewal et al., 1994). For example, in the present context, the respondents were users of Sony LCD TV, a brand perceived to have a high reputation (brand equity) in India ; particularly in Ernakulam, the financial risk is not a relevant criteria that affects the relation between fit and price premium. The financial risk is the lowest for Sony LCD TV users (mean 2.99) (Tables 3, 4, and 5).

Social risk refers to the peer evaluation that happens when the consumer chooses a brand (Harrell, 1986) and also due to the public nature of the product consumption (Bearden & Etzel, 1982). Social risk may not be fully applicable for a product like TV. As the product is used in a closed circle (home or office), the sphere of influence of social risk is limited perhaps to one's family circle or social circles. For example, peer evaluation can happen when one's electronic gadget ownership is discussed in the confines of one's social circle. However, peer evaluation is important while purchasing a product. In this study, the social risk for the respondents is the highest (mean 3.40) (Tables 3, 4, and 5).

Under conditions where the extension category quality variance is high (high risk of obtaining a low performance brand extension), the consumers will have to pay a higher price premium for an extension category to obtain a highly regarded brand to reduce the performance risk. Performance risk is not as high (mean 3.28) when compared to social risk, but consumers have sensed a misfit from what traditionally Sony brand is, when they thought about vacuum cleaners as a brand extension (Tables 3, 4, and 5).

Limitations of the Study and Scope for Further Research

The absence of an experimental setting can put a hold on the possibility of causality based conclusions, as it

becomes difficult to separate the influence of other factors affecting the associations between variables. Various other dimensions other than real product users can be looked into in future studies. More research needs to be conducted before generalization of theory. The present study reflects a more vibrant result, particularly regarding the *p*-value fixed at 5% compared to 10% in the previous study.

Future studies should look into the following aspects of buyer behaviour - like the brands chosen ; the type of product under consideration ; duration of usage of the product ; cost of product replacement ; the price floor (minimum price) attached to each product ; cultural, social, personal (particularly, age, life cycle, and personality/self-concept), and psychological aspects. Longitudinal studies which are replicated in different brand & type of extensions and consumer segments are needed to figure out any long term effects (Diamantopoulos et al., 2005).

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