

The influence of a vertical service line extension on existing customers' perceived brand image in the case of Capitec and Absa Bank

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*Thesis presented in fulfilment of the requirements for the degree of
Master of Commerce in the Faculty of Economic and Management
Sciences at Stellenbosch University*



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April 2014

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ACKNOWLEDGEMENT

Thank you Jesus.

ABSTRACT

In the financial service sector, specifically the banking sector, the competition for market share has become fierce. South Africa's Big Four banks (Absa, FNB, Standard Bank and Nedbank) are currently threatened by Capitec's simplified business strategy. Capitec is not just retaining customers, but also attracting new-to-bank customers and customers from other banks. Capitec's strategy has led to an increase in competitive rivalry among the banks.

The Big Four banks are struggling to retaliate against Capitec's innovation, creating a situation where only the strongest will survive. The reason for this competition is Capitec's move to target the higher-income market, since they are changing the profile of their original customer base. On the other hand, Absa is counter-attacking by targeting Capitec's primary market that consists of lower-income groups. Both Capitec and Absa are initiating vertical service line extensions (VSLE). The difference between the two banks' strategies is the direction of the vertical extension, where Capitec is utilising an upward VSLE, and Absa is utilising a downward VSLE.

Not enough attention has been given to service line extensions compared to extensions of tangible products. In this study the focus is on vertical line extensions within the service sector and more specifically the banking sector. The primary objective is to investigate the influence attitudes towards a vertical service line extension (VSLE) have on current customers' perceived brand image. Furthermore, the difference between customers' attitudes towards a bank pursuing an upward vertical service line extension and one pursuing a downward vertical service line extension, is investigated.

The secondary objectives of the study are to assess whether or not (1) perceived quality influence customers' attitudes towards a VSLE; (2) perceived status fit influence customers' attitudes towards a VSLE; (3) customers' perceived fit between their self-image and the communication, influence attitudes towards a VSLE; (4) attitudes towards a VSLE influence brand image; (5) there is a difference between customers' brand image, perceived quality, perceived fit, and self-brand communication fit of a bank that introduced an upward extension and one that introduced a downward extension.

In the case of an upward VSLE (Capitec), the results suggest that perceived quality was the only variable that significantly influenced attitudes towards the VLSE. On the other hand, in the case of a downward VSLE (Absa), perceived quality and communication fit significantly influenced attitudes towards a VSLE. Furthermore, attitudes towards the VSLE did significantly influence brand image in both an upward and downward extension. Perceived status fit was the only variable that did not significantly influence attitudes towards a VSLE in both an upward and a downward extension. It emerged that the attitudes of customers from a bank initiating an upward extension (Capitec) differ from customers from a bank initiating a downward extension (Absa).

Capitec and Absa customers differ in their evaluation of perceived quality, status fit, communication fit and brand image. The greatest difference among the two customer groups were caused by communication fit and perceived brand image. In this study Capitec customers evaluated their bank more favourably than Absa customers did. This result can be attributed to the direction of the extension and customers feelings towards it.

It was advised that managers should thoroughly investigate the benefits and risks in implementing an upward or downward VSLE, since this study concludes that in either case brand image will be influenced.

OPSOMMING

In die Suid-Afrikaanse mark het die kompetisie tussen banke geweldig gestyg soos die banke meeding om mark aandeel. Die Groot Vier banke (Absa, FNB, Standard Bank en Nedbank) word tans uitgedaag deur Capitec se eenvoudige dienslewering strategieë. Capitec is besig om dienste te lewer aan hul huidige kliënte, asook die gedeelte in die mark wat nog nooit voorheen van bankdiense gebruik gemaak het nie. Verder, is Capitec besig om kliënte van ander banke af te rokkel.

Die Groot Vier sukkel om mee te ding met Capitec se innovasie rondom algemene bankdienste. Dus, word daar nou 'n situasie in die finansiële sektor geskep waar net die sterkstes sal oorleef. Die rede vir hierdie mededinging in die mark is as gevolg van Capitec se beweging na 'n hoër-inkomste mark. Die oorspronklike kliënte-profiel van Capitec word nou op 'n prominente wyse verander. Absa, daarteenoor is besig om Capitec teë te werk deurdat hul laer-inkomste markte infiltreer. In beide gevalle is Capitec en Absa besig om 'n 'vertical service line extension (VSLE)' te implementeer. Die verskil tussen die twee banke is die rigting van die VSLE, waar Capitec 'n opwaartse VSLE implementeer het en Absa 'n afwaardse VSLE implementeer het.

In die huidige literatuur word daar nie genoeg aandag gegee aan 'service line extensions' in vergelyking met 'product line extensions' nie. Dus, die fokus van hierdie studie is op VSLE in die bankdienste sektor. Die primêre doelwit is om te bepaal of huidige kliënte se houdings teenoor die VSLE 'n beduidende invloed het op die handelsmerk. Verder, is ondersoek ingestel om te bepaal of daar 'n verskil is tussen 'n bank se kliënte wat 'n opwaartse VSLE implementeer en een wat 'n afwaartse VSLE implementeer.

Die sekondêre doelwitte was om vas te stel of (1) kliënte se gehalte persepsie 'n effek het op hul houding teenoor 'n VSLE; (2) status ooreenstemming 'n effek het op kliënte se houding teenoor 'n VSLE; (3) ooreenstemming tussen kliënte se self-persepsie en die bank se kommunikasie 'n effek het op hul houding teenoor die VSLE; (4) kliënte se houding teenoor die VSLE 'n effek het op die handelsmerk; (5) daar 'n verskil is tussen kliënte van 'n bank wat 'n opwaartse VSLE implementeer en een wat 'n afwaartse VSLE

implementeer interme van, gehalte persepsie, status ooreenstemming en hul ooreenstemming tussen self-persepsie en kommunikasie.

In die geval van 'n opwaartse VSLE (Capitec) is dit bevind dat net kliënte se gehalte persepsie 'n beduidende invloed het op hul houdings teenoor die VSLE. In die geval van 'n afwaartse VSLE (Absa) is daar bevind dat kliënte se gehalte persepsie en kommunikasie 'n beduidende invloed het op hul houdings teenoor die VSLE.

In beide 'n opwaartse en afwaartse VSLE het kliënte se houdings teenoor die VSLE 'n beduidende effek op die handelsmerkbeeld gehad. Status ooreenstemming tussen die huidige kliëntebasis en die kliëntebasis wat bereik wil word deur die VSLE, het geen effek gehad op kliënte se houding teenoor die VSLE nie. Verder, was dit bevind dat kliënte wat betrokke is by 'n bank wat 'n opwaartse VSLE implementeer (Capitec) verskil van die kliënte wat betrokke is by 'n bank wat 'n afwaartse VSLE implementeer (Absa).

Capitec en Absa kliënte verskil in hul evaluasie van die betrokke bank se gehalte persepsie, status ooreenstemming, kommunikasie en handelsmerk evaluasie. Die grootste verskil tussen die twee steekproewe is by kommunikasie evaluasie en handelsmerk evaluasie. Daar is onder andere bevind dat Capitec kliënte hul bank beter evalueer as Absa kliënte. Hierdie bevinding kan verduidelik word deur die rigting van die twee banke se VSLE.

Die gevolgtrekking is dat handelsmerkbeeld, ongeag die rigting van die VSLE, beïnvloed word deur huidige kliënte se houdings teenoor die VSLE. Dus, moet bestuurders al die voordele en nadele in verband met 'n VSLE opgeweeg voordat 'n VSLE strategie geïmplementeer word.

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CHAPTER 1: INTRODUCTION AND OVERVIEW

“Marketing takes a day to learn. Unfortunately it takes a lifetime to master” (Kotler, 1931 cited on Bizcommunity.com, 2013).

1.1 INTRODUCTION

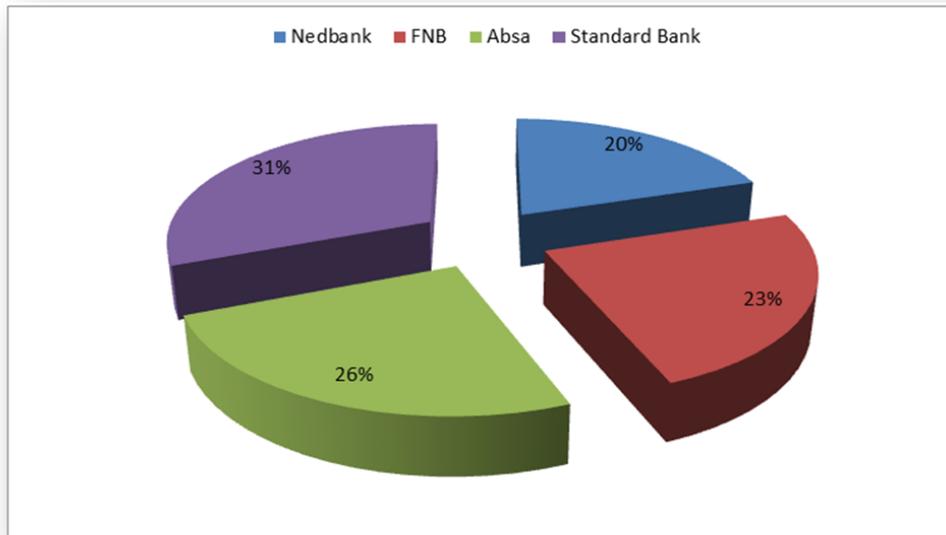
South Africa has a developed and well-regulated banking system which, according to The Banking Association of South Africa (2012) compares favourably with those of many industrialised countries. Changes in the banking sector, such as the mergers of a number of banks including Allied, Volkskas and United to form Absa are a result of consolidation (The Banking Association of South Africa, 2012). Furthermore, changes in the regulatory environment, product offerings, and number of participants have resulted in a growing level of competition among banks (The Banking Association of South Africa, 2012). Thus, the banking sector continues to undergo changes as new entrants enter the financial service arena.

The increased competition within and attraction towards the South African banking sector, can be explained by the potential growth and profit in the lower income segments. Approximately fifty percent of South Africans live under the ‘bread line’ (Hubbard, 2013). Many service providers, including banks, appreciate the potential of these segments and specifically target these groups when they market various products and services.

The South African banking industry consists of seventeen registered banks, two mutual banks, twelve local branches of foreign banks, and forty-one foreign banks with approved local representative offices (The Banking Association of South Africa, 2012). The four major banks dominating the South African market are Standard Bank, Absa, First National Bank (FNB) and Nedbank. Figure 1.1 illustrates the market share of the four major banks as at the end of November 2012 (The Banking Association of South Africa, 2012).

Standard Bank, the largest bank in terms of assets, has a market share of 31%, followed by Absa with 26%. First National Bank (FirstRand) and Nedbank have a market share of about 23% and 20% respectively (The Banking Association of South Africa, 2012).

FIGURE 1.1 MARKET SHARE OF MAJOR FOUR BANKS



Source: The Banking Association of South Africa, 2012:4

Despite the dominance of the Big Four banks a relatively new market entrant, Capitec, has made some inroads. Capitec started as a micro-loan provider but soon realised the potential of the under-banked lower-income segment and expanded into a retail bank (Coetzee, 2003; Capitec, 2012).

Today Capitec is taking market share from the Big Four due to the bank's low transactional costs and simplified services, among other things (Fisher-French, 2010). In response, the Big Four are implementing a variety of strategies to retain their customers and defend their market share. FNB introduced a new bank offering, *EasyPlan*, which is a direct challenge to Capitec (Fisher-French, 2010). Furthermore, Absa's *Transact* account is a no-frills banking offering aimed at the entry-level market, including students (Fisher-French, 2010).

In contrast to Absa, Capitec is attempting to expand their market share by targeting a higher segment in the market. Capitec recently launched a R230 000 loan offering which is aimed at higher-income individuals. This amount is continually increasing,

which is a reflection of the bank's attempt to attract the affluent target market. In addition, the bank has implemented top-of-the-range technology such as their fingerprint identification scanning and the development of a credit card. Through these offerings Capitec is changing their perceived image as a 'lower-income market' service provider.

Absa lost thousand of entry level customers to Capitec, furthermore a lot of the middle-income market switched to FNB (Whitfield, 2013). In addition, Capitec created much attention with their innovative strategies that the Big Four banks are in an uproar. Thus, Absa and Capitec are selected as cases in this study.

It appears as if both Capitec and Absa are trying to capitalise on the potential growth in two different segments of the market. Capitec is expanding its services to a higher-income market and Absa to a lower-income market. It is evident that both Absa and Capitec Bank are expanding to different markets, but the difference between the two is the direction of the extension.

According to Aaker (1997) it is hard to resist the potential of premium or value segments if these segments can enhance a firm's growth. Therefore, it is not a surprise if firms want to take their brands to attractive markets above or below their current position. Vertical line extensions have become a strategic tool as firms compete for growth (Lei, Ruyter and Wetzels, 2008). Vertical service line extensions (VSLE) can be defined as an extension of the parent brand name to different variants in the same product category, but usually at different price points or quality levels (Kirmani, Sood, and Bridges, 1999).

Competing at the top end of the South African airline industry, British Airways performed a downward extension when they introduced the Kulula.com brand. Furthermore, Shoprite Checkers performed the same strategy when they launched USave for the lower-income market. In contrast, Absa Bank implemented an upward extension when it introduced their private banking services. A two-way extension has been executed by Holiday Inn by means of adding both luxury and inexpensive accommodation to their range of hotels. However, the question to be answered is how will these VSLEs be received by existing customers and what influence may the extension have on the parent brand image?

Lei *et al.* (2008) point out that several studies have been done regarding brand extensions that examine the extension of a parent brand into different product categories, but not enough attention has been paid to VSLEs. Yet this is a common strategy practised in the hotel- and financial service sector (Kirmani *et al.*, 1999; Lamb, Hair, McDaniel, Boshoff and Terblanche, 2008).

Little empirical evidence has been reported on the influence a line extension has on current customers. Among the existing studies of line extensions the focus has primarily been on horizontal extensions of tangible products that extend the parent brand name into different varieties in the same product category (Martínez and Pina, 2003; Arslan and Altuna, 2010). Therefore, this study contributes to closing this gap in the existing literature.

1.2 VERTICAL LINE EXTENSIONS IN PERSPECTIVE

“Business has only two functions – marketing and innovation” (The Economist, 2012). This quotation may highlight the significance of marketing in business, but it can hardly be said that marketing and innovation are the only two functions of a firm. Scrutinising all the functions of a firm is beyond the scope of this study, however to understand where marketing fits in, it is necessary to discuss the different functions briefly.

1.2.1 Business management

According to Van Rensburg (2008) any firm wants to generate a profit and the only way of achieving this goal is through ensuring customer satisfaction. The economic principle dictates that a firm must try to satisfy customers while utilising its resources in the most economical way (van Rensburg, 2008). But, this is only possible when the resources are managed in such a way that the customer is satisfied while the business makes a profit. However, this is easier said than done.

One of the key issues in any firm is the management of people and other resources (Pride, Hughes and Kapoor, 2012). These resources, material, human, financial, and informational are used to achieve the firm’s strategic goals. All the resources within a firm are used in alignment with one another with the focus on satisfying customers’ needs while ultimately generating a profit. According to Lamb *et al.* (2008) the

primary goal of marketing is to satisfy customers' needs. Therefore, marketing is a tool used to generate profits.

Brand managers continuously try to reach new markets. One way of targeting new markets or strengthening existing ones is through brand extension strategies.

1.2.2 Brand extension strategies

Brand extension strategies consist of two main fundamentals, (1) extending to a category different from the current category, or (2) extending within the existing category. In this study the focus will be on the latter. Extending within the existing category can further be described as horizontal or vertical extensions.

Horizontal extensions are usually a line extension to different variants of the parent brand (Lee, Lee and Kamakura, 1996). These horizontal extensions are evident in the extension of tangible products.

A vertical extension, on the other hand, is the introduction of a product or service that is of higher or lower quality and/or price points than the parent brands' current position (Kirmani *et al.*, 1999). A vertical extension is evident in the extension of services to different markets.

The key characteristic of a vertical extension is the direction of the extension. The extension can be either upward or downward from the parent brand's current position (Kim, Lavack and Smith, 2001). An upward vertical extension is where the brand targets a higher-income market, usually a market that can afford to pay higher prices. A downward extension is when the brand targets a lower-income market, usually a market that cannot afford the higher priced items or services.

Vertical line extensions are an effective tool when firms are competing for market growth (Aaker, 1997). However, the questions whether an extension to a different market will be accepted by the existing customers and how the extension will influence their responses to the parent brand image is seldom addressed. In the case of both horizontal and vertical extensions, the brand is attempting to expand its existing market share, by motivating existing customers to buy the new extension, stimulating trial among potential customers, or both. A brand can only extend, whether horizontally or vertically, when it possesses enough brand equity in the

minds of the target market. The impact of these strategies on the firm's brand equity is of critical importance.

Keller (1993) points out that brand equity is a multidimensional concept that depends on: (1) what knowledge structures are present in customers' memory and (2) what actions a firm can take to capitalise on these knowledge structures. Brand image makes out part of the customer's knowledge structure (Keller, 1993).

1.2.3 Brand image and brand concepts

Keller (1993) defined brand image as the perceptions customers have about a certain brand and how it is reflected by the brand associations in their memory. Brand associations are thus informational cues connected to the brand in the customer's memory. These informational cues carry meaning about the brand. Therefore, different types of associations will hold different meanings (Martínez and Pina, 2008). Firms transmit various cues to create types of association among customers. Price and quality signals are such cues.

Usually vertical line extensions extend on either price or quality dimensions depending on their current brand concept. The existing brand concepts, positioned in customers' memory, can influence the effectiveness and success of a vertical extension. According to Bhat and Reddy (1998) every brand image should be based on a brand concept or a brand-specific abstract meaning. In its general form, a brand concept can be either symbolic or functional (Park, Milberg and Lawson, 1991). Customers evaluate whether the brand concept of the parent brand fits with that of the extension and vice versa. The lack of brand concept consistency can lead to brand image dilution, which is a negative affect being transferred from the extension to the parent brand image.

The opposite of brand image dilution is a positive reciprocal effect, which is the transfer of positive affect from the parent brand to the extension and vice versa (Völckner and Sattler, 2006). However, the direction of the extension influences whether the transfer of affect will be positive or negative.

The direction of a vertical extension, whether upward or downward, can dramatically influence the success of an extension. Upward extensions are often associated with

a higher-income market and downward extensions with a lower-income market. It is assumed that a higher market consists of individuals with a higher status and thus higher dispensable income.

On the other hand, lower markets are assumed to be associated with individuals with less status and disposable income in comparison to higher markets. Thus, when a brand evidently positioned as a higher market brand extends downward customers may feel inclined to evaluate the suitability of this extension (Martínez and Pina, 2008). Perceived fit is one such evaluative criterion.

1.2.4 Perceived fit

According to (Bridges, Keller and Sood, 2000) to utilise a successful extension, there must be at least one element of shared similarity between the parent brand and the extension. When a VSLE is introduced, it is usually to stretch the brand to different markets not served by the brand before (Kim and Lavack, 1996; Aaker, 1997).

Vertical line extensions are used to reach these new segments by offering different prices, points or quality levels. Thus, a discrepancy may emerge between existing customers and the customers targeted through the vertical extension. One may ask whether the two target markets share some or other similarity and is the similarity necessary for an extension to be successful. In this study the similarity is defined as target market fit. It is argued that if there is a fit between current customers and targeted customers, attitudes toward the VSLE may be favourable.

Target market fit has not been studied in a VSLE context. In fact, little research is available about the perception of fit between different markets. Hence whether target market fit is relevant in the evaluation of a VSLE, is investigated during this study.

1.2.5 Communication

It can be expected that when a firm extends its services to a new market through vertical extensions, customers may create negative associations, which may translate into a dilution of the brand image, and they may ultimately lose trust in the brand and its credibility (Martínez and Pina, 2008). Marketers want to avoid this image dilution and loss of credibility. However, effective communication can

strengthen the link between the parent brand and the new extension by creating perceived fit.

Individuals tend to identify with what they perceive to be similar to themselves (Johar and Sirgy's, 1991). Therefore, it is argued that if customers perceive there to be a level of similarity between their self-image and the brand's communication, the VSLE may be evaluated favourably. This fit between customers' self-image and that of the brand's communication is referred to as self-brand communication fit. In this study, it is investigated whether or not self-brand communication fit has an influence on customers' attitudes towards the extension.

1.3 IMPORTANCE OF THE PROPOSED STUDY

Lei *et al.* (2008) point out that several studies have been done regarding brand extensions. These studies examine the extension of a parent brand into a different product category. Despite this paucity of empirical evidence in the VSLE literature, VSLE is a common strategy practised in the service sector (Kirmani *et al.*, 1999).

In the case of Absa and Capitec, the banks are extending their service line to attract customers in new segments of the market. These strategies are a result of the increased competition among the financial service providers in South Africa (The Banking Association South African, 2012). Line extensions are therefore used to attract particular segments within the market.

Capitec's primary target market is the lower segment of the market, but this is slowly but surely changing and the VSLEs is just one tool used to move towards a higher position within the market. It can be argued that Capitec is trying to move from a bottom-of-the-pyramid position to a more mainstream position. The reason is to serve markets not yet reached by the bank and to capitalise on their existing brand equity. Furthermore, Capitec is mainly associated with relatively inexpensive services, thus creating the association of a functional-orientated brand concept.

On the other hand, Absa is classified as one of the Big Four banks in South Africa with a market share of 26% (The Banking Association South Africa, 2012). At the end of November 2010 Absa entered the lower segment of the market with its no-frills banking offering *Absa Transact* which targets the entry-level market and

students (Fisher-French, 2010). Furthermore, Absa has opened specific branches, called “Entry Level and Inclusive Banking Outlets”, to provide for the needs of this market and to ensure lower banking costs. According to Fisher-French (2010) these branches can be described as a combination between a Capitec branch and FNB’s automated deposit-taking tellers. This is in contrast to Absa’s private bank services, where prices are high and personal service guaranteed. Absa is currently extending their services to the under-banked market and this can be called a downward extension from their current position.

It is evident that both retail banks are implementing a strategy to reach a new market they did not serve before. In other words, the banks are extending their services vertically through an upward or downward extension from their current positions. The problem however is whether an extension to a different market will be accepted by the existing customers of Absa and Capitec respectively and how the extension will influence their responses to the parent brand image.

1.4 PROBLEM STATEMENT

Due to insufficient secondary research in regard to VSLEs in the service domain, specifically banking, the purpose of this study is to evaluate existing customers’ attitudes regarding an upward and downward VSLE in the case of Capitec and Absa respectively. Furthermore, how attitudes towards the extension influence the banks’ brand image is also investigated.

1.5 OBJECTIVE OF THE STUDY

The primary objective of this study is to evaluate existing customers’ attitudes towards the vertical (upward or downward) extension and the effect it has on brand image. Therefore, the following research question is formulated: do attitudes towards a VSLE influence existing customers’ perceive brand image?

The secondary objectives of the study were to assess whether or not:

1. perceived quality influences customers’ attitudes towards a VSLE
2. perceived status fit influences customers’ attitudes towards a VSLE

3. customers' perceived fit between their self-image and the communication influences attitudes towards a VSLE
4. attitudes towards a VSLE influence brand image
5. there is a difference between customers' brand image, perceived quality, perceived fit, and self-brand communication fit of a bank that introduced an upward extension and one that introduced a downward extension

1.6 RESEARCH METHODOLOGY

In order to address the objectives of this study, secondary research was conducted, followed by the primary research.

1.6.1 Secondary research

Zikmund and Babin (2010:163) define secondary research as research done and recorded by someone else before the current study. A literature review is conducted to better understand the phenomenon at hand by using the following research tools: books and journals, internet and library databases. Churchill (1979) concludes that secondary research is necessary to conceptualise constructs and specify the domain of the study.

The secondary research contributed a great deal to knowledge concerning Absa and Capitec's current behaviour in the market. However, the conclusion is drawn that there is an insufficient body of research with regard to VSLE. Therefore, this study contributes to the body of research done with regard to VSLE.

1.6.2 Primary research

Primary data is data not previously collected. The primary research undertaken is of a quantitative nature. Quantitative marketing research can be defined as research that addresses research objectives through empirical assessment which entails numerical measures and analysis approaches (Zikmund and Babin, 2010).

1.6.2.1 Population of the study

A population is described by Zikmund and Babin (2010:412) as any complete group of entities that share some common sets of characteristics. Therefore, a population is a group from which a sample is drawn to reflect on the total population. In this study only a sample of the population is investigated. The population in this study, consists of customers of Absa and Capitec Banks. The units of analysis are the two banks' existing customers.

A sample frame is a list of elements of the population from which a sample may be drawn (Zikmund and Babin, 2010). Due to the unavailability of a sample frame a convenience sampling method is used in this study, and as a result, only non-probability sample selection methods are available to draw the sample.

1.6.2.2 Sampling technique

A non-probability sampling method, where members do not have a known nonzero chance of being included in the sample, is used for the purpose of this study. In this method some elements have no chance, which is a probability of zero, of being included in the sample (Welman and Kruger, 2001). Furthermore, convenience sampling is used because information can be obtained fairly quickly, inexpensively and effectively from population which is conveniently accessible (Crimp and Wright, 1995).

1.6.2.3 Data collection

A mall intercept method was used to collect the data. Shopping malls were selected in which a Capitec branch is located and one in which an Absa branch is located. If fieldworkers could not obtain enough respondents at the specific malls, they conveniently asked respondents in public places to participate in the study. The fieldwork was conducted over a period of five weeks.

1.6.3 Primary research instrument

The primary research instrument was a self-administered, pencil- and paper questionnaire. Using this technique the respondents take responsibility for reading and answering the questions (Zikmund and Babin, 2010). This data collection

technique is desirable due to its high speed of distribution, low distribution cost, flexibility and quick response time (Zikmund and Babin, 2010). If the respondents have any enquiries about a question, the fieldworker is there to assist them. The questionnaire was available in English, Afrikaans and Xhosa.

1.6.4 Data analysis

The SPSS data analysis program was used to analyse the data collected in this study. The data was coded, edited and cleaned prior to analysis. The purpose of this analysis is to draw conclusions and interpretations from the raw data and to empirically assess the theoretical model.

1.7 CHAPTER SUMMARY

VSLEs are attractive strategies with which firms attempt to increase their profit, since an upward or downward extension enables them to target new markets based on the strength of their brand (Kim and Lavack, 1996). However, the question is whether an extension to a market different from the current market will be accepted by the existing customers? Furthermore, will the extension influence current customers' responses to the brand image? There is an attempt to answer these questions by measuring existing customers of Capitec and Absa Banks' attitudes towards a VSLE.

1.8 ORIENTATION OF THE STUDY

The orientation of the study is as follow:

Chapter 1 Introduction:

In this chapter there is a short overview of the whole study, the topic of the study is introduced, the problem and the objectives identified, and the methodology of the research discussed.

Chapter 2 Marketing in a Business Management Context

An overview is given of the different functions within a firm as well as where marketing fits in.

Chapter 3 Extension Strategies:

In this chapter the different extension strategies and their roles in the marketing environment are discussed. Furthermore, the focus in this chapter is on VSLEs.

Chapter 4 Brand Image:

Here, brand image as the dependent variable is discussed. Furthermore, the researcher will highlight the important factors contributing to the perceived brand image and the factors affecting it.

Chapter 5 Perceived Fit in Vertical Service Line Extensions:

In this chapter the importance of perceived fit between the parent brand and the extension, between the current target market and the targeted market, and the fit between customers' self-image and the communication is discussed.

Chapter 6 Research Methodology:

In this chapter the research process executed by the primary research technique, is explained. Furthermore, specific attention is paid to the population, sampling, data-gathering and data-processing as applied in this study.

Chapter 7 Empirical Results:

The findings of the empirical research are presented in this chapter. After raw data has been interpreted, concluding arguments are drawn.

Chapter 8 Findings and Conclusions:

This chapter concludes the study and its findings. Furthermore, future research areas are identified.

Chapter 9 Managerial Implications:

In this chapter, managers implementing a VSLE are advised. More specifically, the implications of this study's results are applied to Capitec and Absa.

CHAPTER 2: MARKETING IN A BUSINESS MANAGEMENT CONTEXT

“...a vertical move is not merely justified, but is actually essential to survival – even for top brands...” (Aaker, 1997).

2.1 INTRODUCTION

South Africa did well in the World Economic Forum Competitive Survey 2012/13, with a second place out of 144 countries in terms of soundness. Furthermore, South Africa was rated third in terms of financial sector development (The Banking Association of South Africa, 2012). It is apparent that South Africa’s business environment is growing and becoming stronger in the global arena. Furthermore, South Africa, as a developing country, has the potential of attracting global business. However, one of the first steps in attracting business is to strengthen corporate management to realise strategic goals. Satisfying customers’ needs at a minimum level of input, is an example of a strategic goal. A firm’s effort to produce and sell, for a profit, the goods and services that satisfy society’s needs are defined as ‘business’ (Pride *et al.*, 2012).

Business is usually classified into three specific types: manufacturing businesses, service business, and marketing intermediaries. Manufacturing businesses process various materials into tangible goods, whereas service businesses attempt to satisfy customers’ intangible needs. Marketing intermediaries are businesses that focus on buying products from manufacturers and reselling them (Pride *et al.*, 2012). These specific types of businesses are all part of society and although different, they all share a common goal, namely generating a profit. However, to generate a profit a firm must ensure customer satisfaction.

In this chapter a brief introduction to the discipline of business management is presented. Marketing’s function within business management is also explored.

2.2 OVERVIEW OF BUSINESS MANAGEMENT

A business management cycle starts with the customer (Nieuwenhuizen and Rossouw, 2008). One of the main reasons why most firms are established is because man aspires to achieve a better standard of living (Van Rensburg, 2008). By satisfying customer needs, a profit is generated, and profit leads to an improved standard of living for both the employees and the owners of firms. Thus, if firms effectively satisfy customer needs they should generate a profit (Van Rensburg, 2008). In other words, customers are the lifeblood of any operating firm.

According to Abraham Maslow, a hierarchy of needs exists where man attempts to satisfy basic needs before moving up in the hierarchy. Maslow's hierarchy of needs is based on four premises (Maslow, 1970 cited in Hawkins and Mothersbaugh, 2010) (1) All humans acquire a similar set of motives through genetic endowment and social interaction, (2) some motives are more basic or critical than others, (3) the more basic motives must be satisfied to a minimum level before other motives are activated, and (4) as the basic motives become satisfied, more advanced motives emerge. Maslow's hierarchy of needs theory simplifies, and serves as a guide to general behaviour (Hawkins and Mothersbaugh, 2010). This aspiration of satisfying needs is defined as the economic motive and firms strive to meet these aspirations by producing goods and services (Van Rensburg, 2008). Individuals' needs are satisfied by goods and services provided by firms, and needs' satisfaction is a motivation for economic activity (Van Rensburg, 2008).

According to Van Rensburg (2008) the processes which a business undertakes to produce goods or services are called an economic undertaking. Thus, the economic undertaking must be executed in such a way as to satisfy an individual's need in a prudent manner while ensuring some form of compensation. The prudent manner of satisfying needs can be explained in terms of the economic principle, which consists of the maximum output for the minimum input. In other words, the business must try to realise the highest level of need satisfaction with its limited resources. Effective business management is the process of managing a business operation in such a way that it satisfies customers' needs with an organised flow of processes to ultimately generate a profit (Van Resnsburg, 2008). Due to various extraneous variables, such as the business environment, it is not so simple to generate a profit

with the minimum resources. Human resources, finance and marketing are all part of business management, therefore these faculties need to be managed in conjunction with each other. Figure 2.1 illustrates how all the aspects of business management fit together.

FIGURE 2.1 ASPECTS OF BUSINESS MANAGEMENT



2.3 THE BUSINESS ENVIRONMENT

The business environment is the environment in which a specific firm functions, and it contains both opportunities and threats that influence the establishment, growth and continued existence of the business (Nieuwenhuizen and Rossouw, 2008; Nickels, McHugh and McHugh, 2008). The environment is usually divided into micro-markets and macro-environment. The micro-market refers to the internal environment where managers have control, whereas the macro-environment is external as managers have no control over changing variables such as inflation, rate of economic growth, laws and regulations (Nickels *et al.*, 2008).

The macro-environment influence a firm's existence and growth, and this calls for environmental scanning to collect information regarding the changing environment (Nieuwenhuizen and Rossouw, 2008). The following environments influence any business in its operations: the competitive environment, the global environment, the

technological environment, social environment, and the economic and legal environment (Pride *et al.*, 2012; Nickels *et al.*, 2008). For example, the environment of the banking sector is largely influenced by inflation, rate of economic growth, laws and regulations, as well as new entrants. Managers use information from the environment scanning process to set strategic goals and make decisions, as well as to identify potential problems within the market.

Customers also make out part of the business' macro- environment. Even though firms might like to think they have control over their customers they don't. Therefore, firms must focus on the things they do have control over to ascertain customer satisfaction and profit maximisation.

2.4 MANAGEMENT

In today's increasingly competitive environment, firms need to adapt to the continuous changes within the market. Failure to do so could lead to decreased profit, being declared insolvent or submitting to a take-over (Van Rensburg, 2008). For example Slabbert and Burger (transport), One Time and Velvet Sky (airlines) are just a few firms that did not make it in the complete environment. Thus, for a firm to survive it must participate in strategic management.

Most firms are structured around various functions, which are specific areas of knowledge on which professionals focus. According to Van Rensburg (2008) this structuring is done to ensure that management within each function has top knowledge about that particular field, strengthening the firms's competitiveness. Examples are the financial-, human resource management- and marketing functions. At the functional level, managers are responsible for two strategic contributions. First, they are responsible to implement action plans within their functions to ensure the effective execution of the economic principle. Secondly, they apply their knowledge to other functional areas if the strategies of the functions interface with one another.

To realise the goals of a firm, the optimal management of people and other resources are necessary (Pride *et al.*, 2012). Material resources are the physical or tangible resources that a firm uses to produce a product or service. In the banking

sector the material resources will be the ATM's and physical buildings where the service is experienced.

Human resources are perhaps the most important resource within any firm. In the service sector the human element is of utmost importance as it is the employees that produce the service. Financial resources are the funds used within a firm to meet the needs of its debtors and creditors. Lastly, informational resources are necessary so that a firm is informed about environmental changes and activities (Pride *et al.*, 2012). These resources, material, human, financial, and informational are used to achieve the firm's strategic goals. In the following section, the various resources a firm uses to realise its objectives are discussed, starting with human resource management.

2.4.1 Human resource management

South African firms are challenged to attract, retain and develop suitable skills in a labour market that continues to suffer shortages due to globalisation, lack of new technologies and educational opportunities, among others (Walters, 2006). Therefore, the human resource function is critical.

Human resource management (HRM) refers to all the activities involved in acquiring, maintaining, and developing a firm's most valuable asset – its employees (Pride *et al.*, 2012). Due to the importance of the human element in business, the recruitment, selection, induction, training, development and remuneration of employees are activities that require considerable attention from managers. Van Rensburg (2008:68) identifies various activities of the HRM function, including:

1. deciding what staffing needs the firm has;
2. recruiting and training candidates for a specific job;
3. ensuring that employees are effective performers, and dealing with performance issues; and
4. ensuring that management practices all legislative requirements as prescribed by the law.

The effective managing of employees should lead to gaining and maintaining a competitive advantage (Nieuwenhuizen and Rossouw, 2008). A human resource strategy, within the firm's value chain, needs to support the strategic objectives of the marketing, operations, sales and service functions by focusing on the human elements of the business goals (Nieuwenhuizen and Rossouw, 2008). In other words, integrating the various functions within a firm will help the human resource team to identify what the firm needs from its employees and to recruit employees accordingly.

A firm can be very productive if its employees are motivated. Herzberg developed a theory called the theory of motivators and hygiene factors to explain employee motivation (McClelland, Herzberg and Bandura, 2000:123). This theory argues that individual motivation is driven by common and fundamental needs (McClelland *et al.*, 2000:123). Herzberg concluded that supervision, firm policy, working conditions, interpersonal relationships and salary are hygiene factors rather than motivators (Gawel,1997).

In other words, employees expect these factors to be present. If these hygiene factors are not present in a specific situation the result will be dissatisfaction. Satisfaction or motivation is not ensured when the hygiene needs are met, but this rather prevents dissatisfaction. The motivators, on the other hand, are elements that enrich a person's job (McClelland *et al.*, 2000:123). Five factors in particular are strong determiners of job satisfaction, namely achievement, recognition, the work itself, responsibility, and advancement (Gawel,1997). The motivators or satisfiers are associated with long-term positive effects in job performance while the hygiene factors or dissatisfiers consistently produce only short-term changes in job attitudes and performance (Gawel,1997). Employees need more than hygiene factors to be motivated.

Thus, the human resource management function is to cultivate and balance the hygiene factors and motivators for every job description. Salary is a typical hygiene factor, but can be viewed as a motivator if employers add bonuses or reward performances with incentives. However, the financial department must first allocate a budget and ensure that objectives are met.

2.4.2 Finance

As pointed out earlier, the purpose of a firm is to create value for its customers so that a profit can be generated (Nieuwenhuizen and Rossouw, 2008). Financial management consists of a range of activities related to a firm's resources so that it can meet its goals and objectives (Nickels *et al.*, 2008:484). Financial management is defined as managerial activities that concern the acquisition of financial resources and the assurance of their effective and efficient use (Brinckmann, Salomo, and Gemuenden, 2011). According to the Bureau of Labour Statistics (2012), the duties of a financial manager typically involve the following:

1. Prepare financial statements, business activity reports, and forecasts
2. Monitor financial details to ensure that legal requirements are met
3. Supervise employees who do financial reporting and budgeting
4. Review the firm's financial reports and seek ways to reduce costs
5. Analyse market trends to find opportunities for expansion or for acquiring other firms
6. Help management make financial decisions

Due to rapid improvements in technology, financial managers are able to significantly reduce the amount of time it takes to produce financial reports (Bureau of Labour Statistics, 2012). Furthermore, information technology is used by the financial managers to improve the effectiveness of their financial decision-making (Van Rensburg, 2008).

The primary responsibility of the financial management department used to be monitoring a firm's finances, but now the department does analysis and advises senior managers on ideas to maximise profits (Bureau of Labour Statistics, 2012). This aspect of business management consists of all activities concerned with obtaining capital and using it effectively. Financial managers must implement strategies that are effective and efficient within the firm's business operations.

In today's fast changing and competitive business environment, the right decisions need to be made to generate revenue income for the present and future (Nieuwenhuizen and Rossouw, 2008). Financial managers contribute to the overall strategy of a firm by making decisions that increase or decrease its share value (Nieuwenhuizen and Rossouw, 2008). Furthermore, the ultimate purpose of financial management is wealth maximisation. Therefore, the financial manager must identify potential investment opportunities and financing that will add value to the firm (Nieuwenhuizen and Rossouw, 2008). Financial managers can add value to the firm, but so can the marketing department. The financial function must work closely with the marketing function to provide a budget both functions agree with.

2.4.3 Marketing

Many scholars have debated whether marketing is a science or not, Hunt (2010) posited in his book *Marketing Theory* that marketing is indeed a science. Marketing is defined by the American Marketing Association as the "process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual organisational goals" (Lamb *et al.*, 2008:5).

The primary goal of marketing is to satisfy customer needs; therefore all the marketing efforts should be aligned in such a way as to achieve this goal (Lamb *et al.*, 2008). Furthermore, marketing provides utility to satisfy human needs (Van Resensburg, 2008). *Form utility* is provided when a tangible item is produced (e.g. a shirt). *Task utility* is provided when someone provides a task for someone else (e.g. a bank handles customers' financial transactions). *Time utility* refers to having the product or service available when the customer needs it. *Place utility* refers to the availability of the product or service where the customer wants it. *Possession utility* means obtaining goods and services and having the right to obtain them (Van Resensburg, 2008). The marketing mix is the controllable variables used to facilitate the various utilities.

The traditional marketing mix consists of the elements which a firm can directly control i.e. product, price, place (distribution), and promotion. The firm generally has no control over the forces within the external marketing environment, which consists

of the market-environment and the macro-environment. The market-environment usually consists of the suppliers, intermediaries, customers, qualitative and quantitative aspects, competitors, and customers, whereas the macro-environment consists of social factors, demographic factors, economic factors, technological factors, political factors, and legal factors (Jordaan and Prinsloo, 2004).

Brand managers use the marketing mix elements to build a positioning strategy to occupy a satisfactory position within the customers' minds. The ideal position in the customer's mindset is the highest one, in other words in the prospective customer's evoke set. In simple terms, the evoke set is the first few brand a customer thinks about in a particular product/service category. When the need arise for a specific product or service, the brands in the evoke set should come to mind first.

According to Zeithaml, Bitner and Gremler (2009) all the marketing mix elements are interrelated and depend on each other to an extent. The traditional marketing mix is extended in the context of service marketing to include people, physical evidence and processes. The 'people', in the extended mix, is the employees responsible for the production of the service delivery. The heterogeneous nature of services can be explained by the human element of the service delivery. No one employee is the same, therefore every service delivery will differ from employee to employee. Furthermore, customers are usually part of the production process of a service delivery, and may even influence the quality of the service and the satisfaction of the customer (Zeithaml *et al.*, 2009).

The 'physical evidence' is all the tangible elements that help customers judge the service experience. Due to the intangible nature of a service it is difficult for customers to evaluate the service, thereby increasing the perceived risk of the purchase. The 'process' should be viewed as 'how' the service is provided to satisfy the customer's needs and has to do with the flow of activities (Jordaan and Prinsloo, 2004; Zeithaml *et al.*, 2009).

These extended marketing mix elements are included in the traditional marketing mix because they are within the control of the firm. One of these variables may influence customers' initial decision to purchase a service as well as the customer's level of satisfaction and repurchase intentions (Zeithaml *et al.*, 2009). Relationship

marketing, on the other hand, is dependent on the firm as well as the customer, and can be used to influence customers' initial decision to purchase the service or product.

Relationship marketing is based on two premises (Lamb *et al.*, 2008): it cost more to recruit new customers than to retain existing customers, and the longer the relationship lasts between the customer and the service provider the more profitable the relationship becomes for both parties. Relationship marketing refers to marketing activities focused on satisfying and retaining customers to build a long-term relationship with the brand (Pride *et al.*, 2012). In a services marketing context relationship marketing is especially important, because of the inseparability and heterogeneity nature of a service. The goal of relationship marketing is to move a customer to a higher positing i.e. from enhancing to retaining, retaining to satisfying, and ultimately satisfying to acquiring (Zeithaml *et al.*, 2009).

According to Theron and Terblanche (2009) relationship marketing is basically about building relationships at every point of interaction with the customer, with the intention of creating various benefits for both the firm and the customer. Many firms have shifted their strategic focus from emphasising customer acquisition (i.e. targeting switchers) to emphasising customer retention (i.e. targeting stayers) with the objective of creating sustainable and mutually beneficial relationships (Peng and Wang, 2006).

Many service firms function in an increasingly competitive and dynamic external environment, as a result of technological, regulatory and changing customer dynamics. Due to these changes, service firms try to both recruit and retain profitable customers (Carson, Gilmore and Walsh, 2004) in other words, finding a balance between recruiting new ones, which is more expensive, and retaining current customers, which is more cost effective. As mentioned previously, making the most of existing customers is vital for long-term profitability and is at the centre of the relationship marketing philosophy (Abratt and Russel, 1999). Furthermore, developing relationships with customers is essential to establishing and maintaining a competitive advantage (Abratt and Russel, 1999).

In the service industry banking is one of many services characterised by high customer involvement and individually customised service solutions (Bedman and Owusu-Frimpong, 2010). Due to the financial risk associated with banking, banks attempt to build a strong relationship with customers. As a result, cognitive dissonance is eliminated or limited. It is concluded that the higher the customer involvement, the better the relationship between the bank and the customers (Boisvert, 2012a). However, before a brand can build a relationship with customers it must first target the specific market it wants to attract and form a relationship with.

Brand managers target new markets to increase their market share. One way of targeting new markets is through brand extension strategies. Due to the fierce competition in the financial service sector, banks can launch extensions of their services to target new markets not served before. If this strategy is successful the firm will reap the benefit.

2.5 CHAPTER SUMMARY

A firm needs goals to function well. Therefore all business functions (financial, HRM and marketing) have their own sets of strategies and goals to ultimately realise the business goal – generating a profit. Firms gain a profit through supplying goods and services to customers to fulfil their needs. Maslow's hierarchy of needs explains that man first tries to satisfy his basic needs, and then he moves up in the hierarchy and ultimately satisfies his self-actualisation needs. Firms provide products and services to fulfil customers' desire for a better standard of living. A satisfied customer is a profitable customer. To do this, the firms must organise itself around different management functions.

The human resource management team must scan the environment to allocate the best candidates to the right positions within the firm. Managers must ensure that clear and specific objectives are set and that strategies are in place to achieve these objectives. The financial management team consists of employees capable of making sound financial decisions. Furthermore, the financial managers allocate funds in order to achieve objectives. The marketing team executes an effective marketing mix to ensure that customers' needs are met and as a result profits are maximised.

Marketing, as a business function, is important because it connects the firm with its target market (Van Rensburg, 2008). Furthermore, through marketing activities the firm tries to bridge the gaps between the producer and the customers (Van Rensburg, 2008).

Marketing is just one of many functions within a firm, and is the focus of this study. In the next chapter brand extensions as a marketing strategy will be discussed, with the focus on vertical service line extensions (VSLEs). Furthermore, in Chapter 3 the dynamics of brand extension strategies are studied.

CHAPTER 3: EXTENSION STRATEGIES

“...a vertical move is not merely justified, but is actually essential to survival – even for top brands...” (Aaker, 1997).

3.1 INTRODUCTION

According to Kamhunga (2012) Capitec, which is ranked as the fifth-largest retail bank in South Africa by customer numbers, has the local market in a buzz with its innovations strategy of offering a simplified banking product for all. The CEO of Capitec, Mr Riaan Stassen, has predicted that future customer growth will be the result of individuals defecting from rival banks and of new entrants to banking (the under-banked segment) (Kamhunga, 2012). In other words, it is expected that some customers from rival banks will gradually switch to Capitec and individuals who never banked before will start banking at Capitec.

Capitec currently offers services to the lower-income segment of the market and it is at this position the banks' simplified banking strategy evolved. Capitec's managers noted that not just the lower income segments have a need for simplified and affordable banking services, but other mainstream customers as well. As a result, Capitec uses an extension strategy to reach the mainstream markets. An extension strategy can be utilised in several ways, of which VSLE is one.

The reasons for utilising an extension strategy can be threefold, namely profit maximisation, increased market share and increased brand equity (Keller, 1993). Extension strategies can be viewed as a vehicle driving the brand to different market segments, with the objective of increasing the market share (Boisvert, 2012b). Profit maximisation is the primary goal of any firm, therefore is the motivation behind extension strategies. In addition, increased market share equals increased profit.

Through extension strategies the brand is being extended, but the equity is also being extended. Brand equity is the value of the brand and the intention is to use an extension strategy to extend this value to other segments.

Marketers can reach these new segments by launching an extension to either a new category completely different to the existing parent brand category or an extension within the existing parent brand category. Even though a brand extension strategy may be potentially beneficial to the brand, it can be equally damaging. Brand extension strategies can be utilised in various ways, of which vertical extensions are one. In this chapter, brand extension strategies are discussed with the focus on utilising a VSLE strategy.

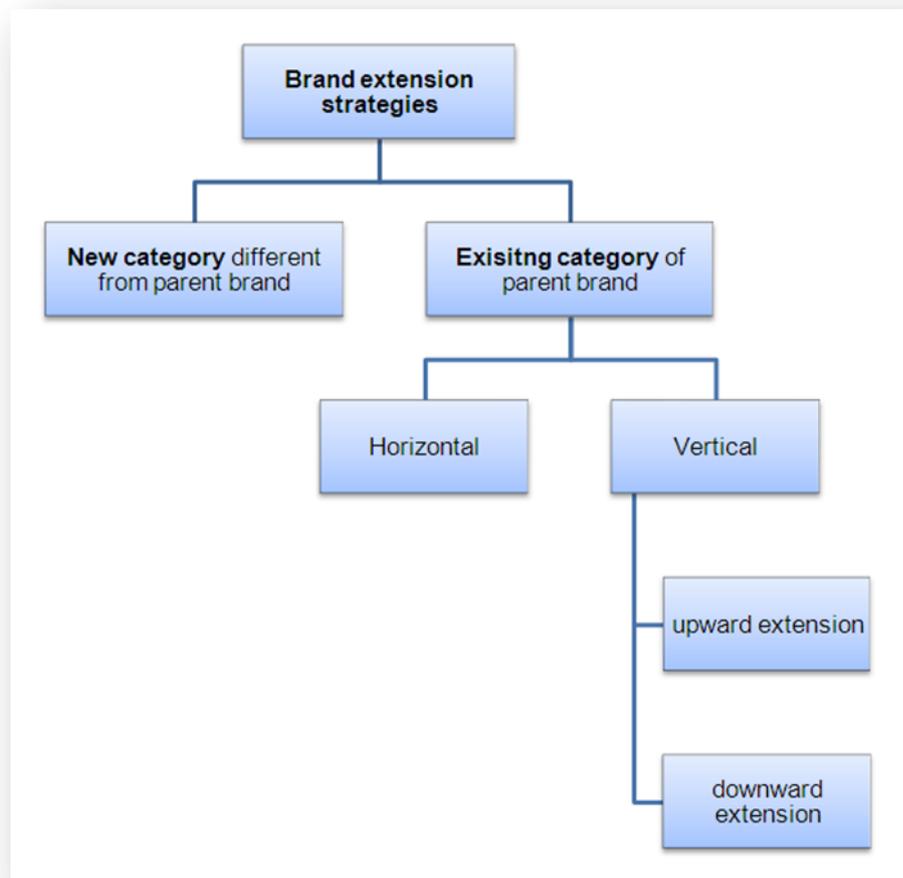
3.2 THE NATURE OF EXTENSION STRATEGIES

As mentioned previously, an increased market share is one of the main contributors to profit maximisation. As a result, every brand, whether it is a product or a service brand, competes for market share (Carson *et al.*, 2004). Furthermore, brands often compete on their level of differentiation. The more differentiated the brand is the more competitive it is. When a brand is well differentiated it begins to build brand equity. Brand equity is the leverage a brand uses to utilise an extension strategy.

As depicted in Figure 3.1, brand extension strategies can be either in related or unrelated categories. In the unrelated category the brand is extended to a category completely different from the parent brand category. The Caterpillar brand that is extended from machinery to shoes is an example of an extension into an unrelated category (Keller, 2003a).

In the past a considerable number of studies have been focused on the extension of brands to new categories (Broniarczyk and Alba, 1994, Reddy, Holak and Bhat, 1994; Aaker, 1997; Bottomley and Holden, 2001; Lei, Pruppers, Ouwensloot and Lemmink, 2004). This strategy is well known in the marketing literature and is frequently utilised in the customer goods domain but less so in the service domain (Lei *et al.*, 2004). The results of the majority of brand extension research conducted in the customer goods domain is, however, also relevant to the service domain.

FIGURE 3.1: EXTENSION STRATEGIES



An extension of the parent brand into existing or related categories can be described as a horizontal or vertical extension (Figure 3.1). Horizontal extensions are usually a line extension of different variants of the parent brand. A new Dove shampoo for children is an example of a horizontal extension. In this case, the extension stays in the same product category (hygiene category), but introduces a new variant.

A vertical extension, on the other hand, is the introduction of a product or service that is higher or lower with regard to quality levels and/or price points than the parent brand's current position (Kirmani *et al.*, 1999). In addition, such an extension can be either upward or downward from the parent brand's current position. An upward vertical extension is when the brand targets a higher-income segment, usually a segment that can afford to pay higher prices.

A downward extension is when the brand targets a lower-income segment, usually a segment that cannot afford the higher priced items. For example, medical aid schemes have products for customers who are willing to pay more as well as

products for customers who are satisfied with the minimum. GENESIS medical aid has a Premium scheme as well as an Individual Plus scheme. The Premium scheme is targeted at a higher-income customer who pays more for more medical benefits. The Individual Plus scheme is targeted at the lower income market and offers fewer benefits. Different customers with the same need, have a choice between upward (higher prices) or downward (lower priced) variations of the service. It is expected that the quality and benefits will differ from an upward extension compared to a downward extension.

A brand can only extend, however, whether horizontally or vertically, when it possesses enough brand equity in the minds of the customer.

3.3 BRAND EQUITY

“Marketing is not the art of finding clever ways to dispose of what you make. Marketing is the art of creating genuine customer value. It is the art of helping your customers become better off” (Kotler, 2003b). In this quotation the essence of marketing i.e. creating value for customers is briefly stated. According to Kotler and Keller (2009) brand equity can be described as the ‘added’ value endowed on services and products.

From the customers’ perspective, brand equity may be reflected in the way they act, feel and think with respect to the brand. From the firm’s perspective, brand equity may be reflected in the market share, prices and profitability the brand generates for the firm (Denby-Jones, 1995). Table 3.1 summarise the key benefits of brand equity from the firm’s perspective.

3.2.1 The benefits of brand equity

The equity benefits, listed in Table 3.1, motivate firms to increase their brand equity in the minds of customers. Brand equity can improve customers’ perceptions of the product or service performance even though the product or service is not exceptional. Furthermore, brand equity can result in marketing communication effectiveness, because customers believe and trust the brand.

Another advantage for the firm is that customers' responses to price increases are inelastic when they have confidence in the brand and the value it gives them. With this said, customers also tend to be more elastic to price decreases offered by a high equity brand. In other words, the customer is less vulnerable to market changes and crises.

New opportunities can be pursued when the brand is strong enough to support their current customer base as well as attract new ones. In other words, a brand must possess brand equity if it wants to attract new markets not served before. Ultimately the increased loyalty, gained by brand equity, will result in larger margins.

TABLE 3.1: KEY BENEFITS OF BRAND EQUITY

<i>Improved perceptions of product performance</i>
<i>Less vulnerability to competitive marketing actions</i>
<i>Less vulnerability to market crises</i>
<i>More inelastic customer response to price increase</i>
<i>More elastic customer response to price decrease</i>
<i>Increased effectiveness of marketing communications</i>
<i>Greater trade and firm support</i>
<i>Additional brand extension opportunities</i>
<i>Possible licensing opportunities</i>
<i>Greater loyalty</i>
<i>Larger margins</i>

Source: Adapted from Kotler and Keller (2009: 281).

This is the power brand equity has over customers' perception. However, creating brand equity is no easy task. Customer-based brand equity is defined by Keller (1993) as, not just the perception customers have about the brand, but their knowledge structure about the brand as well as their reactive response to marketing

activities. It is one thing to identify the benefits brand equity can bring any firm, but it is quite another story to measure brand equity.

3.2.2 Measuring brand equity

Brand equity is a difficult phenomenon to measure; nevertheless, Young and Rubicam Inc. created a model called the brand asset valuator (BAV). The BAV model provides comparative measures of the brand equity among different brands across different categories. There are four components of brand equity according to the BAV model (Brand Asset Valuator, 2013):

- Differentiation – measures the uniqueness of the brand
- Relevance – measures whether the brand is the answer to personal needs
- Esteem – measures whether the brand lives up to expectations
- Knowledge – measures how much knowledge customers have about the brand and whether the brand is understood

Differentiation and Relevance combined establish *Brand Strength* (Brand Asset Valuator, 2013). These three pillars indicate the brands' future value, whereas Esteem and Knowledge combined quantify *Brand Stature* (Kotler and Keller, 2009). *Brand Stature* is a type of 'report card' on past performance. Brand stature indicates brand status and scope. Furthermore, *Brand Stature* (reflexes) reflects current brand performance (Brand Asset Valuator, 2013). The BAV measurement is an effective tool to measure the brands' health.

As with any asset, brands need to be managed to prevent them from losing value. According to Kotler and Keller (2009) one way of managing brand value is by reinforcing the brand. To reinforce the brand, communication must be consistent and continual in terms of (1) what product or services the brand represents, what core benefits it supplies and, what needs it satisfies, as well as (2) how the brand makes products or services superior and (3) which strong, favourable, and unique brand associations should exist in the minds of the customer. For example, one of Europe's

strongest brands, Nivea, has extended its scope from a skin cream brand to a skin care and personal care brand. Nivea used extensions to reinforce the brand promise of 'mild', 'gentle', and 'caring' to a broader arena (Kotler and Keller, 2009; Keller, 2003a). Failure to reinforce the brand will result in diminished brand awareness and a weak brand image (Kotler and Keller, 2009).

Keller (1993) emphasises that brand equity is a multidimensional concept that depends on: (1) what knowledge structures (brand awareness and brand image) are present in customers' memory and (2) what actions a firm can take to capitalise on these knowledge structures. One way of capitalising on customers' knowledge structures is to pursue a brand extension strategy.

According to Randall, Ulrich and Reibstein (1998) a firm will only extend its product or services if its objective is to maximise brand equity. Even though brand equity is rarely the sole objective when launching extensions, it is still a good starting point. Maximising brand equity is a valid way to increase profits, or decrease costs. A premium price can be charged for the higher quality product or service. Furthermore, maximising profits is likely to involve a trade-off between the higher brand equity (and therefore higher margins) resulting from an upward extension and the lower brand equity of a downward extension pursuing volume (usually positioned in the lower-income segment of the market).

Brand extensions can be utilised in various ways. In the following section brand extension strategies will be discussed with the emphasis on executing a VSLE.

3.4 BRAND EXTENSION STRATEGIES

When an established brand name is used to introduce new products in the market it is referred to as a brand extension strategy (Völckner and Sattler, 2006). Launching new products or services under the same brand name has become a common strategy to capitalise on a brand's already established goodwill (Loken and John, 1993; Reddy *et al.*, 1994). In short, brand extension is a strategy used to target different markets and in doing so increase market share.

Launching new products or services is a risky option because of the high cost and low probability of success associated with it (Lee *et al.*, 1996). One way of lowering

the cost of launching new products or services and increasing the odds of success is launching a new product under a well-established brand name (Desai and Hoyer, 1993; Lee *et al.*, 1996; Kirmani *et al.*, 1999). Although such a strategy seems desirable, success is not always guaranteed. Lee *et al.* (1996) suggest that the critical question is whether or not customers will perceive the new extension as offering sufficient value. The goal is to capitalise on the existing brand name and in this way attract new users and/or retain existing customers.

As illustrated in Figure 3.1, brand extension strategies can be divided into extensions to new categories different from the parent brand or extensions in the existing category of the parent brand.

3.4.1 New category extension

An advantage of brand extensions to a different category is that this can decrease the cost of gaining access to existing distribution channels and/or increase the efficiency of promotional expenditures (Keller, 2003a) in other words, 'piggy-backing' on the brand equity of a well-established brand name. Moreover, introducing a new product under a brand name familiar to customers increases their knowledge and awareness about the brand (Aaker and Keller, 1990).

As a result, customers are likely to recall the associations linked to the established brand and use it in the evaluation of the extension. According to Alex (2011), the key in understanding successful brand extension strategies is to compare the customer's perception of the parent brand and how this association with parent brand transfers to the extension. One can argue that the ideal situation is one where the equity of the parent brand transfers to the extension.

It is well documented in the literature that when a brand extends to a new category, category fit significantly influences customer's evaluation of new extensions (Broniarczyk and Alba, 1994; Kim *et al.*, 2001; Zimmer and Bhat, 2004). A category extension, as mentioned previously, is when a firm extends its products or services to a completely different category from which it is currently trading in. An existing category extension is the opposite.

3.4.2 Existing category extensions

When a brand is extended within its existing category, the extension can either be horizontal from current position or vertical.

3.4.2.1 Horizontal line extensions

Horizontal line extensions are extensions of the parent brand to new variants of the core product usually in the same product category as the parent brand. An example is a new size or new flavours of a fruit juice blend (Lee *et al.*, 1996). When introducing line extensions, the brand manager is usually trying to attract new users (in most cases) and to extend the market by making current users use the different variants of the brand (Desai and Hoyer, 1993).

While attracting new markets the firm also encourages current customers to try the extended product without cannibalising the core brand. Major brands like Nivea and Unilever's Dove, are examples of brands in the forefront of horizontal line extensions (Keller, 2003a). For instance, Dove recently introduced a men's range of cosmetic and hygiene products under the parent brand name (Cliffs, 2013).

Among the studies of extensions the focus has been primarily on horizontal extensions of tangible products that extend the parent brand name into different varieties in the same product category (Martínez and Pina, 2003; Arslan and Altuna, 2010). Not enough attention has been paid to VSLEs in the same product category as the parent brand (Lei *et al.*, 2008).

3.4.2.2 Vertical line extensions

Vertical line extension is defined by Kirmani *et al.* (1999) as an extension of a parent brand to a different market under the same parent brand name but usually under different price points and/or quality levels. The most important characteristic of vertical line extension is the direction of the extension that can be either upward or downward from the parent brand's current position (Kim *et al.*, 2001). The extension can be either slightly distant or considerably far from its current position.

Assume a parent brand is positioned high on price and quality levels, signalling a prestige-orientated brand concept. If this parent brand launches a downward

extension with low price and low quality levels it will occupy a position significantly distant from its original position. However, if the downward extension varies only somewhat in terms of price or quality it can be described as an extension only slightly distant from original position.

Kirmani *et al.* (1999) believed that higher or lower-priced versions of an existing brand can be classified as a price-based line extension. The reason for extending a brand downward is to attract customers that are not able to afford the brands' current offering in the hope that these customers will in the near future eventually trade up to more expensive versions. On the other hand, when an upward extension is initiated it is a way of attracting potential or current customers by providing more prestige, higher quality or more features. Neither option is without risks, whether they are the risk of diluting the brand image through a downward extension or the risk of not meeting customer expectations when extending upward.

A vertical extension, whether upward or downward, is an effective strategy to target new markets based on the strength of an established brand name (Kim and Lavack, 1996). Furthermore, this strategy is an effective tool when firms are competing for market growth (Aaker, 1997). The question arises whether an upward or downward extension, targeted at a different market, will be accepted by the existing customers and how the extension will influence their responses to the parent brand image. Aaker (1997) insists that the direction of the extension, whether upward or downward, can dramatically impact the brand.

3.4.2.2.1 Upward extension

According to Aaker (1997) the motivation for extending a brand from a mainstream market to an upscale market can be explained by the higher margins offered in this market. In other words, profit maximisation is the motive behind extending upward due to the higher margins in this segment. Aaker (1997) and Lei *et al.* (2008) argue that the level of acceptance of an upward extension of a mainstream brand is dependent on the level of credibility.

Customers may question whether the firm marketing the mainstream brand will have the knowledge and capability to deliver the expected functional and emotional benefits of an upmarket brand. Even though the brand may have a good reputation

in its current position, its credibility as an upmarket brand may be questioned (Boisvert, 2012a). These doubts can be explained by the set of attribute associations customers hold constant in memory with regard to the parent brand. In other words, due to the mainstream brand's lack of association with a higher market, customers may question whether they can deliver a higher standard product or service. According to Reast (2005) as well as Wu and Yen (2007), when customers perceive the brand as trustworthy or credible, they are more likely to evaluate the extension favourably (Wu and Yen, 2007; Reast, 2005).

The absence of association with an upscale market is a typical risk of an upward extension. The success of an extension is largely dependent on the perceived credibility of the brand. Thus, the credibility gap is closed by the customer's confidence in the brand. A concept related to an upward extension is the so-called 'ceiling effect'. In the context of this study the ceiling effect will emerge if a mainstream brand, lower-quality brand or functional-orientated brand extends upward, customers may have a perception of upward mobility creating a ceiling effect (Kim and Lavack, 1996). For instance, customers may question whether Capitec is capable of delivering a higher quality service. If this is the case, the upward extension would be regarded as a more risky extension. In other words, the brand can only extend to a certain point and not further due to customers' perceived brand concept associations. This does not mean the brand is not capable of extending upward; rather it is the customer's perceived associations and beliefs that prohibit the brand from extending beyond a certain level.

Boisvert (2012b) believes that the primary signal on which customers base their judgement is the brand association's links to the parent brand. Therefore, current customers might be reluctant to accept a new upward VSLE, the reason being a discrepancy between customers' beliefs about the parent brand image and the image a vertical extension displays. Therefore, Kim *et al.* (2001) argue that customers' evaluation of an upward extension should be more favourable when the extension is positioned farther away from the parent brand, in other words, limiting the association between the extension and the parent brand. The logic behind this argument is that, in the case of the perceived lesser quality of the core parent brand, this will be transferred to the higher quality extension, thereby reducing the quality of the upward extension. The opposite can also be argued in the case of Holiday Inn.

To illustrate, the Holiday Inn hotel chain have extended their services to different segments. The Holiday Inn Express was voted the world's leading budget hotel brand in the 2010 World Travel Awards and is a vertical extension from the original parent brand (Holiday Inn.com, 2012). This downward extension offers an affordable option and is positioned as a service for business or 'one night' travellers. Other extensions from Holiday Inn are the Holiday Inn Resort and Holiday Inn Club Vacations. In these cases, distancing techniques are used to closely relate the extension to the parent brand by using the brand name first (Holiday Inn) and extension's name second (Resort). City Lodge also has extensions named Courtyard Lodge, Town Lodge and Road lodge, where they differentiate on price, quality and location for the various market segments. The purpose of such extensions is to define the market into segments and to offer each segment a product or service that uniquely meets its needs. Thus, the brand is being differentiated by a product or service that fulfils different customer needs. The intended result is increased market share by appealing to market segments that have not been targeted before.

3.4.2.2.2 Downward extension

A downward extension is risky because once the brand has associated its name with a downscale offering it faces the risk of losing its position within the original market (Aaker, 1997). One way of leveraging the power of an existing brand is to reposition the brand in a new market through a downward vertical line extension. For example British Airlines have introduced a sub-brand to capitalise on different market segments, i.e. Kulula.com. This sub-brand is used to extend the service vertically, that is, moving away from the current position towards a lower position in respect of quality and/ price. In Kulula's case it is a lower priced, lower quality offering than that of British Airlines.

Distancing techniques are techniques used to increase or decrease the distance between the extension and the parent brand (Kim and Chhajeb, 2001). In this case the extension uses a different name than the parent brand creating its own identity. In other words, distancing techniques are used to increase the perceived distance between the parent brand and the extension.

Kirmani *et al.* (1999) have empirically demonstrated that customers' responsiveness to vertical line extensions is a function of brand image, extension direction and

ownership effect. In other word, they found differences between owners and non-owners in their response toward upward and downward extensions of both prestigious and functional brands. The way customers evaluate a particular vertical line extension depends on their perceived brand image, whether the direction of the extension fits their perceived image of the brand, and whether they are owners or non-owners of the brand. The authors found that non-prestige brands can extend upward or downward without harming current customers' perceived parent brand image. By contrast, prestige brands may face problems when extending downward as this may dilute the parent brand's image.

On the other hand, Kim and Lavack (1996) argue that prestige-orientated brands have more room to extend downward than a non-prestige brand has when extending upward. Thus, brands with different brand concepts and their position within the market influence the way customers evaluate extensions. According to Randall *et al.* (1998), a brand price premium is correlated with the quality of a vertical extension. Furthermore, positive transfer of affect between the parent brand and the extension can occur. Randall *et al.* (1998) suggest that the trade-off in extending a brand downward is between the increases in profit, due to larger sales volume, compared to the lost profits due to the diminished brand equity across the rest of the product line.

According to Boisvert (2012b) a vertical line extension, whether upward or downward, will be viewed by customers as unfavourable due to their entrenched emotional responses and attitudes towards the parent brand, thus increasing the risk of extending the brand. Some brands are more 'extendable' than others and some extensions are accepted more readily by customers than others. What makes one brand more extendable than the others and what makes an extension more acceptable than others? The answer may be found in the core concept of the brand image. In the banking industry it is difficult to define the core concept of the brand due to the nature of services.

3.5 VERTICAL SERVICE LINE EXTENSION IN THE BANKING INDUSTRY

A clear dichotomy has been drawn between services and products with respect to marketing implications and research conclusions. However, in reality, there are only

a few pure customer goods or services and most 'products' are a combination of goods and services (Lei *et al.*, 2004). Financial services are classified as a pure service, although they offer 'products' in the form of loans, accounts and insurance that are not tangible, except for the tangible credit card or debit card. Therefore, banking services are classified as purely service with its core benefit being managing customers' financial wealth. The basic product, for example, is a cheque account, the expected product is the actual safeguarding of a customers' wealth, the augmented product is the interest a customer receives, and lastly, the potential product eventually will be becoming a platinum member at the financial institute.

As mentioned previously, not much attention has been paid to VSLE in comparison to the horizontal extensions of tangible goods. It is assumed that the reason for this lack of research in the service domain is the complexity of services. A service is intangible, therefore it is difficult to grasp and assign associations to it. It is therefore important to create associations to cultivate a brand's image customers perceive as favourable. It is these perceptions that help customers evaluate an extension, whether it is an upward or downward extension.

Financial services, such as mainstream banks, have attempted to gain market share through an upward or downward vertical extension (Boisvert, 2012b). The line extensions of Capitec and Absa are a case in point. Capitec has launched an extension targeted at the mainstream market (a higher-income market than their current target market). Absa, however, has recently targeted the lower segment of the market (a lower-income market than their current main stream market). Both banks are stretching their brand to either a higher-income market or a lower-income market segment. The extensions offered by the two banks are merely vehicles to reach underserved segments.

In addition to Capitec and Absa, FNB aggressively attempts to acquire new or different markets through means of extensions. FNB introduced tangible products for their market i.e. Smartphones, iPads and Play Station 4's (Du Plessis, 2014). These products are made available to cheque and private banking account holders (MyBroadband, 2014) . Account holders pay a monthly premium over a spectrum of 24months (Undemans, 2014). These offerings from FNB may have encouraged non FNB account holders to open a cheque account and receive a top- of- the- range

technology devices not acquired otherwise. Furthermore, the bank strategically targets a niche in the market by offering devices that are desirable. It is assumed that FNB targets the higher-income market with offering smart devices.

On the other hand, FNB's eWallet grew with 89% (Undeman, 2014). The eWallet is targeted at customers that have a need to transfer money to friends and family members via mobile phone. This service is targeted at specific customers who, for instance, do not have a lot of internet access. It is assumed that this service is a downward stretch to the lower-income market.

Traditionally, banking may be viewed as a mundane service. However, in the South African banking sector with its fierce competition, banks make use of extensions to strengthen their position within the market and as a result change the banking domain as a whole.

The ideal situation will be one where the brand equity of the parent brand is transferred to the extension and the favourable evaluation of the extension is transferred back to the parent brand image, creating a favourable reciprocal effect. This phenomenon is further discussed in section 4.3.4. In reality, the reciprocal transfer effect, between the parent brand and the extension, does not always occur. Therefore, marketers must heed the warning against implementing a VSLE.

3.6 RISK OF IMPLEMENTING A VERTICAL SERVICE LINE EXTENSION

According to Kotler and Keller (2009) brand extension strategies have two main advantages. First, brand extensions can facilitate new-product or service acceptance. Secondly, they can provide positive feedback to the parent brand and firm. Nevertheless, executing a VSLE is not without risk.

According to Kim and Lavack, (1999) the risk of cannibalisation is a key concern when executing a downward extension strategy. If the downward extension is perceived to be similar in quality to the parent brand, but only less expensive, the risk of cannibalisation is evident (Reddy *et al.*, 1994). To limit the risk of cannibalisation, it is advisable that firms ensure their new brand extensions fill a different market niche. This niche must be significantly different from the parent brand to prevent the migration of customers from the parent brand to the new brand

extension (Kim and Lavack, 1990). On the other hand, if there is little similarity between the two markets it may lead to a damaged brand image. Perceived fit between the extension and the parent brand needs to be evident otherwise the image of the brand may be tarnished. This is called brand image dilution (Aaker and Keller, 1990).

Brand image dilution is the result of incongruity between the existing brand image and the image after an extension strategy has been launched. Dissonance among customers is created when the extended brand is not consistent with the already established beliefs about the parent brand. This dissonance can result in unfavourable extension evaluation and lead to brand image dilution (Choi, Liu, Mak and To, 2010; Martínez, Polo, and De Chernatony, 2008).

The consequence of brand image dilution is lost brand equity and ultimately lost profits. These consequences can be limited through a well-defined extension strategy with clearly defined objectives. To better understand the impact of brand image dilution, brand image in the context of VSLE needs to be considered.

3.7 CHAPTER SUMMARY

Extension strategies are used as vehicles to reach new segments and as a result gain market share. These can be an extension to a category completely new to the parent brand or an extension in the same category as the parent brand. In the existing category there is a distinction between the horizontal or vertical position of the extension.

Horizontal extensions are usually a line extension of different variants of the parent brand, whereas a vertical extension is the introduction of a product or service that is higher or lower on quality levels and/or price points than the parent brand's current position. Furthermore, a vertical extension can be either upward or downward from the parent brand's current position. In both horizontal and vertical extensions, the brand is attempting to expand its existing market share by motivating existing customers to buy the new extension, or by stimulating trial among potential new customers, or both.

When firms launch vertical line extensions, their desire is to have the brand extension evaluated favourably by a new market segment, without harming the brand image or alienating existing customers (Kim *et al.*, 2001). The fundamental goal of a vertical line extension is to attract new market segments (Boisvert, 2012b). The potential risk associated with this strategy is that the new extensions, whether upward or downward, have the potential of diluting the parent brand image and as a result alienating the current customer base (Boisvert, 2012b).

The scarce existing research about extension strategies in the service industry replicates key findings from the goods domain, namely, that the perceived quality of the parent brand and the fit between the parent brand and extension product drive customers' evaluations of service brand extensions (Völckner, Sattler, Hennig-Thurau and Ringle, 2010). However, no research has been done with regard to the fit between the current market segment of parent brand and the targeted market segments the firms intend to reach with the extension. Will current customers require a fit between the segments or is a fit not relevant? Will this new segment additional to current market segment increase or decrease current customers' perceived brand image? Furthermore, will perceived brand image be influenced by attitudes towards the VSLE depending on the already perceived brand concept, the perceived fit and the communication used by the brand? This is the type of question the researcher intends to answer during the study.

In the following chapter there is a comprehensive discussion of brand image and its role in VSLE strategies. Furthermore, the literature mentioned in Chapter 4 confirms the necessity to test the hypothesis.

CHAPTER 4: BRAND IMAGE

“Brands are a sort of language. Brands tell you a great deal about who you are, where you are in life, what you are and where you are going ” (Cooper, 1987, cited in Meenaghan, 1995).

4.1 INTRODUCTION

What is the difference between bread purchased at Pick ‘n Pay and bread purchased at Woolworths? What is the difference between a Samsung smart phone and a Nokia smart phone? The same can be asked with regard to banks. What is the difference between two service providers if the core service is identical? Often the answer is branding.

The benefits of a strong brand image may include an increase in the market share, greater profitability, and a significant boost to a firm’s asset value (Denby-Jones, 1995). However, it is hard for brands to actually realise their branding objectives if there is a misunderstanding of the concept ‘branding’.

The concepts brand image and brand identify are often confused. A simple way of explaining the two is that a brand identify is sent and a brand image is received or perceived (Meenaghan, 1995). In other words, brand identity is what the brand is and what it wants to communicate to customers, whereas brand image is what customers receive and how they interpret this identity to form an overall image of the brand. The development of brand image is the process where the marketer actually personifies the brand. As a result, the brand is perceived as having a personality in the eyes of the customer (Meenaghan, 1995).

According to Keller (1993) the process of creating a brand image is rooted in the brand knowledge structure. Brand knowledge consists of brand image and brand awareness. Brand image is the part where marketers create associations. It is these associations that define the brand. Associations can further be defined as brand unique concepts. These concepts are the foundation which a brand’s image is built. Irrespective of whether a brand is a service or a product, brand image is used to create and occupy a specific place in the mind of the customer. For example, quality,

friendliness, and reliability are all types of brand concepts. It is these brand concepts that ensure that the brand occupies a specific place in the mind of the customer. Brand concepts can be product-related or non-product related. In simpler terms, a brand concept is the essence of any brand (Kim, 2003).

Brand image consists of one or several brand concepts that distinguish it from competitors. According to Denby-Jones (1995), brands are not just a product or service name or a statement about the customer's self image, but also a 'guarantee' of quality and a means of reducing risk. This guarantee of quality is an important element because of the intangibility, heterogeneity and inseparability characteristics of service. Quality can be a means of differentiation. Therefore, perceived quality is said to be one of the success measures of a VSLE (Völckner *et al.*, 2010). It is argued, that if customers perceive the brand as possessing quality, they are likely to evaluate the extension favourably. However, this may differ in the cases of an upward extension and a downward extension.

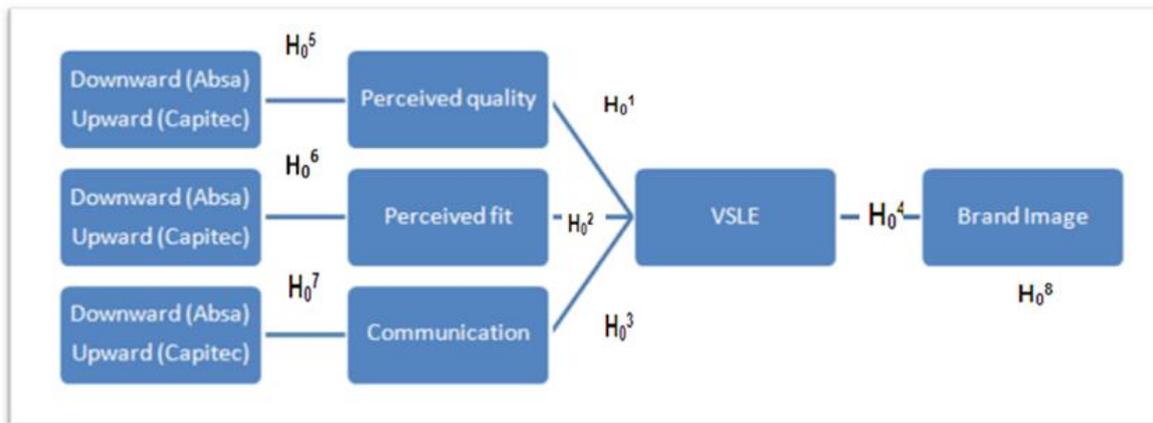
Customers' possess a structured set of associations towards a specific brand, contributing to their beliefs about the brand image. When a VSLE is introduced, brand image can be diluted due to the threat to existing beliefs about the brand. In other words, a VSLE may bring into question those beliefs because customers may perceive the extension as incompatible with the existing image. Thus, when customers evaluate the extension as favourable, this positive affect may be transferred from the extension to the parent brand and from the parent brand back to the extension. The opposite is also true. This transfer of association is from hereon referred to as the reciprocal transfer of affect.

In this chapter brand image and the factors that constitute it, in the context of VSLEs, will be discussed. These discussions are used to formulate the proposed hypotheses. The theoretical model highlights how these proposed hypotheses address the objectives of the study.

4.2 THE THEORETICAL MODEL

The theoretical model, shown in Figure 4.1, serves as a guideline to the study. Furthermore, it is a graphical representation of the constructs and the hypotheses investigated in this study.

FIGURE 4.1 THEORETICAL MODEL



4.2.1 The model in relation to vertical line extensions

With the launch of a VSLE the brand image of the parent brand is immediately threatened, because a vertical extension is a variation in price points or quality levels of the original product or service (Kirmani *et al.*, 1999). Therefore, the direction of the VSLE, whether upward to higher segments (Capitec) or downward to lower segments (Absa), can impact the parent brand image favourably or unfavourably. It is therefore argued that customers of banks that introduced an upward vertical extension and banks that introduced a downward vertical extension will differ in their attitudes towards a VSLE.

Perceived brand concepts are concepts used by brands to differentiate themselves from competition. High- versus low quality, modern versus traditional and prestigious versus functional are all forms of brand concepts. It can be argued that brand concepts form a part of the brand's DNA structure. It becomes part of 'who' and 'what' the brand is. It is argued in this study that perceived quality, as a brand concept, may influence how customers evaluate a VSLE (see H_0^1 in Figure 4.1).

The result of perceived fit between the parent brand and that of the extension is a favourable extension evaluation. On the other hand, unfavourable extension evaluation is the result of customers' having a limited perception or no perception of fit between the parent brand and that of the extension (Lei *et al.*, 2008). However, in this study perceived fit is investigated in the context of extending to different markets (i.e. higher- or lower market). To be more specific, perceived fit is defined in terms of target market fit. It is argued that the existing market should fit the extending market

in terms of status levels to increase the perceived fit between the two markets. In this study perceived fit is characterised in terms of current customers' perceived shared status with customers from other banks (see H_0^2 in Figure 4.1).

In this case customers from other banks' mean the customers the bank is trying to reach through the VSLE, in other words, the targeted market. Furthermore, in this study whether or not perceived fit influences attitudes towards the VSLE is investigated.

A VSLE is implemented to attract new segments not served before, but the question arises if this segment fits with the current segment. The influence different segments will have on the current customer base is unpredictable. Different segments possess different characteristics for example status characteristics. Customers may risk losing status by being associated with a particular segment or brand connected to a particular segment. Thus, when no perception of fit between the targeted segment and the current segment exists the customer will probably evaluate the extension as unfavourable, which may lead to a damaged parent brand image. Nevertheless, the use of communication tools can minimise or eliminate the damage of an incompatible fit.

Communication is a contributing factor in the evaluation of a VSLE, because it can strengthen the link between the parent brand and that of the extension, thus increasing the perception of fit. The perceived fit between the customers' self-image and that of the communication leads to the assumption of favourable attitudes towards the VSLE (see H_0^3 in Figure 4.1). It is argued that if customers' can associate themselves with the communication of a brand implementing a VSLE strategy, they are indirectly being associated with the VSLE. Therefore, communication plays a critical role in the success of an extension.

It is argued that perceived quality, perceived fit and communication influence customers' attitudes towards a VSLE (see H_0^1 , H_0^2 , and H_0^3 in Figure 4.1). Ultimately, brand image is the driving force behind this study. It is argued that customers' attitudes toward the VSLE will influence their perceived brand image (see H_0^4 in Figure 4.1). It is investigated whether there is a difference between customers of a bank that introduces an upward extension and one that introduces a downward extension (see H_0^5 , H_0^6 , H_0^7 and H_0^8).

4.3 CONCEPTUALISATION OF BRAND IMAGE

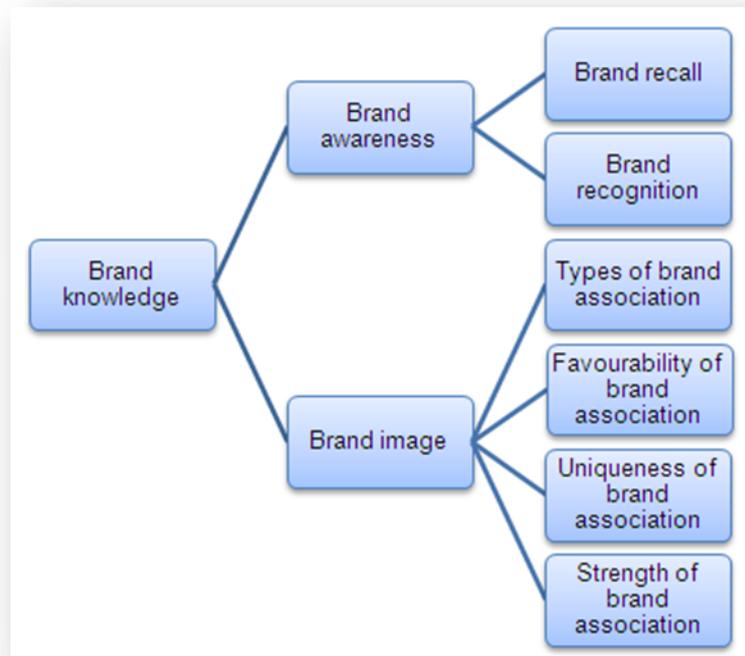
The Oxford Dictionary (2000) lists several definitions of the term 'brand'. One in particular captures the basis of the intended meaning: "a mark made with a piece of hot metal, especially on farm animals to show who owns them". In simple terms this definition explains that ownership is the reason for branding products and/or services. Corporate identities place a name on and meaning to a product or service and it becomes their brand. It is fair to say that brands enter a particular category or sector to become well associated with and possibly the leader in that category. Therefore a firm wants its brand to own a particular category just as Cadbury owns the confectionary category (Euromonitor International, 2011), All Gold, the tomato sauce category (Gillingham, 2011) and KFC, the fast food service category (Biz Community, 2011).

It is not only the sighted that can see an image, but also the sightless. An image can be an impression, a mental picture, or a reflection of something. It is a perception that differs from individual to individual. A brand provides the canvas on which an image is painted. This painted image will be perceived differently by customers, because different customers hold different meanings for perceptual cues.

On the one hand there is 'brand' which emphasises ownership and on the other hand there is 'image' which paints a picture in the minds of the customer. Thus, brand image can be described in simple terms as the ownership of a particular impression.

Consistent with this statement, Keller (1993) defined brand image as the perceptions customers have about a certain brand and how it is reflected by the brand associations in their memory. According to Keller (1993) brand image is a subset of brand knowledge. Figure 4.2 is an illustration of what constitutes brand knowledge and ultimately brand image.

FIGURE 4.2: BASIC DIMENSIONS OF BRAND KNOWLEDGE



Source: Adapted from Keller (1993:7).

As depicted in Figure 4.2 brand knowledge consists of brand awareness and brand image. Brand awareness consists of brand recognition and recall, where brand image can be categorised into types of brand associations, favourability of brand associations, uniqueness of brand associations and the strength of brand association.

Keller (1993) identified brand associations as informational cues connected to the brand in the customer's memory. These informational cues carry meaning about the brand. Therefore, different types of associations will hold different meanings (Martínez and Pina, 2008). For example people have different associations regarding wine. Someone with no knowledge about wine may not care much about the consumption of wine and may associate it with literate and rich people. On the other hand, someone with considerable knowledge of wine may associate it with a cultivated experience and part of his/her heritage. Thus, brand image may differ among customers because each customer may have a different set of associations.

Martínez and Pina (2008) argue that associations can be created in several ways. Direct experience with a brand is one way of cultivating a perception of the brand. Furthermore, communication by means of word-of-mouth, the corporate identity itself, and by other commercial sources is a vehicle used to create associations among a particular set of customers. All the established associations with a particular brand paint a coherent picture about the brand's image.

According to Sjödin and Törn (2006), some associations should be shared among the majority of customers. This can be explained by the associations shared in a specific category. For example 'fun' can be associated within the entertaining category and 'beauty' with the cosmetic industry. It is these raw associations or characteristics of the category that form the basis of any particular brand image.

To better understand brand image Keller (1993) classified brand associations into three major categories: attributes, benefits, and attitudes. In the following section these three categories are discussed.

- Attributes

According to Keller (1993) brand attributes are the fundamental nature of a brand and are those descriptive features that classify the brand. Attributes can further be characterised according to how directly they relate to product or service performance. Attributes that are product-related can be defined as the ingredients necessary to perform the necessary function. For example customers expect a hairdresser to perform certain functions such as washing and cutting, hence a service-related attribute. Furthermore, customers expect cleaning detergent to actually minimise or eliminate stains, hence a product-related attribute.

Brand attributes that are non-product related can be defined as external characteristics related to the purchase and consumption of the product or service. Several main types of non-product related attributes exist, information generated from packaging or product appearance, price information, usage imagery (i.e., where and in what types of situations the product or service is used), and user imagery (i.e., what type of person uses this product or service).

When customers gain direct experience with the brand or indirect information through reference groups or word-of-mouth, usage imagery associations can be

formed. In other words, perceptions are formed according to *how* one is supposed to use the brand. User imagery associations may be formed as the result of direct contact with the brand users or exposure to brand communication depicting the target market. In the user imagery, perceptions are formed with regard to *who* uses the product.

Attribute can be product-related, non-product related, or both. However, attributes are just one of three categories a brand can build its associations on. The next association on which a brand can be built is benefits.

- Benefits

The personal value a customer attaches to the product or service can be defined as benefit associations. In other words, the customer may ask “what can the product or services do for me?” Brand benefits can be further classified into: functional benefits, experiential benefits, and symbolic benefits. Functional benefits are those expected advantages connected to the consumption of the product or service. Functional benefits are in line with product-related attributes. For example, shoes are purchased for the basic function of protecting the feet of the customer wearing them. Experiential benefits are related to the feelings customers have while consuming the product or the service. Usually experiential benefits relate to product-related attributes, for example, the expected adrenaline rush at Disney World.

Lastly, symbolic benefits are the extrinsic benefits connected to the purchase and consumption of the product or service. These extrinsic benefits usually relate to non-product related attributes, for example, the symbolic benefit of gaining status through conspicuous consumption of branded products. The symbolic benefit a branded shoe like Jimmy Choe’s will give customers’ is an example of conspicuous consumption. Furthermore, symbolic benefits relate to social approval, personal expression and self-esteem. As a result, a customer may value a brand based on the level it relates to their self-concept (Solomon, 1983).

Building a brand image on a benefit association is a common route because it is effective. Almost every brand image has some sort of benefit association, whether it is functional, experiential or symbolic. Nevertheless, if customers do not have favourable attitudes towards a brand, all attempts to create association are futile.

- Attitudes

Attitudes are defined in a customer behaviour context as “a learned predisposition to behave in a consistently favourable or unfavourable way with respect to a given object” (Hawkins and Mothersbaugh, 2010). In other words, brand attitudes form the basis of customers’ behaviour and are used as their overall evaluation of a brand. The customer’s attitude towards a brand determines whether he will purchase the product or service, become loyal etc. (Schiffman and Kanuk, 2007). When a negative attitude is formed it is almost certain that this attitude will not change. Therefore it may lead to brand avoidance. It can therefore be argued that attitudes determine whether a customer will accept or reject a newly launched extension (Arslan and Altuna, 2010).

To summarise, brand image and brand awareness comprise brand knowledge, which ultimately directs customer behaviour. More specifically, brand image consists of: types of associations, the strength, uniqueness and favourability of those associations. The only aspect of brand image investigated in this study is the types of brand associations. What happens when one’s perceived brand associations are influenced or threatened due to an unusual or unexpected change, specifically, change incurred by a VSLE? Thus, a brand concept like quality is in jeopardy if the vertical extension is unsuccessful.

4.3.1. Brand concepts

Brand image is a fundamental factor in the evaluation of a VSLE. According to Martínez *et al.* (2008) parent brand’s perceived quality, before an extension, will influence the customer’s attitudes towards the extension, the reason being that brand image reduces customers perceived risk by communicating the quality of the brand (Martínez *et al.*, 2008; Sheena, 2009). In other words, the image symbolises the level of quality the brand possesses or is associated with.

According to Bhat and Reddy (1998) every brand image should be based on a brand concept or a brand-specific abstract meaning. According to Kim (2003) the essence of the brand will be the core of the brand identity, and this is typically the flagship product of the brand. This essence can be thought of as the root association of the brand and can be product-related (car), non-product related (prestige), or both.

In many customers' minds Volvo is associated with safety, Apple with friendliness and Harley-Davidson with adventure (Aaker and Keller, 1990; Kotler and Keller, 2009). A brand can also be associated with a use situation, a type of product user, a place, or a product class (Keller, 1993). These associations create a concept or idea about the brand that makes it easier for customers to identify with the product. It is therefore essential to create the right associations to reinforce a particular brand concept, strengthening the brand image in the minds of customers. The brand concept contributes to the argument of a brand having a personality. A brand concept communicates who and what the brand is. If customers relate to this branded 'personality', positive attitudes can be developed that will increase the probability of a favourable attitudes towards the evaluation.

Against this background, Park *et al.*, (1991) define brand concepts as brand-unique abstract meanings (e.g., high status) that typically originate from a combination of product features (e.g., high price, custom made, quality) and a firm's effort to create meaning from these arrangements (e.g., 'the relentless pursuit of perfection' by Lexus).

Brand concept consistency depends on customer's perception of whether the brand concept associations (e.g., status, reliability, quality) are potentially relevant and/or desirable in connection to a particular product or service and if it is relevant in the extension category as well (Park *et al.*, 1991).

In its general form, a brand concept can be either symbolic or functional (Park *et al.*, 1991). Functional brands satisfy immediate and practical needs, whereas symbolic brands satisfy symbolic needs, such as those for self-expression and prestige (Park *et al.*, 1991). At the same time, Kim and Lavack's (1996) results suggest that customers do not have any trouble accepting brands that have both symbolic and functional appeal. In their study, Nike was perceived as being functional, prestigious, and expressive at the same time. These functional or prestigious brand concepts are used by customers as associations differentiating one brand from another.

A parent brand possesses a set of attributes distinguishing it from competing brands, but when a new extension is launched it will have its own set of attributes, which may either be consistent or inconsistent with the core parent brand image (Kim *et al.*, 2001). In the vertical extension context, a level of inconsistency exists because the

extension is an upward or downward extension from the core parent brand's existing quality levels and/or price points (Kirmani *et al.*, 1999). In other words, there is some variance between the extension's position and that of the parent brand. The difference in price points between the parent brand and the extension, signals to customers the difference in the quality levels (Kim and Lavack, 1996). This difference in price and/or quality may stimulate customers to re-evaluate their belief structure about the parent brand image.

To summarise, every brand possesses some or other brand concept, differentiating itself from competitors. In this study, perceived quality as a brand concept is investigated.

4.3.2. Perceived quality

According to Parasuraman, Zeithaml and Berry (1985) quality is an elusive and indistinct construct. The measurability of service quality is not as simple as in the goods sector due to its intangibility (Parasuraman *et al.*, 1985). Nevertheless, service firms make use of various quality signals to create a certain level of perceived quality. Brand image is one such signal.

One can argue that the quality of the parent brand can be used as a signal to 'pave the way' for an extension (Sheena, 2009). As a result the extension is ensured of more equity in the minds of the customers compared to when the customer has no perceived quality of the parent brand (Sheena, 2009). Furthermore, the perceived quality customers believe the parent brand possesses can spill over to the extension, resulting in favourable attitudes towards the extension. Bloemer, De Ruyter, and Peeters (1998) found that perceived quality mediates the link between image and loyalty among banking customers. In other words, the favourable perception of the brand image leads to loyal customers.

Price is a relative indicator of quality, thus price perceptions influence the way customers perceive the brand image (Vigneron and Johnson, 1999; Keller, 1993). Hamilton and Chernev's (2010) research indicates that the impact of vertical extensions on price image is moderated by customer goals. When customers have a browsing goal, the result is a consistent shift in price image, such that upward extensions lead to a higher price image and downward extensions lead to a lower

price image. However, when customers have a buying goal in mind the result can be reversed, such that upward extensions lead to lower price images, and vice versa. The customers' price perception is dependent on their goal (browsing or purchasing). Therefore, it is found that price perceptions influence price image formations and ultimately perceived brand image. It appears as if price is a relative indicator of what to expect (Terblanche and Boshoff, 2004).

In practice customers readily assume that a higher price indicates higher quality as well as being a surrogate indicator of prestige (Vigneron and Johnson, 1999). Customers may judge a service extension based on its price; when the price is high customers may perceive the new extension as having more quality compared to an extension that is priced lower. Furthermore, the way customers perceive the price image will be dependent on how the brand is positioned, in other words, high or low quality perceptions.

In the VSLE context, Völckner *et al.* (2010) found that service quality is a better measure of success than perceived fit between the extension and the parent brand. It was found that customers compare the quality of the parent brand to that of the extension quality and so doing create beliefs about the brand and its extension. Furthermore, Boisvert and Ashill (2011) found that extension quality and innovativeness influence both the attitudes and behavioural outcomes of a new VSLE. Interestingly, Boisvert, (2012a) found that customer's involvement moderates their perceived 'innovativeness' and quality of the VSLE.

Depending on the customers' level of involvement, information processing will range from a central route (high involvement) to a peripheral route (low involvement) (Boisvert and Ashill, 2011). Banking is perceived as a service requiring high involvement due to the risk associated with it. It can be argued that to reduce the risk, brands must emphasise parent brand quality when a new service line extension is launched (Boisvert and Ashill, 2011, Boisvert, 2012a). This emphasis on the quality if the brand may strengthen customers' beliefs of the brand.

Völckner *et al.* (2010) as well as Zimmer and Bhat (2004) found that parent brand quality influences extension success through customers' parent brand conviction (trust or liking). In other words, if customers perceive the parent brand as trustworthy or credible, they are more likely to favourable attitudes towards the extension. In

addition, Wu and Yen (2007) found that brand trust and brand affect influence attitudes toward the specific brand extension. The parent brand is readily perceived as having quality when customers trust the brand. This trust is a way of cultivating favourable attitudes towards the brand's extension. Even though customers may trust the brand, there is still the possibility of a failed extension which will have serious repercussions for the brand's image.

Arslan and Altuna (2010) found that a brand's image is more likely to be tarnished, when launching an extension, when the quality of the parent brand is higher. In other words, brands that are associated with high quality will be ranked higher than those associated with poor quality. Therefore, the higher the brand is evaluated, the further it will 'fall'. In this case the higher quality brand has more to lose, than a limited quality brand, when an extension strategy is unsuccessful. Thus, it is risky for a brand positioned on quality to extend. On the other hand, the higher the risk the higher the return. However, managers must not be blinded by high returns, but rather need to do good market research before deciding on an extension strategy.

To summarise, price and quality influence the perceptions about brand image. It is true to say that price and quality are components within the brand image paradigm. Furthermore, price and quality signal what to expect from a brand. Therefore, parent brand service quality must be aligned with the extension quality for an extension to be successful. The extension's price perceptions and quality signals must fit with that of the parent brand. The direction (upward or downward) of a VSLE will ultimately influence the level of quality customers ascribe to the brand.

The existing brand concepts, positioned in customers' memory, can influence the effectiveness and success of an extension based on variations in price points and/or quality levels. In this study, whether perceived quality influences attitudes towards the VSLE, is investigated. In addition, it is expected that there will be a difference between customers' perception of the quality of service rendered by a bank that implemented an upward extension and one that implemented a downward extension.

A VSLE may also have a damaging effect on brand image. As mentioned previously, customers may feel inclined to re-evaluate their belief structure when the extension is not consistent with their perception of the brand. Fishbein's attitude theory may shed some light on the direction of this re-evaluation of the parent brand, which

suggests that inconsistent information weakens the existing belief structure (Kim *et al.*, 2001). In other words, if the parent brand was previously evaluated favourably, the inconsistent information created by the vertical extension may dilute beliefs about the parent brand.

4.3.3 Brand image dilution

As mentioned in section 4.3, brand knowledge consists of brand awareness and brand image. Therefore, customers must first learn about a brand before they can make assumptions about it. This learned information can create new associations or bring into question current belief about the brand, resulting in brand image dilution (Montaner and Pina, 2009; Martínez *et al.*, 2008). Nevertheless, brand image can also be enhanced through an extension. Examples of successful extensions that enhanced the brand's image are Apple's extension from iPods to iPhones as well as McDonald's extension to McCafe's.

Randall *et al.* (1998) argue that a VSLE can create cues strengthening or diminishing brand associations. In other words, the presence of an upward extension of a mainstream parent brand may create customer beliefs that the parent brand possesses strong capabilities. The opposite can also be argued when a mainstream brand extends downward.

The dilution effect of brand image occurs when the extension associations are perceived as incongruent with those of the parent brand (Loken and John, 1993). This means, if information about the extension is not congruent with that of the parent brand, brand image dilution will be the result.

Romeo (1991) found that information about extensions that are closely related to the parent brand may be more damaging to the brand image than information about extensions that are not closely related to the parent brand. In this context an extension *close* to the parent brand means that the position of the extension, in comparison to the parent brand, does not differ much from the parent brand's current position. In other words, the associations and perceptions between the extension and the parent brand are perceived as similar. For instance, when a brand is connected to a product failure because of a new extension closely related to the parent brand, the effect may be more damaging to the brand image compared to

when the extension was not closely related to the parent brand. Lexus is part of the Toyota parent brand, but does not share the same name. Therefore, if Lexus failed the effect would not be as damaging to the Toyota brand as it would have been if they shared the same name.

Distancing techniques are used to increase or decrease the distance between the extension and the parent brand (Kim *et al.*, 2001). These techniques can be graphical or linguistic. Meyvis, Goldsmith and Dhar (2012) believed that pictures create a concrete representation of the extension which may influence the evaluation process. Pictures and words are the tools used when communicating the extension's relationship with the parent brand. Thus, distancing techniques can be described as techniques used to imply a close or distant relationship between the extension and the parent brand.

The National Basketball Association launched a vertical line extension namely the National Basketball Development League. Apostolopoulou (2005) examined the use of distancing techniques (graphical and linguistic) for this vertical extension and found that sports brands must first use distancing techniques to create associations related closely to the parent brand and then gradually move away to establish their own identities. Kim *et al.* (2001) found that prestige-orientated brands must use distancing techniques when they want to extend downward. The result is lower parent brand image dilution. In addition, to ensure that the parent brand image remains relatively unaffected, Kim *et al.* (2001) advised that vertical extensions should be positioned farther away from the parent brand. Sub-branding as a distancing technique can be used to create distance between the extension and the parent brand as in the case of Lexus and Toyota. Milberg, Park and McCarthy (1997) argue that sub-branding is a way of minimising the risk of image dilution.

According to Kim *et al.* (2001) the result of a position close to the parent brand can have one of two outcomes, 1) benefit from equity transfer from parent brand to extension or 2) risk of image dilution when the extension is a failure (Kim *et al.*, 2001). The distance between the extension and the parent brand is dependent on the perceived brand image as well as the objectives of the extension strategy. For example, a brand may choose to extend its services to a segment 'farther away' from the original targeted segment of the parent brand, creating distance between the

current market segments and targeted segments. This distance can be viewed as gaining market share. Furthermore, the distance between the extension and the parent brand depends on the parent brand's existing associations as well as the level of perceived variance between the parent brand and the extension. The variance is normally on the price points or quality levels, which influence perception of brand image. In other words, when the extension's price or quality is much lower or higher than that of the parent brand image, the result may be brand image dilution.

It can be argued that the opposite of brand image dilution is positive reciprocal effect. This reciprocal effect means salient beliefs regarding and associations with a parent brand can be transferred to the extension, which will increase the likelihood of favourable attitudes towards the extension (Boisvert, 2012b). This favourable evaluation can then be transferred back to the parent brand image, creating a positive reciprocal effect.

4.3.4 Reciprocal effect

Synonyms for the word *reciprocal* are, mutual, shared and equal, just to name a few. Thus, the transfer of associations from a parent brand to an extension and back again to the parent brand can be described as reciprocal transfer (Völckner and Sattler, 2006). Similar to the reciprocal effect is the halo effect.

According to Petrino (2010) customers' positive experience with a parent brand usually spill's over to the extensions of the parent brand and this effect is defined as the halo effect. The Apple brand is a good example of a halo effect where customers' had a favourable experience with Apple's iPod. This positive experience spilled over to the other products offered by Apple.

Tafari, Michel and Rosa (2009) studied the brand halo effect for vertical product line extensions. Their results indicate that core parent brand associations are transferred to the vertical line extension regardless of range level (low, medium or high-end range) and that such transfer systematically reinforces linkage between associations. In other words, parent brand associations still spill over to the extension, regardless of the difference in quality levels or price points. Both the reciprocal and the halo effect are based on the transfer of associations.

Boisvert (2010) studied the transfer of associations where in condition one respondents rated the strength of a brand association after exposure to the parent brand. In condition two the same respondents rated the strength of the same brand association after being exposed to the new extension. When the repeated measure in condition one was statistically higher than in condition one, the outcome was limited transfer of affect between the parent brand and extension. When the repeated measure in condition two was not statistically different to condition one, the outcome was strong transfer of affect. Lastly, when the repeated measure in condition two was statistically lower than condition one, the outcome was limited transfer of affect.

Boisvert (2010) concluded that strong transfer of affect, from the parent brand to the extension, can only occur when customers perceive the associations as similar. If there is a difference between the associations of the parent brand and the extension, the transfer of affect is said to be limited (Boisvert, 2010). It is therefore important to recognise the unique, strong and favourable associations linked to the parent brand to better facilitate the transfer of affect towards the extension. Thus, customers' affect can be transferred in different directions; forward, backward and simultaneously.

Forward effect refers to the transfer of positive attitudes from parent brand towards the extension and backward effect refers to the transfer of extension attitudes back to the parent brand (Pina, Iversen and Martínez, 2010). Reciprocal effect refers to the simultaneous transfer of attitudes both forward and backwards. The ideal situation will be one where the brand equity of the parent brand is transferred to the extension and the favourable attitudes towards the extension is transferred back to the parent brand image, creating a favourable reciprocal effect. Furthermore, Boisvert (2012a) defines the reciprocal effect as "any changes in the beliefs and attitudes towards the parent brand caused by extension". In other words, the extension can cause customers to re-evaluate their beliefs about the parent brand. It is therefore proposed that a VSLE will have a backward effect on parent brand image. In other words, customers' attitudes towards a VSLE will influence perceived brand image. Interestingly, attitudes are not the only things to be influenced by transfer of affect.

Boisvert (2012a) found that innovativeness of the extension, involvement of the customer and perceived quality influence the reciprocal transfers of affect between the parent brand and that of a VSLE. It was found that customers treat unique image associations differently to performance associations (Boisvert, 2012a). If the contextual salience of the brand is one of unique image, the influence of an upward service line extension on the parent brand image is found to be negative. Evidence reveals that customers question the suitability of a newly launched VSLE, when the brand extends upward (Boisvert, 2012a). In this case the perceived associations of the parent brand prohibit the new associations of the extension to transfer reciprocally. For instance, 'low prices' is so strongly connected to the PEP stores brand that it would be very difficult for the brand to introduce extensions that are associated with more expensive products.

On the other hand, when a brand's contextual salience is one of unique performance, the reciprocal transfer of affect is strong and can modify the parent brand's equity structure. That is, the newly launched extension's unique service performance can actually enhance customers' perception of the parent brand's performance associations. It is therefore concluded that performance associations created through the extension are immune from the parent brand's existing associations and can create strong reciprocal transfers, enhancing the brand image.

The reciprocal transfer of associations depends largely on the established salience of brand as well as new associations created by the extension (Boisvert, 2012b). Both Capitec and Absa Bank possess unique associations. Therefore, both banks need to consider the expected outcome of implementing a VSLE and the potential a reciprocal transfer may have for the brand.

4.4 CHAPTER SUMMARY

As stated earlier, brand image can be described in simple terms as the ownership of a particular impression. The brand is the canvas used by the firm on which to paint a particular 'image'. Customers then perceive this 'image' as well as the setting in which it is painted (colour, texture, composition) and then create associations around the image (brand image), the canvas (brand) and the artist (the firm).

To better understand brand image Keller (1993) classified brand associations into three major categories: (1) attributes, (2) benefits, and (3) attitudes. All three of these factors contribute to customers' perceived brand image of the brand (canvas), the brand image (image on the canvas) and the firm (the artist); creating an overall perceived brand image. It is proposed that attitudes towards a VSLE may influence perceived brand image.

It is evident from the literature that the image a brand possesses is an indicator of quality and what to expect (Martínez *et al.*, 2008; Sheena, 2009). Furthermore, customers form price perceptions and these perceptions contribute to their perceived image of the brand and its quality. Obviously, the current position of the brand influences whether customers perceive the brand to have high or low quality. It is fair to say that brand image is used as a quality signal to help customers make decisions. In a VSLE, the extension can be either upward or downward from current position, depending on the brand's objectives and the type of brand concept it possesses. Usually the brand concept is product-related, non product-related, or both (Kim, 2003). In this study, perceived quality, as a brand concept is investigated.

A mainstream brand may be perceived as having more quality than a lower market brand. Thus, when brands extend vertically, their current position will influence whether customers will perceive the extension as successful. For instance, customers may doubt the credibility and quality of a lower market brand, previously associated with lower quality services, when it introduces an upward extension priced higher than competitors. Brand image dilution may be the result when customers doubt the credibility or lack of quality between the extension and the parent brand.

In this study it is expected that an upward extension from a lower-end brand will have a positive effect on the parent brand image. In other words, favourable associations created by the extension are transferred to the parent brand image, influencing customers' current beliefs about the brand (Lei *et al.*, 2008). Furthermore, a downward extension from a mainstream brand will have a negative effect on the parent brand image, the reason being mainstream brands' lack of association with a lower market segment

It is therefore proposed that perceived quality of the parent brand will influence customers' attitudes towards a vertical service line evaluation. Furthermore, it is expected that customers' perceived quality will differ from a bank that did an upward extension and one that did a downward extension.

Hitherto, the factors constituting perceived brand image and how they influence the overall parent brand image, were discussed. In the following section, how the perceived fit and communication of a VSLE influence the parent brand image, is discussed.

CHAPTER 5: PERCEIVED FIT IN VERTICAL SERVICE LINE EXTENSIONS

“...perceived fit can be any association linked to the parent brand and can include the type of user of the brand” (Keller,1993).

5.1 PERCEIVED FIT

Perceived fit is defined as any parent brand association, including category, brand-specific associations or brand concept that can connect the parent brand to an extension (Bridges *et al.*, 2000). Furthermore, fit can be any association linked to the parent brand in the customers’ memory and can include attributes and explanatory links such as packaging, benefits, pricing, and type of users, etc. (Keller, 1993).

According to Bridges *et al.* (2000) the use of explanatory links to create a basis of perceived fit is advantageous because it does not limit the association to one category. Therefore, explanatory links can be any association the customers have with the brand which may be used in the judgement of perceived fit.

Perceived fit is a perception held by individual customers and can be based on image (does the extension fit the parent brand image?), users (does the type of individual using the extension fit the current type of user?) or usage situations (is there a relevant relationship between the use of the extension and that of the parent brand? (Boisvert, 2010). In this study the attention is on the perceived fit between the type of user the extension targets and the current user.

Perceive fit is a well-studied phenomenon in the extension of tangible products to new categories. Not much attention has been giving to the extension of services in the same category (Lei *et al.*, 2008). Nevertheless, the categorisation theory facilitates understanding with regard to perceived fit in the service sector.

The absence of fit or similarity can sometimes be viewed as a fit to the brand concept, for instance Richard Brandson’s Virgin Active brand. This brand has no particular perceived fit with the different categories to which it has been extended (airlines, gyms, and cell phone network) (Kim and Lavack, 1999). The fact that the categories do not fit with one another, strengthens the brand image concept which is

dynamic, innovative and exciting. In the case of Virgin Active, the logical argument of fit is not present, but the symbolism of what these 'dissimilar' extensions portray, fits the brands' image creating perceived fit nonetheless. But, not all brands can get away with what Virgin Active gets away with, especially not the banking sector.

Both Capitec and Absa Bank are using a VSLE to reach new segments and create new associations. Target market fit is the perception of fit between two different markets. In this study the perceived status is used as exploratory link that facilitates the perception of fit.

The social comparison theory highlights that individuals compare themselves with one another. These comparisons are then used to motivate individuals to gain more status or to praise themselves for their accomplishment of achieving status. This accomplishment will often result in individuals flaunting their status. The signalling theory stipulates that individuals will flaunt or signal their level of status so that others will be aware of their position in society. Thus, status is used as a communication tool.

In the context of creating, sustaining or changing brand image, communication, more specifically advertising, plays a fundamental role. Advertising contributes to the value of a brand. Advertising brings forth the symbolic meaning of the brand as well as the functional benefits (Meenaghan, 1995). Communication's role is to create strong exploratory links between the extension and the parent brand to facilitate the perception of fit. Whether customers' perceive a level of fit between their self-image and the communication of the brand is investigated. If there is a significant level of fit between customers' self-image and the communication, they are indirectly approving of the VSLE. Thus, favourable attitudes towards the extension are inevitable. This fit between customers' self-image and the communication is defined as the self-brand connection.

The self-brand communication fit is grounded in perceived fit. It is the fit between the customer and the communication (Escala and Bettman, 2003). It is argued in this study that the lack of perceived status fit or self-brand communication fit will influence customers' attitudes towards the VSLE and ultimately brand image. The evaluation of an extension, according to Broniarczyk and Alba (1994), is a joint function of the extent to which a brand is linked to its original category and the

similarity between the original and extended brand categories. In other words, there must be a fit between the parent brand category and the extended category. Categorisation theory explains this phenomenon.

5.1.1 The categorisation theory

According to Zimmer and Bhat (2004) when customers first encounter an extension, they evaluate the level of similarity between the extension category and the parent brand category. In other words, customers engage in the categorisation process when they evaluate a specific brand extension (Aaker and Keller, 1990).

They use their affect associated with the parent brand to influence their perception of 'fit' or similarity between the extension and the parent brand. The preferred outcome is one where customers perceive a fit between the extended category and that of the parent brand category. Categorisation theory has been utilised in several studies to help understand the dynamics of core brands and their extensions (Kim and Lavack, 1996; Aaker and Keller, 1990; Zimmer and Bhat, 2004).

Milberg *et al.*, (1997) found that a negative feedback effect occurs when the extension extends to a dissimilar category and when extension information is not congruent with already established informational structures within customers' memories. The argument here is that customers evaluate in categories. If the extension category does not fit the parent brand category there is no perceived fit, which may lead to unfavourable extension evaluation and brand image dilution. The 'bookkeeping model' suggests that customers' belief structure changes if they receive information about the extension that is inconsistent with the parent brand (Loken and John, 1993). Therefore, the way a new extension is positioned relative to beliefs about the parent brand may influence customers' perceived fit when evaluating the extension (Sheinin, 1998). As a result, customers adapt their belief structures regarding the core brand attributes after evaluation of an extension.

This re-evaluation of beliefs can be positive or negative, depending on customers' attitudes towards the extension. When positive extension evaluation attitudes are transferred to the parent brand, customers may believe the parent brand has improved as a result of the extension. This is consistent with the reciprocal effect

argument which posits that positive affect is transferred from the parent brand to the extension and vice versa.

In contrast, negative attitudes incurred by evaluating the extension may be transferred from the extension back to the parent brand which may dilute parent brand image. If the new category is far from the original category, customers may perceive poor fit which may result in a negative extension evaluation. But, if the two categories are perceived as similar the parent brand may be strengthened, for instance, a brand in the financial service sector that extends its service to the insurance category, or Holiday Inn extending to a car rental services. In both cases the brand extends to different sectors and therefore different categories, but the categories can be perceived as close to those of the parent brand. Thus, the extension and parent brand are perceived as compatible or similar. Extending to different categories is no easy task, no matter how strong the level of similarity. Parent brand prototypicality can restrain the brand from extending to new categories and this influences the transferability of parent brand attitudes (Iyer, Banerjee and Garber, 2011).

Prototypicality occurs when a brand is closely associated with its category and becomes synonymous with the category, such as All Gold for tomato sauce and AVBOB for funeral services. Thus, a parent brand's category dominance may prevent it from extending to other categories (Hem and Iversen, 2009).

This extension limitation can be explained by the lack of fit between two different categories or two different market segments. When there is a match between the extension and the parent brand, whether the match is based on image, users or usage situations, transfer of affect is likely to take place (Boisvert, 2010). In other words, at least a moderate level of fit is necessary to facilitate the transfer of affect between the parent brand and the extension.

Estes, Gibbert, Guest and Mazursky (2012) believe that the dual-processing model can help with the evaluation of perceived fit. The model refers to taxonomic similarity and thematic similarity. Taxonomic similarity is based on shared features between the parent brand and that of the extension. For instance, taxonomic extensions extend to similar product categories as the parent brand (e.g., BMW motorcycles, Absa private bank). Thematic similarity is based on the shared external cues

between the extension and the parent brand. For instance, thematic extensions break out of the brand's traditional category by extending to different categories that are nevertheless connected through some or other relation (Adidas deodorant, Holiday Inn car rental service). It can be argued that thematic similarity can be described as similarity based on shared brand concepts. In other words, to increase the level of perceived fit extensions do not have to be in the same category as the parent brand, but only need a shared relation between the extension and the parent brand.

To summarise, the categorisation theory is commonly used in brand extensions to new categories. Nevertheless, the categorisation theory helps to explain the relevance of perceived fit in customers' evaluation of VSLEs. In short, the theory stipulates that when a brand extends to different categories these new categories need to fit the overall image of the parent brand. This perception of fit may differ among customers'. However, managers want to create as much common ground as possible to enhance the perception of fit between the extension and the parent brand image.

As described previously, perceived fit can be any association linked to the parent brand and can include the type of user of the brand (Keller, 1993; Bridges *et al.*, 2000). Just as it can be argued whether there is a level of fit between the parent brand category and the extension category, it can be argued whether there is a fit between the current market and the target market of the extension.

Customers may associate a particular brand with a type of market segment or a type of user making it difficult for the brand to create new associations. In this study, target market congruency is regarded as a function of the perceived fit construct.

5.1.2 Target market fit

Capitec Bank dominates the lower segment of the banking market and one can argue that this is the same as dominating a specific category (category A). If Capitec is extending its services by launching new service extensions targeted at a different market, for instance the mainstream market, it can be regarded as a different category (category B).

Absa Bank, one of the banks dominating the mainstream market, retaliated because of Capitec's extension into their market (category B). In return, Absa launched an extension targeted at category A. In other words, the market dominated by Capitec up to now. This retaliation is called a counter extension strategy (Kumar, 2005). Counter extensions lower entry barriers and as a result pose a risk to competing brands. Brands often counter extend to 'take back' the market share a competition has 'stolen'.

Both Capitec and Absa are straying from their current target segments and are targeting their extension strategies to segments not served by the banks before. A discrepancy may emerge between the current market and the targeted market, because vertical line extensions are used to reach new segments by offering different prices or different quality. One can argue that to eliminate the transfer of negative attitudes from current customers, there should be a fit or level of similarity between the current market and the targeted segment. This congruency is referred to as target market congruency. The existing literature does not elaborate on target market congruency as a fit dimension in the evaluation of extensions. However, this phenomena is explored in this study and whether it has a significant effect on brand image. The basic contention is that there must be a fit between the extended market segment and the current market segment to ensure that customers evaluate the extension as favourable.

One can argue that current customers of the brand may assess whether the new market segment, which the extension tries to reach, fits the parent brand image. Therefore, it is proposed that the extension will be evaluated favourably when current customers perceive similarity or fit between the new targeted market and the current market. Furthermore, the type of user must fit the image of the brand and that of the current customer, because customers tend to be associated with similar self-image (Del Río, Vázquez, and Iglesias, 2001). The type of user can be classified by their demographic differences, in this case perceived status.

The risk of losing status by being associated with a particular brand may be the reason customers evaluate a VSLE as unfavourable, for instance, if the social class of the current market is not similar to that of the targeted market segment. Therefore,

it is argued that the perceived status of the extended market and that of the current market must be similar before the extension can be perceived as favourable.

5.1.3 Status risk

Social class influences a customer with regard to preference, purchases, consumption and communication (Hawkins and Motherbaugh, 2010:136). It can be argued that social class is a determinant of customer behaviour (Grondhaug and Trapp, 1989). Furthermore, social class can be defined as a continuum that divides society into smaller groups and that these groups of individuals are ranked according to their status based on specific attributes. Segmentation of the market based on social class was first noted in the 1940s when Warner (in Henry, 2002) found that the various social classes display unique shopping behaviour and purchase motives. In other words, people with the same social standing tend to share similar perceptions, therefore different groups share related psycho-social characteristics resulting in the formation of similar perceptual lenses (Henry, 2002).

Schiffman and Kanuk (2007) suggest that social-class groups are ranked in a hierarchy from low to high status. Thus, members of a specific group may perceive others in different social groups as having either more or less status as they do. Social class membership can serve as a frame of reference to evaluate the attitudes and behaviours of others. Members of the same social group may turn to one another for advice (or clues) regarding appropriate behaviour. In addition, members in a lower social group may emulate the behaviour of members in a higher social group because they aspire to a higher status. Therefore, customers are often aware of their need to buy certain brands in order to demonstrate their membership of a specific social class.

Social risk can be defined as the possibility of the depreciation of the customers' dignity in the eyes of his/her friends (Demirdogen, Yaprakli, Yilmaz and Husain, 2010). Furthermore, the fear of embarrassment contributes to a customer's evaluation before a certain purchase decision is made (Boshoff, 2002), which links with the risk of losing status. It can therefore be argued that social risk is the risk of being cast out of a particular social group due to unacceptable behaviour.

Customers' behaviour is often socially motivated and not just simply a way of satisfying needs (Goldsmith, Flynn, and Kim, 2010). One social motive is the persuasive and influential desire for social status (Goldsmith *et al.*, 2010). Social status is defined as an individual's position within the social group's hierarchy, which is based on the level of prestige, honour and deference shown to an individual by other members of the group (Clark, Zboja and Goldsmith, 2007). In other words, it is the ranking of an individual in terms of specific status factors such as wealth, power and prestige (Schiffman and Kanuk, 2007:187). Each social class is defined by the amount of status that class has in comparison to other social classes (Schiffman and Kanuk, 2007).

In short, social class is dependent on the amount of status accorded to a person. Individuals usually compare their status using certain references to evaluate their standing within the social group, and social comparison therefore is a way of measuring one's own status.

5.1.3.1 Social comparison theory

The theory of social comparison is based on individuals' need to evaluate their opinions and abilities (Chan, 2008). People use a reliable source of self-reference against which to assess their attitudes and compare their opinions and abilities with those of others (Morrison, Kalin and Morrison, 2004). Furthermore, when objective sources are not available, individuals often use other people as reference points against which to judge the validity of their attitudes and actions (Chan, 2008). The affective result of social comparison theory is the direction of comparison. If an individual compares herself to someone that is better off regarding a particular dimension it is described as upward comparison (Chan, 2008; Morrison *et al.*, 2004; Martin and Kennedy, 1994). Individuals frequently feel inferior when comparing themselves to someone that scores more on certain dimensions of interest, which is the case in upward comparison (Morrison *et al.*, 2004). Customers may use upward comparison as a means to aspire to a particular group, whereas downward comparison is used to generate the feeling of superiority towards a specific group.

Downward comparison is the opposite of upward comparison. Buunk and Schaufeli (1993) found that self-enhancement is generated when individuals engage in downward comparison. If they compare themselves to others worse off on certain

dimensions, it is regarded as downward comparison. It is evident from the study of Taylor and Lobel (1989) that when an individual's self-esteem is threatened, downward comparison is used to enhance his/her self-concept. For example, a middle class individual compares her status to that of a lower class individual.

Aaker and Biel (1993) comment that brands are like people as they also have an image and a personality. Thus, the image that is tied to a specific product or service can enhance or decrease a specific social class's intention to buy a product. If the image of the brand does not correlate with the self-image of the prospective buyer it may create dissonance within the self. Therefore, a fit must exist between the brand and that of the individual.

One can conclude that the status of a customer must not be diminished because of being associated with a certain brand. Brands often tend to be a status symbol, thus signalling to others a certain level of status.

5.1.3.2 Signalling theory

According to Lei *et al.*, (2008) signalling theory proposes that customers often rely on extrinsic cues or signals to overcome information asymmetry between service providers and buyers, in other words, doubt about the brand. This doubt or asymmetry can be explained by the fact that information about the quality of service is unknown to customers prior to purchase. It is believed that higher social class customers differ from lower social class customers in brand loyalty and perceived purchase risk (Kanwar and Pagiavlas, 1992).

A brand can be viewed as a type of signal as well as a purchase cue (Lei *et al.*, 2008). It is believed that if a service provider promotes itself at a certain price or quality level, its brand name will be associated with the corresponding image, which in return will attract or repel certain customers. It can be argued that there is a direct link between price and/or quality and brand image (Lei *et al.*, 2008). The same can be said about customers, where customers' perceived brand image reflects beliefs about social class (Gronhaug and Trapp, 1989).

Thus, customers may feel inferior or superior by being associated with a particular brand. As some customers want acceptance in a particular social group, they will

purchase certain brands to communicate their status or aspirations to that particular group. Thus, the products and services act as a status signal.

It is believed that customers tend to enrich their self-image by purchasing specific brands (Del Río *et al.*, 2001). Hem and Iversen (2002) argue that when customers purchase brands to enrich their self-image, they develop affinity towards the brand. Once again, the argument that brands can serve as a symbolic function for customers in expressing their actual or even aspirational self-image is highlighted (Sirgy, 1982 cited in Hem and Iversen, 2002). As mentioned previously, brands serve as a signal to the rest of society.

Del Río *et al.* (2001) found that social identification and status function, affect customers' acceptance of brand extensions. The social identification function is based on the brand's ability to act as a communication instrument in the customer's social environment, defining the customer's membership or aspiration to a specific group. On the other hand, the status function expresses the feelings of admiration and prestige that the customer may experience upon using the brand (Solomon, 1999).

The status function is similar to the social identification function in that both communicate, on behalf of the customer, certain impressions to the rest of their social environment (Del Río *et al.*, 2001). The difference between the two functions is that the social identification function is related to the desire to be accepted in a specific group. On the other hand, the status function links with the individual's desire to achieve prestige and recognition from others (this does not mean the brand is representative of their social group). Del Río *et al.*, (2001) found that the status function influences the probability of recommending the brand as well as accepting extensions of the brand.

Against this background it can be expected that when a brand extends downward the status function will cause current customers to evaluate the extension as unfavourable due to the association with a lower market segment and the risk of losing status. Furthermore, it is assumed when a brand is extended upward the social identification function will cause current customers to evaluate the extension as favourable due to the brands' association with an aspirational market. The ideal

self-image is an image the audience aspires to and if this image matches with product-user image, the likelihood of favourable extension evaluation increases.

Congruence between the product-user image and the ideal self-image of an audience increases the likelihood of attitude change or persuasion. According to Johar and Sirgy (1991), the greater the congruence, the greater the satisfaction of self-esteem needs, which in turn, enhances the audience's positive attitudes towards the product, or in this case, service. It is proposed in this study that status will influence customers' attitudes towards a VSLE. Furthermore, it is proposed that there is a difference between customers' perceived fit of a bank that carried out an upward vertical extension and one that embarked on a downward vertical extension.

Klink and Smith's (2001) research findings indicate that the effects of fit on extension evaluation diminish as the level of information about the extension increases. Thus, as exposure to a brand extension increases, perception of fit between the parent brand and the extended product also increases. It is therefore important to emphasise the effect of market communication on the success of a VSLE.

5.2 COMMUNICATION

Language is a tool used in communication to facilitate understanding and it is a fundamental aspect of human existence. If one does not understand the language one will not understand the intended meaning. Advertising is a means of communication and to understand advertising one needs to understand communication (O'Guinn, Allen and Semenik, 2009).

Communication is essential in the brand knowledge construct. As explained in section 4.3, brand knowledge consists of brand awareness and brand image. Communication is used to impart knowledge about the brand as well as to create awareness of it. Without brand knowledge customers will not understand the actual meaning of the brand and its message. The information represented in the message, to facilitate brand knowledge, will largely depend on the type of brand concept as well as the communication objectives.

Barsalou (1982) argues that brand concepts consist of two aspects, namely context independent information and context dependent information. Information that is

context independent is activated on all occasions by a specific word. It is information that is used to represent the category in most of its content. For example, whenever people think of Honda they think of 'reliability' and 'good quality' or for Apple it may be 'user friendliness'.

Desai and Hoyer (1993) believe that since context independent information forms the core of the brand concept, unique brand associations, important associations common to the brand and some evaluative attributes like 'reliability', 'quality' etc form part of the context independent information. There can be more context independent information for the same brand, because customers' perceptions differ from one another.

According to Barsalou (1982) context dependent information is not activated by a word independent from the context in which it is used. This information is specific to a particular product or service line and usually specific attributes of the brand. In other words, it is information used to represent the category in a specific usage context. For instance, the concept of 'power' and 'excitement' will be felt by a person driving a Honda motorcycle but not a Honda car.

In other words, context independent information is information that represents the brand as a whole (reliable, good quality and user friendly). Context dependent information represents the situation in which a specific product or service, under the parent brand, is used and that is associated with it during this experience. Thus, it is context dependent and more narrowly defined. Just as in the case of context independent information, different customers may hold different opinions regarding context dependent information for the brand (Desai and Hoyer, 1993). These different perceptions may lead to unfavourable attitudes towards the extension if the communication of an extension does not reinforce the beliefs customers already hold about the parent brand.

It can be expected that when a firm extends its services to a new market through vertical extensions, customers may infer negative associations, which may translate into a dilution of the brand image and they may ultimately lose trust in the brand and its credibility (Martínez and Pina, 2008). Marketers want to avoid this loss in credibility and image dilution. However, effective communication can strengthen the

link between the parent brand and the new extension creating perceived fit. Unsuccessful communication may result in brand image incongruity.

Brand image incongruity has been described by Sjödin and Törn (2006) as the discrepancy between a particular piece of communication about a brand and the brand image already established in customers' minds. In other words, it is a piece of communication about a brand that does not fit customers' current associations or beliefs about the brand. As a result, customers may lose clarity with regard to the brand image (Kim and Lavack, 1996). Communication tools such as advertising are an effective instrument that can help to increase the perception of fit, but in the same sense it can also be damaging to the brand if not executed appropriately.

5.2.1 The role of advertising in brand image development

According to Kotler *et al.* (2009) advertising can be defined as: "a paid, mass-mediated attempt to persuade". The focus is thus on persuading, persuading customers to buy, to believe, to accept, to change beliefs or feel certain emotions. Advertising is a vehicle used to communicate a specific message to the targeted audience, for example the launch of a new extension.

Völckner and Sattler (2006) identified several drivers of brand extension success. One of these drivers is effective communication. According to Völckner and Sattler (2006) advertisements created for the new extension must first focus on strong parent brand associations to gain customers' attention and assist them to notice the benefits and features of the extension. As a result, focussing on unique brand associations will help customers understand how the extension fits with those of the parent brand. Furthermore, customers are likely to evaluate the extension as a good fit and consistent with the parent brand image when the advertisements emphasise the parent brands' attributes in delivering extension benefits.

The use of advertising can reduce the harm done to parent brand associations when the new extension is positioned far from the parent brand (Montaner and Pina, 2009). Thus, effective communication can help minimise the distance between the parent brand and the extension. Distance is referred to as the degree of variance between the extension and the parent brand. For example in VSLEs the variance will be on price points and quality levels. Exposure to an advertisement can improve the

image of the extended brand and strengthen the link between the parent brand and the extension.

Advertising is one of the key components of image creation (Meenaghan, 1995). Johar and Sirgy (1991) distinguish between advertising based on image or symbolic appeals and functional appeals. The image or symbolic strategy involves creating an image of the product user or building a personality for the product. Functional advertising informs customers of the product benefits that are believed to be highly functional and important to the customer. Based on this classification Johar and Sirgy (1991) identify two different routes to persuasion: self-congruity and functional congruity.

Self-congruity can be interpreted as a psychological process during which the members of the audience focus on cues, and match these cues to their self-concept. In other words they are looking for some or other element of similarity. Johar and Sirgy (1991) argue that the greater the match of the cues, the greater the probability of persuasion will be, and vice versa. Thus, people evaluate the level of match-up between their self-concept and the cues detected in the communication. They may ask: 'Does the message communicated fit with who I am and my self-image?' It is argued that the advertisement must fit the customers' perceived image about themselves. Functional congruity however is defined as a match between beliefs in a product's functional attributes (performance-related) and the audience's attributes. It is therefore proposed that customers will evaluate the VSLE as favourable if there is a perceived similarity between their self-perception and that of the communication messages. This proposal is supported by the self-brand connection construct (SBC).

5.2.2. The self-brand connection construct

There are two ways to derive meaning from a brand: (a) the personality or image of the brand as it is developed over the years (Keller, 2008), and (b) the customers' unique experience with the brand (Escalas, 2004). In both instances customers are learning something about the brand whether it is from the brand image or their experience with the brand. The image and the experience with the brand lead to brand associations which customers use to evoke brand knowledge. Customers use this learned predisposition, derived from the brand associations, to implement their self-image.

According to the SBC construct, brand associations can be reflected in customers' self-image. In other words, customers use brand associations to help form their self-image or to communicate their self-image to others. A strong connection is formed between the customer and the brand when customers use the brand associations to enhance their self-image or to signal their self-image to others (Moore and Homer, 2007). This connection is even stronger when customers experience with the brand is closely related to the brand image (Escalas, 2004).

According to Moore and Homer (2007), SBC significantly influences customers' evaluation of brands as well as the strength of their attitude towards the brand. Furthermore, Moore and Homer (2007) argue that customers with less developed brand connections should exhibit weak and less confident brand attitudes. The opposite can also be argued, where customers with strong connections towards the brand will display strong and more confident brand attitudes towards the brand. Therefore, it is argued that the greater the self-image 'match' between the brand and the customer the stronger the brand attitudes towards the brand.

In this study the perspective and application of SBC is broadened to include brand communication. How the brand's communication fits with customers' self-image, creating a self-brand communication fit construct, is investigated.

The self-brand communication fit is distinct from SBC. Self-brand communication fit is based on the fit between customers' self-image and that of the brand's communication, whereas SBC measures the strength of the connection between the customers' self-image and the overall brand image (brand associations) (Moore and Homer, 2007).

The social identity theory, which is based on the notion that customers will be motivated to attach themselves to a perceived similar self (Jacobson, 2003), strengthens the argument that customers' attitudes towards the communication will be favourable when there is a fit between their self-image and the communication. Thus, it is proposed that the self-brand communication fit will influence customers' attitudes towards the VSLE, which in the end will influence brand image.

How do brands increase the connection between the brand and the customer? One way is through effective advertising. It has been established that customers buy

brands for their functional benefits, but also for the social statement they make on their behalf (Meenaghan, 1995). Thus, whether an advertisement must focus on the functional benefits or the symbolic values of the brand depends on the 'type' of audience the advertisement desires to target, as well as the objectives of the brand communication. According to Meenaghan, (1995) both the functional and emotional components contribute to forming brand image. Advertising can be either targeted at customer's functional needs, emotional needs, or both, depending on the type of connection it wants to make with the customer. It is therefore important to understand the role of advertising in shaping customers' perceived brand image, especially in the financial service sector.

5.2.3 Communication in the financial service sector

According to O'Loughlin and Szmigin (2007) customers often struggle to differentiate between different financial service providers. Furthermore, banks are perceived as 'routine service providers'. This lack of perceived differentiation can be explained by the absence of a consistent brand image. O'Loughlin and Szmigin's (2007) found that the absence of consistent brand image is because of customers love/hate dichotomy with respect to banking.

Customers have positive perceptions towards people-related components of the financial service sector (love), but have negative associations (hate) towards the sector. As a result, these positive and negative associations create a conflict or dichotomy in relation to the overall banking image (O'Loughlin and Szmigin, 2007). Obviously, this negative association towards the banking industry affects the communication strategy. The communication must not just attract the customer's attention, but ensure that differentiation is achieved to eliminate the risks of being associated with the *status quo* of the banking industry.

Another hurdle in the financial service sector is the superficiality of corporate advertising. Corporate advertising is often perceived by customers as superficial and lacking credibility and can be explained by customers' lack of personal involvement as well as undifferentiating financial services' (O'Loughlin and Szmigin, 2007).

Nevertheless, Standard Bank launched mini advertisement on YouTube that is called 'Access banking mini soapies'. The episodes are not longer than three minutes and

feature around individuals need to acquire money fast. Further two consecutive episodes follow. The episodes are mostly in Xhosa and English with subtitles. These mini episodes are a creative way of informing customers of the bank's services which is in contrast to the traditional way of advertising banking services.

According to O'Loughlin and Szmigin, (2007), financial service providers must target their communication to customers' functional financial needs, because customers are more interested in the functional values of the bank than the emotional values (O'Loughlin and Szmigin, 2007). Bridges *et al.* (2000) advise the use of an elaborate communication strategy that focuses on the extension's benefits and attributes. In other words, the communication focuses on the functional aspects rather than emotional or symbolic aspects. Montaner and Pina (2009) argue that extension-centric information has a more favourable affect on the customers' attitudes toward the new extension. In this respect, communication that contains extension-centric information is likely to have a more favourable effect on the customer's attitude towards the new extension (Aaker and Keller, 1990; Kim, 2003). Capitec's TV advertisements, for example, focus on the benefits of banking at Capitec as well as the disadvantages of banking at other banks. Capitec is making use of the functional aspects to gain attention among customers.

In contrast, Bridges *et al.* (2000) argue that the best communication strategies for brand extensions are those that focus on the parent brand's salient and relevant associations. In other words, the communication must focus on the associations unique to the parent brand. In this case a relational communication strategy can be used. This strategy focuses on the salient parent brand associations to increase perceived fit between the parent brand and the extension. For example, Investec is associated with prestige and wealth therefore an extension to corporate car hire where a chauffeur can pick clients up from the airport or business meetings can be perceived as a good fit, because both the parent brand and the extension possess prestige associations. Even though the parent brand and the extension are not in the same service sector, the explanatory link between the two increases the level of perceived fit.

When launching a new extension, Martínez *et al.* (2008) suggests that the communication must focus on the parent brand image and not the extension or

'product' image, the reason being that the extension of a brand can potentially dilute the image of the parent brand. Therefore, when a distant extension is launched, the communication must focus on the general brand image of the parent brand over the attributes of the extension product (Martínez *et al.*, 2008). The argument here is that communication must focus on the common ground between the extension and the parent brand. If that common ground is shared symbolic aspects, these should be exploited. Even though both extension-centric and brand-centric information is evident in Capitec's and Absa's advertising, it is beyond the scope of this study to establish whether the banks should focus on extension-centric or brand-centric information to increase the perception of fit.

5.3 CHAPTER SUMMARY

Zimmer and Bhat (2004) argue that customers' first reaction towards an extension is to evaluate whether there is a similarity or fit between the extension and the parent brand. As mentioned previously, perceived fit needs to be considered in relative terms rather than absolute terms, because customers have their own set of associations contributing to the perception of fit.

However, this similarity or fit can be based on a brand concept, category similarity and/or user image similarity, just to name a few (Keller, 1993). Various factors contribute to the perception of fit, but category fit among others, has drawn a lot of attention in the literature. The categorisation theory highlights the necessity of fit between two categories when a brand wants to extend to a different category than the one in which it is currently operating. This extension to different categories is more apparent among tangible goods than in the service sector.

To make the categorisation theory applicable to this study it is applied to the service sector, more specifically the banking sector where Absa is extending to lower-income markets and Capitec is extending upward to higher-income markets. In other words, both banks are extending to different market segments that can be seen as different 'categories'. It is argued that the current market should share some or other level of similarity with the extended market. In this case, the similarity is based on status. It is proposed that if current customers perceive their status to be similar with the status of customers of other banks, they are indirectly approving of the VSLE, the

reason being that customers need to be associated with similar self-image (Johar and Sirgy, 1991). Furthermore, it is proposed that there will be a difference between customers' perceived status of a bank that introduced an upward extension and one that introduced a downward extension.

It is said that communication can strengthen the link between the extension and the parent brand (Montaner and Pina, 2009). Self-brand connection is the extent to which individuals incorporate their self-image with that of a brand (Escala and Bettman, 2003). In this study, it is proposed that if customers perceive a fit between their self-image and the communication they are indirectly approving of the VSLE. Furthermore, it is proposed that there will be a difference between customers' self-brand concept of a bank that introduced an upward extension and one that introduced a downward extension. The self-brand connection concept is grounded in perceived fit. It is argued that the perception of status fit and self-brand communication fit will influence current customers' evaluation of the VSLE, thus, influencing brand image.

As mentioned previously in the theoretical model (Figure 4.1), the hypotheses are tested to establish whether they have an effect on the attitudes towards a VSLE. Ultimately, whether customers' attitudes towards a VSLE will influence their perceived brand image, is tested. The methodology is designed in such a way as to test these hypotheses and is dealt with in Chapter 6.

CHAPTER 6: RESEARCH METHODOLOGY

“...research is the collection and analysis of data from a sample of individuals or organisations relating to their characteristics, behaviour, attitudes, opinions or possessions. It includes all forms of marketing and social research such as consumer and industrial surveys, psychological investigations, observational and panel studies...” (Market Research Society cited in Crimp and Wright, 1995:1).

6.1 INTRODUCTION

In the previous chapters the literature in connection with extension strategies and brand image was dealt with. The focus of this chapter however, is on the research methodology of the study. In order to address the objectives of this study the methodology must be executed in such a way to derive scientific conclusions and findings. First, the objectives are revised.

The primary objective of this study is to investigate the influence attitudes towards a VSLE have on current consumers' perceived brand image. Furthermore, whether there is a difference between customers' perception of a bank that introduced an upward VSLE and one that introduced a downward VSLE, is investigated. Due to the increased competition in the retail banking sector, Absa lost customers to Capitec due to Capitec's creative extension strategies. As a result, Absa launched its own VSLE. Therefore, the responses of current consumers of Capitec and Absa to the extension of the parent brand, were analysed.

The secondary objectives of the study is to assess whether or not (1) perceived quality influences customers' attitudes towards a VSLE; (2) perceived status fit influences customers' attitudes towards a VSLE; (3) customers' perceived fit between their self-image and the communication influences attitudes towards a VSLE; (4) attitudes towards a VSLE influence brand image (5) there is a difference between customers' brand image, perceived quality, perceived fit, and self-brand communication fit of a bank that introduced an upward extension and one that introduced a downward extension.

The process of marketing research is implemented to address the objectives of this study. Furthermore, this process is used as the basis for executing a scientific study.

6.2 THE MARKETING RESEARCH PROCESS

Marketing research is essential for good decision making (Churchill and Iacobucci, 2002:4). Furthermore, market research can be a tool used to uncover meaning behind consumer behaviour. Figure 6.1 illustrates six steps in the marketing research process starting with formulating the problem. Then it moves on to planning the research design, planning the sample, collecting data, analysing data, and formulating conclusions and preparing the report (Zikmund and Babin, 2010).

FIGURE 6.1 STAGES IN THE RESEARCH PROCESS



Source: Churchill, Brown and Suter (2010: 37).

The marketing research process was implemented to ensure that scientifically valid findings were made and scientifically correct conclusions were drawn. Each stage in the market research process is now discussed.

6.2.1 Formulating the problem

According to Mooi and Sarsted (2011), before market research can be conducted, a problem needs to be identified. In the process of identifying the right problem the marketing symptoms or opportunities need to be recognised. The marketing symptoms can be referred to the tangible issues that an organisation faces, for example, a decline in market share, increased customer complaints and lack of consumer adoption of a new product.

When there is no tangible issue the research problem can be classified in terms of an opportunity (Mooi and Sarsted, 2011). A marketing opportunity can be defined as a situation where potential benefits are identified, for example, new ways of attracting customers or emerging market opportunities that need to be explored (Mooi and Sarsted, 2011).

In this study, the research problem includes the evaluation of existing customers' attitudes towards a VSLE in the case of Capitec and Absa respectively. Furthermore, how attitudes towards the extension reflect on the banks' brand image, is investigated.

To address the research problem, secondary research was done. Churchill (1979) concludes that secondary research is necessary to conceptualise constructs and specify the domain of the study. Zikmund and Babin (2010) define secondary research as research obtained and recorded by someone else before the current study.

A literature review was conducted to better understand the phenomena at hand and to identify gaps in the literature with regard to VSLE. The secondary research is discussed in Chapters 3, 4 and 5. A number of secondary research sources were consulted, but they were insufficient to answer the research question. Thus, it was necessary to conduct primary research. Once the decision was made to do primary research, a research design was created to facilitate the process of conducting the research.

6.2.2 Planning a research design

A research design is the action plan of a study and is used as a guide when collecting and analysing data (Churchill and Iacobucci, 2002). The objectives are included in the design to ensure the information obtained is appropriate for solving the problem (Zikmund and Babin, 2010). Furthermore, in the research design the basic research method as well as the sampling methodology will be discussed.

The research objectives are in simple terms, what the research should accomplish and is formulated in a measurable way (Zikmund and Babin, 2010).

According to Zikmund and Babin (2010) the research questions are derived from the research objectives which in turn are derived from the problem statement. Thus, considering the research problem and the background of the study, the research questions were as follows:

How does current customers' attitude towards a VSLE influence their perceived brand image? Furthermore, does perceived quality, perceived fit and communication influence attitudes towards a VSLE? Is there a difference between customers of a bank that introduces an upward extension and one that introduces a downward extension?

Horizontal brand extensions have been noted to be the topic of a lot of research studies in comparison to vertical service extensions. Nevertheless, the horizontal brand extension literature helped the researcher to gain an understanding of consumers' reactions towards extensions in general. The main purpose of this study is to investigate the influence a VSLE has on current customers' perceived brand image. It was later discovered that various factors influence consumers' perceived brand image which in the end influences the extension evaluation process. The various factors that influence customers' perceived brand image are highlighted in the objectives. Given the purpose of this study, the research objectives of the study were to assess whether or not:

- Perceived quality influences the attitudes towards VSLE
- Perceived status fit influences attitudes towards VSLE

- Self-brand communication fit influences attitudes towards VSLE
- Attitudes towards a VSLE influence brand image
- There is a difference between customers' perceived quality of a bank that introduced an upward extension and one that introduced a downward extension
- There is a difference between customers' perceived own status of a bank that introduced an upward extension and one that introduced a downward extension
- There is a difference between customers' self-brand communication fit of a bank that introduced an upward extension and one that introduced a downward extension
- There is a difference between customers' brand image of a bank that introduced an upward extension and one that introduced a downward extension

The previous mentioned objectives are translated to a formal statement explaining a specific outcome, namely hypotheses. These statements address the research objectives of the study. Hypotheses test for specific characteristics within a sample group or the population (Mooi and Sarstedt , 2011).

H₀¹: Perceived quality has no effect on the attitudes towards a VSLE

H₀²: Perceived status fit has no effect on the attitudes towards a VSLE

H₀³: The self-brand communication fit has no effect on the attitudes towards a VSLE

H₀⁴: Attitudes towards a VSLE have no effect on brand image

H₀⁵: There is no difference between customers' perceived quality of a bank that introduced an upward extension and one that introduced a downward extension

H_0^6 : There is no difference between customers' perceived own status of a bank that introduced an upward extension and one that introduced a downward extension

H_0^7 : There is no difference between customers' self-brand communication fit of a bank that introduced an upward extension and one that introduced a downward extension

H_0^8 : There is no difference between customers' brand image of a bank that introduced an upward extension and one that introduced a downward extension.

To address the hypotheses a primary research instrument was selected to obtain the data inferences would be made.

6.2.2.1 The primary research method

Primary data is data that has not previously been collected. The primary research undertaken is of a quantitative nature. Quantitative marketing research is an empirical assessment which demands numerical measures and analysis approaches to address the research objectives (Zikmund and Babin, 2010). According to Zikmund and Babin (2010) there are three basic quantitative methods for collecting primary data, namely surveys, experiments, and observations.

For the purpose of this study, the survey research technique was used. It was relevant to obtain information from respondents by means of a questionnaire. Keeping in mind the purpose of this study, the availability of the data sources and the cost of obtaining the data, determined the chosen method (Zikmund and Babin, 2010).

6.2.2.2 The survey research method

There are several advantages of using survey research, namely it provides a quick, inexpensive, efficient, and accurate way of assessing information about a population (Zikmund and Babin, 2010). The disadvantages of using survey research are respondent error, low response rate and the risk of measuring the wrong thing. A

survey can be conducted either through interactive- or non-interactive survey approaches.

Interactive surveys are those that allow spontaneous reaction from respondents and there is usually a two-way interaction between the respondent and the interviewer (Zikmund and Babin, 2010). Personal interviews are an example of an interactive survey approach. Non-interactive survey approaches are those that do not allow a two-way interaction between the respondent and the interviewer (Zikmund and Babin, 2010).

From this perspective, a self-administered questionnaire is a non-interactive survey. Keeping in mind the purpose of this study as well as cost and time constraints, a self-administered questionnaire was used as the primary measuring instrument.

The questionnaires were distributed and collected using temporary fieldworkers who intercepted respondents at various public places. The fieldworkers were trained to ensure that the right target market was sampled. The fieldworkers gave assistance to any respondent who had difficulty in answering the questionnaire for any reason, for instance, low levels of literacy (Crimp and Wright, 1995). In the next section the focus is on the development of the instrument with which the information will be acquired.

6.2.3 The measuring instrument

The primary research instrument used is a self-administered, pencil- and paper questionnaire. Using this technique the respondents take responsibility for reading and answering the questions (Zikmund and Babin, 2010). Furthermore, with self-completion questionnaires respondents have time to consider their answers (Brace, 2004:36). Self-completion surveys remove a major source of potential bias in the responses, and make it easier for respondents to be honest about sensitive information (Brace, 2004), for example, questions about their perceived status.

This data collection technique is desirable due to the high speed of distribution, low processing method and distribution cost, flexibility and quick response time (Brace, 2004). One disadvantage of this technique is that the researcher has no control over the respondent. In other words, the researcher cannot be sure whether the

respondent reads through all the questions and responds accordingly (Brace, 2004). It is therefore essential to design a questionnaire that prevents respondents from getting bored or being biased.

6.2.3.1 Questionnaire design

According to Brace (2004:4) the role of a questionnaire is to provide a standardised interview across all subjects. It is essential that the questionnaire be designed to measure what it is intended to measure, therefore the relevancy and accuracy of the questionnaire is important. Simple and understandable language is used to avoid response bias and to eliminate misunderstanding of questions. These precautions avoid unconscious misrepresentations (Zikmund and Babin, 2010).

Two separate questionnaires were designed for Absa and Capitec respectively (see Addendum A). The items on the questionnaire are exactly the same with adaptation to the brand names and the direction of extension (upward or downward). In section 6.2.3.3 Capitec questions are used for the discussion and Absa questions will only feature when there is a difference between the Capitec and Absa questions.

Most of the items on the questionnaires are structured questions, in other words, the questions are closed-ended pre-coded questions. Close-ended questions are easy to analyse and quicker to administer and ask (Hague, Hague and Morgan, 2004; Crimp and Wright, 1995). Furthermore, they are often used in large samples and in self-completion questionnaires such as in this case (Hague *et al.*, 2004).

The majority of the questionnaire items consist of attitudinal questions. Therefore a seven- point Likart semantic scale is used (where the large number is the best and 1 is the worst). It is believed that a seven-point scale is better than a five-point scale, the reason being that more variation in responses is possible (Mooi and Sarstedt, 2010). The numbers helped respondents reflect their level of agreement or disagreement with posed statements, as well as facilitating statistical analysis of the data (Hague *et al.*, 2004).

6.2.3.2 The pilot study

A pilot study was done to gauge anticipated reactions from the sample population. This test helped to identify ambiguities in questions. It was found that respondents

do not bother to look at the advertisements when they are at the back of the questionnaire. The questionnaire was, therefore changed so that the advertisements are on the first page. The strategic placement of the advertisements helped in the final data collection, to stimulate respondents to participate. Furthermore, the layout of the questionnaire was changed after it was noticed that respondents miss some questions. Therefore, the layout was redesigned to lead the respondents' eyes.

The results indicated that respondents did not quite understand the questions applicable to communication. This could be explained by respondents' lack of understanding about how they actually feel about the communication. Respondents are not always aware of their feelings towards a giving object, therefore they find it difficult to rate their feelings. As a result, the communication questions were asked first and changed slightly.

The language of the questionnaires was reviewed and simplified. Furthermore, the Capitec questionnaire was translated into English and Xhosa.

The questionnaires were designed to measure a number of constructs including customers' brand image, perceived brand quality, perceived fit, and communication. The constructs of this study are operationalised before the questionnaire items are scrutinised.

6.2.3.3 Operationalisation of the constructs

According to Churchill (1979) researchers need to stipulate clearly what is and what is not included in the investigated constructs. Operationalisation can be defined as the process of explaining the conceptual specification of the construct which in return will help to develop better measures (Churchill, 1979). Operationalisation is important in the development of a questionnaire, because if the construct is misunderstood response error is inevitable. In the following section the domain of each construct in the theoretical model is operationalised. The questionnaire items are listed and there is a thorough discussion of each.

- Brand Image

Keller (1993) defines brand image as the perceptions consumers have about a certain brand and how they are reflected by the brand associations in their memory.

It is reasonable to say that brand image is what comes to the mind when a brand is mentioned (Arslan and Altuna, 2010). There are three important aspects of image, namely favourability, strength and uniqueness of brand association (Keller, 1993). These associations can be formed in one of the following categories: attributes of the service, benefits gained from the service or attitudes towards the brand.

In this study, brand image is broken down into these three categories. The attributes of the service are further defined as the *functional image*. The benefits realised are defined as the *reputation image* of the brand and lastly, the attitudes towards the brand are defined as the *affective brand image*.

Items were based on Montaner and Pina's (2009) items, which originated from Aaker (1996), Weiss, Anderson and MacInnis (1999), and Martin and Brown (1990). Furthermore, modified items from Aaker and Keller (1990), Smith and Park (1992), Loken and John (1993), Sheinin and Schmott (1994) and Broniarczyk and Alba (1994) were added to the *reputation* items.

The *functional brand image* is defined as attributes that are necessary to perform the service and can be either product-related or non-product related (Keller, 1993). Furthermore, it is defined as the tangible image of the brand (Montaner and Pina, 2009). The following items measure the functional brand image on a seven-point likert scale where respondents indicate their response to the following statements.

Functional Image	When I enter a Capitec branch the environment impresses me
	I am impressed by the innovative technology (e.g. fingerprint scanning) of Capitec
	The <i>Global One</i> account makes it easy to manage my financial affairs
	Capitec makes it easy for me to conduct my transactions (e.g. cash withdrawals at PnP)
	Capitec's online services are effective

Functional Image	When I enter a Absa branch the environment impresses me
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	A bank account that allows customers to send money to anywhere in the country and where the recipient can withdraw the cash without an account simply using a PIN code, would be very convenient
	A bank account that charges no monthly fees would be a good way of saving money
	Absa makes it easy for me to conduct my transactions
	Absa's online services are effective

The *affective brand image* is defined as customers' feelings towards the brand and can also be defined as the intangible element of the brand image (Montaner and Pina, 2009). The respondents' feelings were measured on a seven-point scale where respondents indicated how often they experience the type of feeling stipulated.

Affective Image	When I think of Capitec it makes me feel					
	Often inferior	Sometimes inferior	Neither inferior nor superior	Sometimes superior	Often superior	Always superior
Always unsuccessful	Often unsuccessful	Sometimes unsuccessful	Neither unsuccessful nor successful	Sometimes successful	Often successful	Always successful
Always unsophisticated	Often unsophisticated	Sometimes unsophisticated	Neither unsophisticated nor sophisticated	Sometimes sophisticated	Often sophisticated	Always sophisticated
Always embarrassed	Often embarrassed	Sometimes embarrassed	Neither embarrassed nor proud	Sometimes proud	Often proud	Always proud
Always insecure	Often insecure	Sometimes insecure	Neither insecure nor secure	Sometimes secure	Often secure	Always secure

Lastly, the *reputation* is defined as a part of the brand image that provides customers with a long term benefit. Reputation is here classified as a benefit, because when the brand has good reputation customers are more likely to accept new extensions introduced by the brand. The reputation image items were adapted from Montaner and Pina (2009). Respondents indicated their responses to the following statement on seven-point likert scale.

Reputation image	Capitec has never disappointed me
	Capitec is one of the best banks in the sector
	I trust in Capitec to deliver what they promise
	I believe Capitec will deliver what they promise

	Capitec has a reputation that distinguishes it from other banks
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- Perceived quality as a brand concept

A brand has one or several brand concepts. These brand concepts can be anything that makes the brand unique or different from competing brands. Furthermore, a brand concept can be thought of as the essence or the root association of the parent brand (Kim, 2003). Perceived quality is a type of brand concept that makes a brand different from competing brands (Park *et al.*, 1991).

In this study perceived quality is measured as customers' overall quality perceptions of the brand. Keller (2002) defined perceived quality as a "customer's perception of the overall quality or superiority of a product or service relative to alternatives and with respect to its intended purpose." It is investigated how customers' perceive brand quality will influence the way they feel towards the VSLE.

The perceived quality the brand possesses can be a differentiator among competitors. It is argued that the higher the customer's perceived quality of the parent brand, the higher the likelihood of favourable attitudes towards a VSLE. Items were used from Aaker (1996), Bhat and Reddy (2001), Keller and Aaker, (1998), and Carter and Curry, (2013). Respondents indicated their responses on a seven-point likert scale.

Perceived quality	Capitec's service is of high quality
	Capitec delivers a consistent level of quality
	Capitec's employees are competent
	Capitec always meet my expectations
	Capitec is superior in quality compared to other banks
	Capitec always meets my expectations

- Perceived fit

Target market fit, as a subset of perceived fit, is understudied. Nevertheless, this study investigates the relevance of target market fit in the context of a VSLE. A

VSLE is implemented to attract new segments not served before. The risk of losing status due to association with the new target segment can be one criterion for perceived fit. The type of user must fit the image of the brand and that of the current customer, because customers tend to be associated with similar self-image (Del Río *et al.*, 2001).

It is assumed that when the targeted segment and the current segment do not share similar status levels, the customers will probably evaluate the extension as unfavourable, which may lead to damaged parent brand image. This study investigates target market fit in terms of current customers' perceived status similarity with that of rival banks. The new target market (the market the extension intends to reach) is defined as rival/competitor banks. Furthermore, customers of rival banks are precisely who Capitec and Absa seek to target through a VSLE.

Status fit	My status is similar to Absa customers' status
	My status is similar to Standard Bank customers' status
	My status is similar to FNB customers' status
	Capitec customers possess the same status as other banks' customers
	I perceive customers from other banks to be in the same social class as myself
	I can associate myself with customers of other banks
	I am similar to other banking customers
	My social class is similar to that of customers of Absa
	My social class is similar to that of customers of Standard Bank
	My social class is similar to that of customers of FNB

- Communication

Communication is a contributing factor in the evaluation of a VSLE, because it can strengthen the link between the parent brand and that of the extension, thus increasing the perception of fit. However, customers evaluate communication based on their self-image perceptions. Johar and Sirgy (1991) identified self-congruity as persuasion in communication, especially advertisements.

Self-congruity can be interpreted as a psychological process during which the audience focuses on cues and matches these cues to their self-image. In other words they are looking for some or other element of similarity. Johar and Sirgy

(1991) argue that the greater the match of the cues, the greater the probability of persuasion will be. Thus people evaluate the level of match-up between their self-image and the cues detected in the communication. They may ask: ‘Does the message communicated fit with who I am and my self-image?’

Self-brand connection (SBC) is the extent to which individuals incorporate their self-image with that of a brand (Escala and Bettman, 2003). Brands used by group members and aspiration groups can become connected to customers’ self-image, as they used brands to define their mental self-image (Escala and Bettman, 2003). The SBC scale is adapted to measure the fit between customers’ self-image and that of the brands’ advertisements, creating the self-brand communication fit scale. In other words, do Capitec or Absa’s advertisements reflect their customers’ self-image?

The following items were adapted from Escala and Bettman (2003) and are composed of six items on a seven-point likert scale where respondents indicated their responses. Respondents received two advertisements on which they based their opinion (see Addendum A). Furthermore, it is believed that the advertisements are vehicles used by the banks to reach new segments.

If there is a fit between the customers’ self-image and that of the advertisements the probability of persuasion will be greater. It is argued that the higher the perceived fit between the customer’s self-image and that of the advertisements, the greater the probability of a favourable attitudes towards the extension. The advertisements are indirectly attempts to reach new segments. If customers can associate their self-image with the communication it is true to say they indirectly accept the VSLE. In the end, customers’ evaluation of a VSLE will influence perceived brand image. This study investigates whether a fit between customers self-image and the brand’s advertisements exist in the context of a VSLE.

Self-brand communication fit	Capitec’s advertisements reflect who I am
	I can identify with the advertisements
	I can associate with the Capitec advertisements
	The advertisements communicate who I am to other people
	The advertisements reflect the type of person I want to be

	The advertisements reflect who I consider myself to be
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- Evaluation of the vertical service line extension

The main purpose of a VSLE is to gain new customers by introducing products or services that differ with regard to price and quality. The focus in this study is on how current customers feel towards a VSLE targeted at new customers from different markets. The items were self-developed as no current scale exists to measure respondents attitudes towards a VSLE in the banking sector.

The evaluation of a VSLE was done using three items ranging from 'very unfavourable' to 'very favourable'. Instead of asking respondents a question, respondents were given quotations from various sources (news, magazines, and interviews). Respondents read through the quotations about the specific bank and then indicated their attitudes towards these quotations. The quotations are about the banks' current endeavours to gain new customers. It is assumed that the quotations are based on the banks' strategies for gaining new customers through a VSLE.

Please read the following news quotations and indicate your attitudes towards them
"Capitec continues to grow rapidly in the younger and higher income groups in South Africa."
"The profile of our credit client is definitely changing as we are seeing new credit clients with higher income levels attracted to our offer."
"Capitec is signing leases at high-end shopping centers where it wants to attract the affluent customer base of big banks."
"Capitec is working to introduce a credit card."
"The bank is acquiring both new-to-bank clients and other bank's clients."

Please read the following news quotations and indicate your attitudes towards it
" Absa is directly challenging the Capitec market, it has over the last few years produced innovative products for the masses."
"...Absa is aggressively targeting the entry-level market."
"Absa is offering basic and affordable banking products to entry-level clients."
"Absa has just launched 'in-store banking' for its rural customers that allow deposits, withdrawals and

purchases in participating retail stores."

"Absa introduced a pre-paid debit card, which is possibly the cheapest way for low income- and irregular earners to transact electronically."

Now that the questionnaire items are dealt with, the planning of the sample is discussed.

6.2.4 Planning a sample

A sample is, according to Hague *et al.* (2004), a subset of the population. According to Churchill and Iacobucci (2002) sampling requires the following steps:

Step 1: Define the target population

A population is described by Mooi and Sarstedt (2011) as the group of units about whom the researcher wants to make judgements. These units can be groups of individuals, companies, products or customers, just to name a few (Mooi and Sarstedt, 2011). According to Zikmund and Babin (2010) the units in the population share some common characteristics.

In this study only a sample of the population is investigated from which inferences are made (Welman and Kruger, 2001). Due to the nature of this study it was fairly easy to define the population. The population in this study, were customers aged 18 and older that currently banked at Absa or Capitec. It is assumed that adults aged 18 and older are educated enough to comprehend the questions being asked in the measuring instrument.

Step 2: Identify the sample frame

A sample frame is a list of elements from which a sample may be drawn (Churchill and Iacobucci, 2002). In this case, however, the researcher could not obtain a list of all Capitec and Absa's current customers. Therefore, a non-probability sampling method, where members do not have a known non-zero chance of being included in the sample, was used. When using this method some elements have no chance, which is a probability of zero, of being included in the sample (Welman and Kruger, 2001).

Step 3: Select a sample procedure

The use of a non-probability sampling method enables a researcher to obtain a large number of respondents fairly quickly, inexpensively and effectively and these respondents are conveniently accessible (Crimp and Wright, 1995; Zikmund and Babin, 2010). One disadvantage of using this sampling method is that there is no way of ensuring that the sample is representative of the population (Churchill and Iacobucci, 2002).

Step 4: Determine the sample size

According to Hair, Black, Babin, Anderson and Tatham (2006) five respondents per item on a questionnaire are necessary for a valid and reliable measure. The measuring instrument will consist of approximately 40 items. Therefore, the sample size will be five respondents' times 40 items, which equals 200 respondents. A total of 250 respondents per retail bank will be selected to eliminate extraneous variables and errors (i.e., 250 respondents for Capitec and 250 respondents for Absa). According to Hair *et al.*, (2006) a sample size in the range of 150 to 400 is suggested, therefore a sample size of 250 per bank is sufficient as it falls in the 150 to 400 range.

Step 5: Select the sample elements

A multi-stage sampling technique was used to finally select the sample respondents. The stages in selecting the sample element are shown below:

- Stage one

The primary sampling unit is a unit selected in the first stage of sampling (Zikmund and Babin, 2010). At this stage the non-probability technique of judgment sampling is used. Judgement sampling is where the researcher makes an assumption regarding which individuals should be included in the study (Mooi and Sarstedt, 2011).

Therefore, the first step in the sampling process was to choose the sample based on geographic location using the researcher's judgment. The Western Cape Province of South Africa was chosen, and more specifically, the towns of Stellenbosch,

Somerset West and Bellville were selected as the primary sampling unit. The selection of these towns was based on their convenient and practical locations.

- Stage two

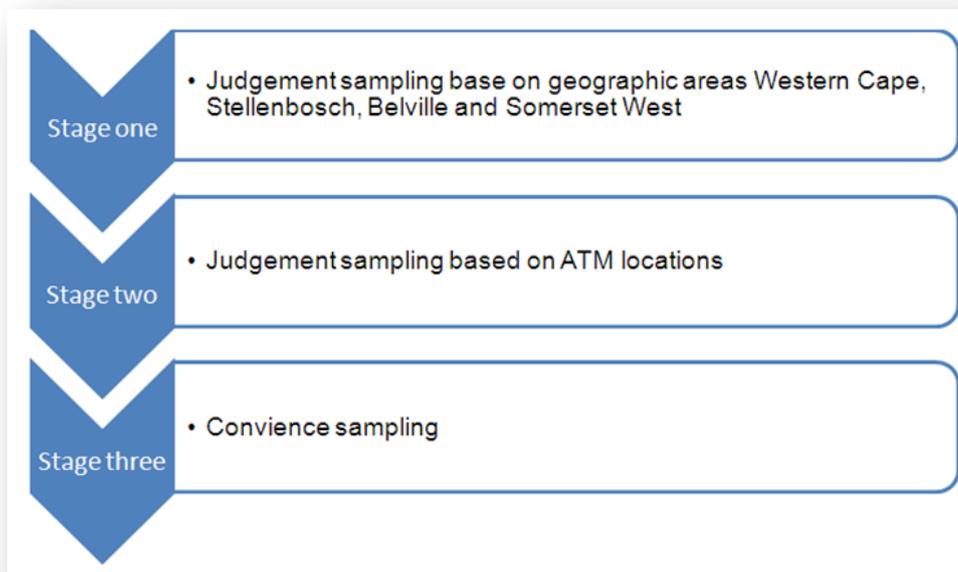
The secondary sampling unit refers to the unit selected in the second stage of sampling (Zikmund and Babain, 2010). In this case, a number of Capitec and Absa ATM's were listed and from each list the researcher used the judgement sampling technique to select specific ATM's (Capitec ATM's and Absa ATM's). The ATM's were carefully selected so that the desired sample unit, from which the data would be collected, would be representative of the population. The selection of the ATM's was guided by knowledge of Capitec and Absa's current target market. Some of the ATM's were situated in malls and others were in the central business district.

- Stage three

The sample respondents, or tertiary sampling unit, were finally selected by means of a non-probability convenience sampling technique. A convenience sample is where the researcher selects the respondents that are conveniently available at a specific time (Zikmund and Babin, 2010). Stage two was not mutually excluding other convenient methods of gaining respondents. For example, when there were not enough respondents at the ATM's, other retail chains [i.e, Pick and Pay, Shoprite and Pep stores] were selected to obtain respondents.

This technique of convenience allowed for the data to be collected economically and quickly. The sampling process is illustrated in Figure 6.2.

FIGURE 6.2 THE SAMPLING PROCESS



Sep 6: Collect data from the designated elements

The fieldworkers used an intercept method to collect the data. The fieldworkers approached respondents at the specific ATM's while they queued in line or shopped at a retail store. The fieldworkers politely asked the respondents to participate in the study.

A screening question was used to determine whether or not respondents belong to the research population. The screening question was whether respondents are a customer at Absa or Capitec respectively. If the respondents' answer was 'yes' they continued with the questionnaire. If the answer was 'no' the fieldworker omitted those respondents from the sample.

Before the data was collected, the fieldworkers received basic training in how to assist respondents in answering the questionnaire. The respondents were responsible for reading and answering the questionnaire, but if they did not understand an item on the questionnaire the fieldworkers were there to assist them. This help from fieldworkers eliminated misinterpretation of the items.

The primary data in this study was collected over a period of five weeks. Four fieldworkers were employed and trained by the researcher. The questionnaire took

six to ten minutes to complete. After the total sample size was acquired, the data were processed and interpreted.

6.2.5 Processing and analysing the data

After quantitative data have been collected the data have to be analysed to turn them into useful information (Crimp and Wright, 1995).

The SPSS data analysis program was used to analyse the data obtained in this study. The data was coded, edited and cleaned prior to analysis. The purpose of this analysis was to draw conclusions and interpretations from the raw data (Lamb *et al.*, 2008) and to assess the theoretical model.

Examining the reliability and validity of the measuring instrument, was the first step in the analysis process.

6.2.5.1 Reliability and validity

In the following section a brief overview is given of the requirements for a reliable and valid measuring instrument, but the results of the reliability and validity of the measuring instrument are discussed in Chapter 7.

- Reliability

According to Bagozzi (1994) reliability refers to the amount of agreement between independent attempts to measure the same theoretical concepts. Reliability is an indicator of a measure's internal consistency. In other words, a measurement is described as reliable when different attempts of measuring converge to the same thing. Internal consistency can be measured using Cronbach's alpha. For exploratory research a value greater than .6 is acceptable, although a value greater than .7 is preferred (Bagozzi, 1994).

If the Cronbach alpha is low (below .6), it means the items poorly capture the construct and vice versa (Churchill, 1979). Cronbach alpha must be the first measure one calculates to assess the quality of the measuring instrument (Churchill, 1979).

Reliability is important as it potentially influences both Type I and Type II errors (Bagozzi, 1994; Zikmund and Babin, 2007). Type I error occurs when the null

hypothesis is rejected when it is in fact true (Zikmund and Babib, 2010). Type II error is the opposite of its counterpart; it occurs when the null hypothesis is accepted when in fact it should have been rejected (Zikmund and Babib, 2010). Thus, the measuring instrument must indeed be internally consistent so that error can be minimised.

- Validity

Construct validity is concerned with the question of whether the measure actually measures what it intended to measure (Zikmund and Babin, 2010; Churchill and Iacobucci, 2002). Convergent validity and discriminant validity are part of construct validity. Convergent validity ensures that all the items measuring the same construct converge with one another (Churchill and Iacobucci, 2002).

On the other hand, discriminant validity prevents a measure from measuring too highly with measures from which it is supposed to differ (Churchill and Iacobucci, 2002). Discriminant validity is necessary to explain the meaning of the measure, because some measures may converge with measures of other variables in addition to the one of interest (Heeler and Ray, 1972). Discriminant validity indicates that the measure is indeed original and not a reflection of some other variable (Churchill, 1979). In other words, discriminant validity is the degree to which measures of different concepts are distinct (Bagozzi, 1994).

An exploratory factor analysis was used to assess the discriminant validity of the constructs. Furthermore, a factor analysis was used to define the underlying structure among the variables in the analysis (Hair *et al.*, 2006). The results are discussed in Chapter 7.

The subsequent step, in the analysis process, is that of descriptive and inferential analysis.

6.2.5.2 Descriptive analysis

Descriptive analysis can be described as the basic transformation of data in a way that makes it more understandable (Zikmund and Babin, 2007). The data was transformed into tables and figures to offer insight into the characteristics of the data.

This data are presented through means, medians, variances and standard deviations (illustrated by frequency tables, cross-tabulation and graphs).

6.2.5.3 Inferential analysis

At this stage of the research process, associations between two or more variables are investigated. If there is an association, the strength of the relationship needs to be established (Churchill and Iacobucci, 2002). Inferential statistics were used to test the relationships and differences between variables. Furthermore, inferential statistics helped to test the strengths of these associations and differences. In other words, inferential statistics were used to test the hypotheses.

Various statistical tests were used to decide whether the null hypothesis should be rejected or not. A significance level (α) is the acceptable level of Type I error. Usually, α can range between 0.05, 0.01, and 0.001 (Churchill *et al.*, 2010). For the purpose of this study a significance level (α) of 0.05 was deemed to be significant. In other words, a maximum risk of 0.05 is allowed for the researcher to mistakenly reject the true null hypothesis, referred to as Type I error (Mooi and Sarstedt, 2011).

An independent sample t-test was used to determine the difference between the two sample means and a *multiple regression analysis* was done to determine the effect of perceived quality, status fit and communication fit on attitudes towards the VSLE.

H₀¹: Perceived quality has no effect on the attitudes towards a VSLE

It is argued that customers' perception of their banks' perceived quality, will influence the way they feel towards the VSLE. In this case the independent variable is perceived quality and the dependent variable is customers' attitudes towards a VSLE. A test of association was done with a *multiple regression analysis*.

H₀²: Perceived status fit has no effect on the attitudes towards a VSLE

Whether perceived status fit has an effect on the respondents' attitudes towards a VSLE, was measured. The independent variable is perceived fit and the dependent variable is attitudes towards a VSLE. A *multiple regression analysis* was done to test whether there is a relationship between the two variables.

H₀³: The self-brand communication fit has no effect on the attitudes towards a VSLE

In this case the independent variable is self-brand communication fit and the dependent variable is attitudes towards a VSLE. A *multiple regression analysis* was done to test whether there is a relationship between the two variables.

H₀⁴: Attitudes towards a VSLE have no effect on brand image

The independent variable is respondents' attitudes towards a VSLE and the dependent variable is brand image. The dependent variable and the independent variable are intervally scaled, therefore a *multiple regression analysis* was done to test the hypothesis.

H₀⁵: There is no difference between customers' perceived quality of a bank that introduces an upward extension and one that introduced a downward extension

Whether there is a difference between Capitec and Absa customers' perceived quality, was measured. Thus, the independent variable is group membership and the dependent variable is perceived quality. An *independent sample t-test* was used to test the difference between the two groups.

H₀⁶: There is no difference between customers' perceived own status of a bank that introduced an upward extension and one that introduced a downward extension

The independent variable is group membership. Furthermore, the dependent variable is status fit. Whether there is a difference in customers' status fit from an upward extension (Capitec) and a downward extension (Absa) was measured. A test of difference is applicable to test the hypothesis. Therefore, an *independent sample t-test* was conducted.

H₀⁷: There is no difference between customers' self-brand communication fit with a bank that introduced an upward extension and one that introduced a downward extension

The independent variable is group membership and the dependent variable self-brand communication fit. Again, how the difference between groups influence a specific variable, in this case self-brand communication fit, was measured. An *independent sample t-test* was utilised to test the difference between the two groups.

H_0^8 : There is no difference between customers' brand image of a bank that introduced an upward extension and one that introduced a downward extension.

This extension measures whether there is a difference between Capitec and Absa customers' brand image evaluation. Therefore, the independent variable is group membership and the dependent variable is brand image. The items are intervally scaled, therefore an *independent sample t-test* was conducted to test the hypothesis.

6.2.6 Formulating conclusions and preparing the report

The final step in the marketing research process is where the researcher formulates conclusions and prepares a report. In Chapter 7 there is a description of how the researcher interpreted data, extracted conclusions and conveyed the findings. A report was then prepared to communicate conclusions and recommend managerial actions.

6.3 CHAPTER SUMMARY

VSLEs are attractive strategies used by companies to increase profit, since an upward or downward extension enables them to target new markets based on the strength of their brand (Kim and Lavack, 1996). The question is whether an extension to a different market will be accepted by the existing customers and how the extension will influence their responses to the parent brand image. Therefore, in this study the previous question was addressed by means of measuring existing customers of Capitec and Absa Banks' evaluation of a VSLE.

In this chapter the methodology, used to address the objectives of this study, was discussed. A lot of attention was paid to the measuring instrument and the sampling method, because both make an important contribution to obtaining the right data from the right respondent. In the next chapter the findings are discussed.

CHAPTER 7: EMPIRICAL RESULTS

“...the part of the body of a report that presents the findings of the project. It includes tables, charts, and an organized narrative” (Zikmund and Babin, 2010: 647).

7.1 INTRODUCTION

In Chapter 6 the methodology as well as the statistical tests used to test the hypotheses are outlined. In This chapter, however the data analysis procedures are described and the empirical results are reported. This chapter is divided into two sections: descriptive statistics and inferential statistics.

In the first section the demographics of the two sub-samples are discussed. Here, the difference between the Capitec- and Absa sub-samples are highlighted. The descriptive statistics for the interval-scaled data are discussed with the focus on the variance and standard deviation. The reliability and validity results of both Capitec and Absa’s measuring instrument are tested and found appropriate. Furthermore, the interval-scaled items are subjected to a factor analysis to better understand the structure of the variables.

In the second part the inferential statistics are dealt with. The appropriate statistical tests, such as multiple regression analysis and independent sample t-test, are used to test the stated hypotheses. In addition, the empirical results are reported with concluding remarks.

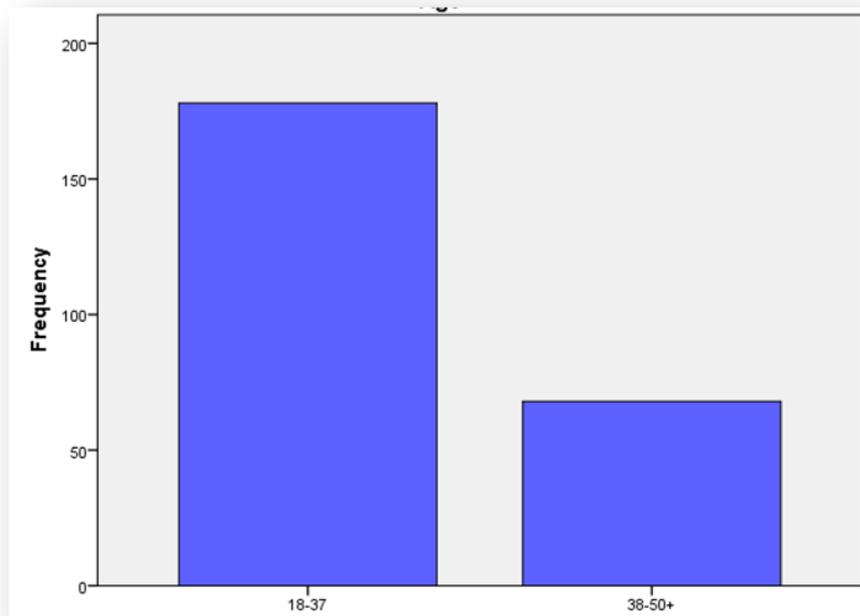
7.2 DESCRIPTIVE STATISTICS

In this chapter descriptive statistics are used to describe the sample. A profile of the sample is drawn with the help of frequency tables and cross tabulations. The use of means, minimum, maximum, standard deviation and variance provide an overview of the data. The descriptive statistics offer insight into respondents’ attitudes towards the respective banks that were the focus of this study. The total sample consists of two separate groups, Capitec customers (total of 246 respondents) and Absa customers (total of 247 respondents).

7.2.1 Demographic profile of the Capitec sub-sample

In the case of Capitec, the sample consists of 35% males and 65% females. The age distribution of the Capitec sample is depicted in Figure 7.1. A total of 27.6% of the Capitec respondents were in the age category 38 and older. A total of 72.4% of the respondents were in the age category 18 to 37. This large representation in the younger age category is consistent with Capitec’s strategy to target the lower-income groups. It is assumed that students and young working individuals do not have a lot of disposable income and are therefore classified as a lower-income group (see Table 7.1 cross-tabulation of income and age).

FIGURE 7.1 CAPITEC AGE CATGEGORIES



From Table 7.1 it is apparent that in the age category 18-37 a total of 28.9% of the respondents earn less than R3 000 and 26.4% of the respondents earn between R3 001 and R10 000 per month. In total, 55.3% of the respondents earn less than R3 000 or between R3001 and R10 000. This result is consistent with the statistics of the South African population. According to Van Aardt and Coetzee (2010) the bulk of the South African population earn between R0 and R50 000 per annum.

TABLE 7.1 CROSS-TABULATION OF CAPITEC SUB-SAMPLE AGE AND INCOME

Age	Income					Total
	Less than R3 000 %	R3 001- R10 000 %	R10 001 -R15 000 %	R15 001-R20 000 %	R20 000 + %	%
18-37	28.9	26.4	6.9	6.9	3.3	72.4
38-50+	2.0	7.3	4.5	8.5	5.3	27.6
Total	30.9	33.7	11.4	15.4	8.5	100

The number of years the respondents have been banking at Capitec as well as the population group of the sample are reported in Table 7.2. The majority of the sample consisted of Coloured or Black respondents, as 44.7% were Coloured and 27% were Black. Furthermore, the Coloured and Black respondents have been banking at Capitec bank for longer than three years (13.4% and 8.5% respectively) whereas most of the White respondents have been banking at Capitec for less than three years. The Black and Coloured population had made out a large part of the under-banked segment (Yurcan, 2013; Coetzee, 2013). As a result Capitec, as a new entrant into the banking arena, first targeted the Coloured and Black segments, which explains the large numbers of people from these population groups in the sub-sample.

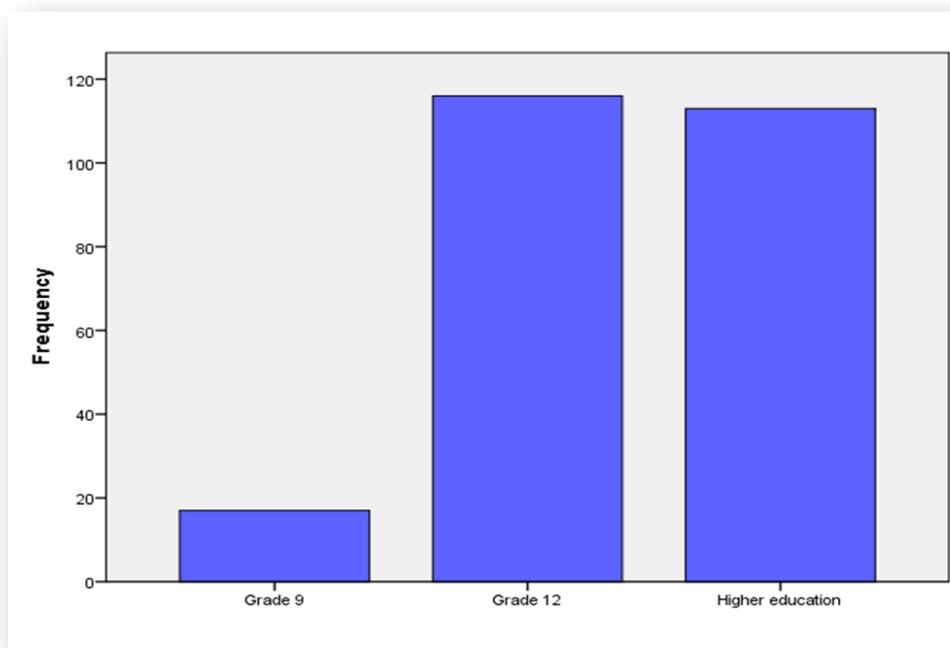
According to Statistics South Africa (2012) the population groups Coloured and Black earn the least in the South African population. Therefore the fact that Capitec targets the lower-income groups, where 44.7% of the sample is Coloured and 27% of the sample is Black, can be justified. Therefore, the revised sub-sample seems to be fair representation of the population of Capitec customers.

TABLE 7.2 CROSS-TABULATION OF POPULATION GROUP AND YEARS AT CAPITEC

Population	Years at Capitec				Total
	less than 1 year %	1-2 years %	2-3 years %	+ 3 years %	%
Coloured	8.5	10.6	12.2	13.4	44.7
Black	5.3	6.1	7.3	8.5	27.2
White	4.5	8.1	8.1	4.9	25.6
Indian	1.2	0.8	0.4	0.0	2.4
Total	19.5	25.6	28.0	26.8	100

The level of education of the Capitec respondent is summarised in Figure 7.2. A nearly equal number of respondents have a Grade 12 (47.3%) and a form of higher qualification (45.9%), and 6.9% have only a Grade 9 qualification. Generally, lower education result in less income earned. This high level of education can be attributed to the fact that most of the respondents in the sample are young individuals that are still studying or young, working individuals who graduated with a form of higher education. Respondents could have misinterpreted this question and chosen to indicate that they have higher education even though they are still conducting their studies. On the other hand, respondents may have felt inferior about their actual education, thus fabricating an answer. There may thus be a degree of social desirability bias present in the data (Zikmund and Babin, 2010)

FIGURE 7.2 CAPITEC SUB-SAMPLE: LEVEL OF EDUCATION

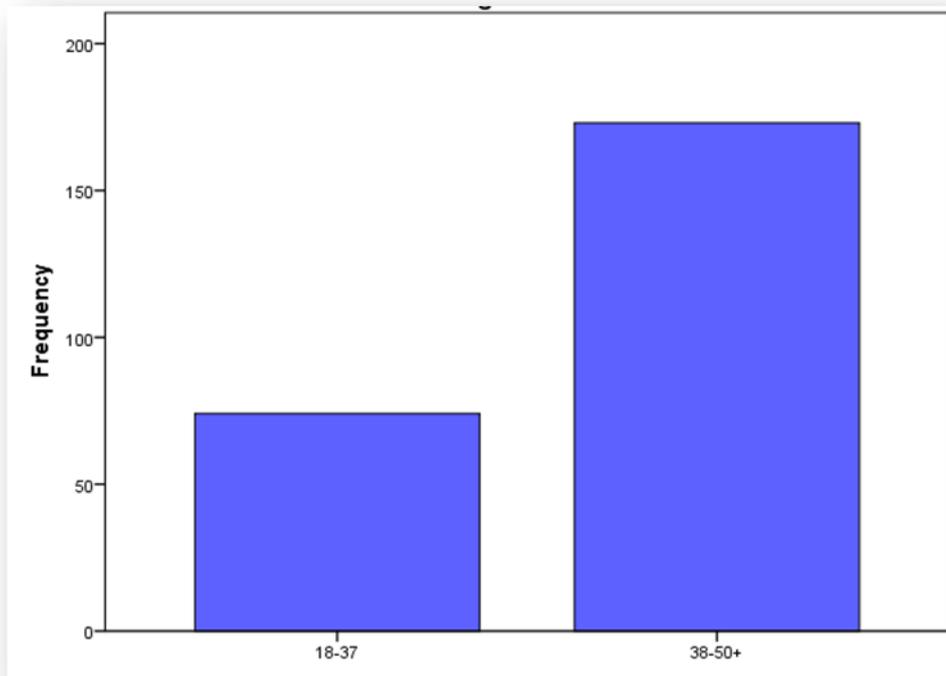


7.2.2 Demographic profile of the Absa sub-sample

The demographic statistics of the Absa sub-sample are substantially different from those of the Capitec sub-sample. A total of 247 respondents completed the questionnaires, of those, 65.6% were males and 34.4% were females. This distribution is roughly consistent with Absa’s customer base.

The age category was divided in two groups: group one consists of respondents who were between the ages of 18 and 37, group two consists of respondents older than 38. As expected, the Absa sample consists of relatively older individuals. About 70% of the Absa sub-sample consists of respondents in the age category 38 and older (see Figure 7.3). This large difference between the age categories can be explained by the fact that Absa has been active in the banking sector for quite some time. As a result, older individuals have had a long time to become loyal customers.

FIGURE 7.3 ABSA AGE CATEGORIES



According to Table 7.3 a total of 72% respondents in the Absa sub-sample are White and 52.6% have banked at Absa for more than three years. There were fewer respondents in the Coloured category (8.5%) that have banked at Absa for more than three years. Black and Indian respondents were the minority in this sub-

sample. Apart from the large number of White respondents, a total of 21.5% of the Absa sub-sample were Coloured respondents.

TABLE 7.3 CROSS- TABULATION OF POPULATION GROUP AND YEARS AT ABSA

Population	Years at Absa				Total
	less than 1 year %	1-2 years %	2-3 years %	+ 3 years %	%
Coloured	3.2	7.3	2.4	8.5	21.5
Black	0.4	1.6	0.4	1.2	3.6
White	5.3	4.9	9.7	52.6	72.5
Indian	0.0	0.0	0.4	2.0	2.4
Total	8.9	13.8	12.9	64.4	100

According to Table 7.4 the majority of the respondents in the Absa sub-sample earn more than R20 000 per month. In the second largest group are those respondents who earn between R15 000 and R20 000 per month. As can be expected, older individuals will earn more per month than younger individuals. Most of the respondents in the age category 18-37 earn less than R3 000 per month.

TABLE 7.4 CROSS- TABULATION OF ABSA AGE AND INCOME

Age	Income					Total
	Less than R3 000 %	R3 001- R10 000 %	R10 001 -R15 000 %	R15 001-R20 000 %	R20 000 + %	%
18-37	20.2	5.3	1.2	2.8	0.4	30.0
38-50+	8.1	13.0	6.5	16.2	26.3	70.0
Total	28.3	18.3	7.7	19.0	26.7	247

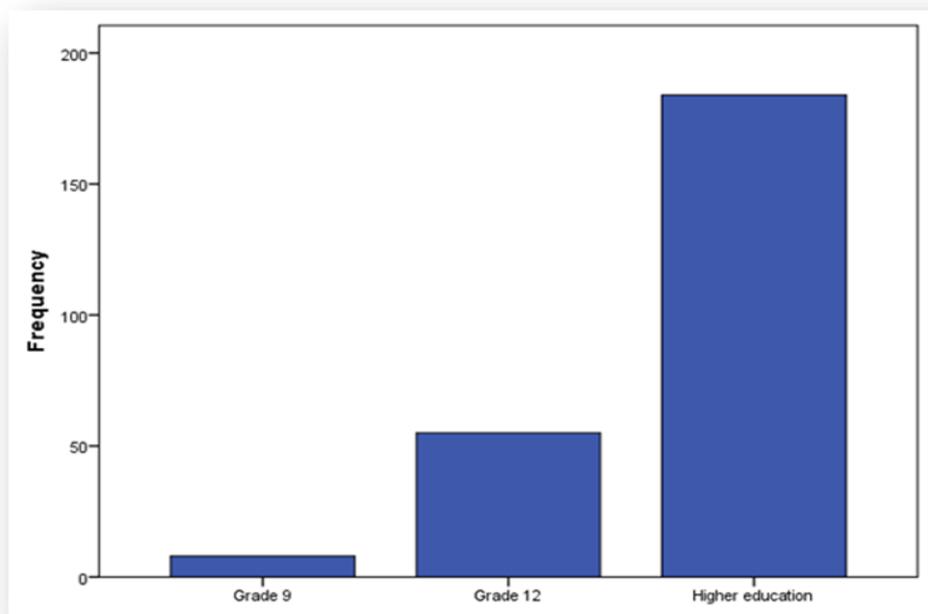
A total of 64% of the respondents have banked at Absa for more than three years, and only 8.8% have done business with the bank for less than one year. It is thus the respondents in the older age category that have banked at Absa the longest. Respondents in the age category 18-37 were also the respondents who started banking at Absa less than one year ago (see Table 7.5).

TABLE 7.5 CROSS- TABULATION OF AGE AND YEARS AT ABSA

		Age		
Years at Absa		Between 18-37 %	Between 38-50+ %	Total %
	Less than 1 year	4.0	4.8	8.8
	1-2 years	4.4	9.3	13.7
	2-3 years	4.0	8.9	12.9
	+3 years	17.4	46.9	64.3
	Total %	29.8	70	100

There is a stark difference between education levels among the Absa respondents (see Figure 7.4). About 74% of the respondents have a tertiary qualification, 22% have at least a Grade 12 and only 3% have a Grade 9 qualification. The sub-sample consisted predominately of individuals that earn more than R20 000 a month. Therefore, it is apparent that the higher the respondents' education levels the higher their income is.

FIGURE 7.4 ABSA SUB-SAMPLR: LEVEL OF EDUCATION



7.2.3 A comparison between the demographics of the Capitec- and Absa sub-samples

The Capitec sub-sample consisted largely of females (65%), 44% were Coloured and earn less than R3 000 a month. The majority of the Capitec respondents have banked with them for between two and three years and possess at least a Grade 12 qualification.

The Absa sub-sample consisted of mostly males (65.6%). More than half were White and earned more than R20 000 a month. Furthermore, the majority of Absa respondents have banked at the bank for a period longer than three years and have some sort of higher qualification.

7.2.4 Descriptive statistics for interval-scaled data

The descriptive statistics for interval-scaled data in each sub-sample are presented, with the discussions mainly concentrating on the variance and standard deviation. The standard deviation and variance in the two sub-samples give a clear indication of the respondents' attitudes. It is assumed that the higher the variance or standard deviation, the higher respondents' difference of opinion with regard to the VSLE or brand image.

The interval-scaled items were measured with a seven-point Likert scale where respondents indicated their level of agreement with a series of statements (items C1-PQ5 on the questionnaire). The categories for these items are 1 (strongly disagree) and 7 (strongly agree). The items were designed to measure the following constructs:

- Brand image
- Perceived fit
- Self-brand communication fit
- Perceived quality
- Extension evaluation

Addendum B lists the items measuring each construct with descriptive statistics of the mean, standard deviation and variance. Questionnaire items concerning Capitec and Absa are reported separately. Each construct will now be discussed with the focus on the difference in standard deviation and variance among the two sub-samples.

- Affective image

This construct consists of items measuring respondents' feelings towards the bank and can also be referred to the intangible element of the brand image (Montaner and Pina, 2009). Respondents indicated how often they experience a certain feeling towards the bank ranging on a Semantic differential scale from 1 to 5. The scales included feelings such as inferior/superior, unsuccessful/successful, embarrassed/proud, unsecure/secure.

The standard deviation of the responses in the Absa sub-sample are lower than the standard deviation in the Capitec responses for this construct. It can be argued that respondents from Absa are more confident in expressing their feelings toward the bank, because Absa has been in existence longer than Capitec. Therefore, Absa respondents had more time to cultivate specific feelings towards the bank. In comparison to Capitec there is not much variance in the Absa responses, except in items AI3 (*when I think of Absa it makes me feel always unsophisticated/ always sophisticated*) and AI5 (*when I think of Absa it makes me feel always unsecure/ always secured*).

- Self-brand communication fit

This construct measures the likeness of respondents' self-image towards the communication of the brand. Respondents were asked to look at two advertisements and then answer a series of statements on a seven-point Likert scale, where 1 equals strongly disagree and 7 equals strongly agree.

It is notable that the Absa sub-sample returned higher standard deviation scores than the Capitec sub-sample. It can be argued that if respondents' self-image matches with that of the communication they are indirectly associating themselves with the VSLE. The high standard deviation and variance in Absa responses can

possibly be explained by the respondents' mixed feelings towards the match between their self-image and that of the bank's communication.

- Extension evaluation

This construct measured respondents' attitudes towards the VSLE. Respondents were asked to read through different news quotations about the bank's current business and then indicate their feelings with regard to the quotation on a five-point attitude scale where 1 equals very unfavourable and 5 equals very favourable. In both the Capitec and Absa sub-samples the standard deviation scores are below 1, which indicates that respondents in both samples felt very similar about the statements. In other words, there is not much dispersion from the mean in either sub-sample.

- Functional image

The functional image is defined as the tangible image of the brand (Montaner and Pina, 2009) and can be either product-related or non-product related (Keller, 1993). Functional image was measured on a seven-point Likert scale where respondents reacted to a series of statements pertaining to the functional image of the bank. Here, Absa sub-responses produced more variance than the Capitec sub-responses. With specific reference to FI (*When I enter an Absa branch the environment impresses me*), FI2 (*A bank account that allows customers to send money anywhere in the country where recipients can withdraw the cash without an account simply using a PIN code, would be very convenient*), FI4 (*Absa makes it easy for me to do my transactions*). It is evident that respondents answers varied towards these statements. This could be a reflection of respondents' negative feelings towards Absa.

The Capitec sub-sample on the other hand, had high variance scores on items FI4 (*Capitec makes it easy for me to do my transactions e.g. cash withdrawals at PnP*) and FI5 (*Capitec's online service is effective*). As the majority of the Capitec respondents earn less than R3 000 or between R3 001 and R10 00, it can be assumed that few of the Capitec respondents have access to the internet where they can experience the online service of Capitec.

- Perceived quality

In this study perceived quality is measured as customers' overall quality perceptions of the brand. Perceived quality was measured on a seven-point Likert scale where respondents responded to a series of statements in connection with the quality of the bank. It is clear that the answers of Absa respondents varied more than the answers of Capitec respondents. Thus, Absa respondents expressed different opinions with regard to the bank's quality.

- Reputation image

Reputation image is classified as a benefit. The reputation is defined as that part of the brand image that provides customers with a long term benefit. Once again, a seven-point Likert scale was used to measure the reputation part of brand image. In the Capitec sample, the greatest variance in response occurred in item RI1 (*Capitec has never disappointed me*). In Absa responses the greatest variance also occurred in item RI1 (*Absa has never disappointed me*). It is concluded that in both instances the respondents are not consistent in their attitudes towards the statements. It is suggested that the variance is attributed to customer disappointment or service failure.

- Status fit

Status fit refers to the level of similarity between the current customers and the customers the bank is trying to target through a VSLE. Respondents responded to statements about their status and the status of customers from other banks on a seven-point Likert scale. In this case the standard deviation and variance among Capitec and Absa responses were high in both instances. This high variance can be explained by the psychological difficulty in answering the questions.

This inconsistency in responses can be explained by the downward/ upward comparison theory where respondents compare themselves either to people with a higher status or lower status. This upward or downward comparison often results in feelings of inferiority or superiority which may influence responses.

To conclude, there is greater variance in Absa responses with regard to communication fit, perceived quality, and reputation image compared to the Capitec

responses. However, compared to Absa the Capitec sample had greater variance in only a few items. In the case of both banks responses to the status fit questions varied greatly

7.3 RELIABILITY

According to Zikmund and Babin (2010) reliability is a measure of internal consistency. Therefore, Cronbach’s Alpha was calculated to measure the internal consistency of the measuring instrument.

7.3.1 Capitec sub-sample

As shown in Table 7.6, the reliability scores of all the constructs investigated in this study are higher than .7, which according to Bagozzi (1994) is acceptable. However, item EE3 (“*Capitec is signing leases at high-end shopping centres where it wants to attract the affluent customer base of the big banks*”) was deleted because its deletion increased the extension evaluation construct’s reliability from .568 to .706.

TABLE 7.6 CAPITEC RELIABILITY OF ORIGINAL CONSTRUCTS

Construct	Cronbach Alpha
Communication fit	.955
Status fit	.909
Functional image	.737
Reputation image	.897
Affective image	.907
Perceived quality	.895
Extension evaluation	.706

7.3.2 Absa sub-sample

All the constructs of the Absa sum-sample returned high Cronbacha Alpha scores, suggesting that the measuring instrument is internally consistent. The reliability of the functional image construct increased from .669 to .682 when item FI3 was deleted. Furthermore, items RI2 and AI3 were deleted to increase the reliability of the reputation image and affective image constructs (see Table 7.7).

TABLE 7.7 ABSA RELIABILITY OF ORIGINAL CONSTRUCTS

Construct	Cronbach Alpha
Communication fit	.916
Status fit	.838
Functional image	.682
Reputation image	.784
Perceived quality	.866
Extension evaluation	.736
Affective image	.890

To summarise the following items were deleted to increase the internal consistency among items: FI3 (*A bank account that has no monthly fees would be a good way of saving money*), RI2 (*Absa is one of the best banks in the sector*) and AI3 (*When I think of Absa it makes me feel unsophisticated/ often unsophisticated/ sometimes unsophisticated/ neither unsophisticated nor sophisticated/ sometimes sophisticated/ often sophisticated/ always sophisticated*).

7.4 VALIDITY

Validity, specifically discriminant validity, is necessary to explain the originality of the measure and not a reflection of some other variable (Churchill, 1979). In other words, discriminant validity is the degree to which measures of different concepts are distinct (Bagozzi, 1994).

An exploratory factor analysis was conducted to assess the discriminant validity of the constructs. A factor analysis defines the underlying structure among the variables in the analysis. In both the Capitec and Absa sub-sample, the factor analysis helped to identify whether the items measuring the five constructs (communication fit, status fit, brand image, perceived quality, and extension evaluation) demonstrated sufficient discriminant validity.

The KMO (Kaiser-Meyer-Olkin) measure of sample adequacy and Bartlett's test of sphericity were used as diagnostics to ensure that a sufficient amount of inter-correlation among items exists to conduct a factor analysis, i.e. items that had a loading greater or equal to .4.

7.4.1 Capitec sub-sample

The results in Table 7.8 indicate that the constructs were appropriately scaled for a factor analysis as the KMO value is .959 and the Bartlett's test of sphericity 0.000. The closer the KMO value is to 1.00 the more appropriate the data is. Furthermore, a significance value of $p < 0.05$ indicates a sufficient amount of covariance and inter-correlation among the items to be subjected to a factor analysis.

TABLE 7.8 KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.959
Approx. Chi-Square		8109.279
Bartlett's Test of Sphericity	df	741
	Sig.	.000

Consistent with the theoretical model (Figure 4.1) five factors were extracted. The Principal Axis Method was used to make sure all the weak loadings are accounted for. According to De Winter and Dodou (2012) the Principal Axis Method is preferred when the factor pattern is relatively simple or when weak loading is present. In the Capitec sub-sample the extension evaluation items returned weak loadings, therefore the Principal Axis Method was used. To make the factor structure more interpretable an oblique rotation was used as it was expected that factors would correlate with each other.

The five factor solutions loaded as expected (see Table 7.9). However, item AI1 and EI1 did not load to a significant extent. Consequently, these two items were deleted from subsequent analysis. Items FI4 and FI5 were also deleted because they were the only two items loading on a factor. The data was again subjected to a factor analysis which led to the deletion of items PQ3, FI3, SF5, EE2, EE3 and AI2 as they did not load to a significant extent on any factors. Furthermore, item F12 loaded separately on a factor that could not be interpreted and the item was consequently deleted. The third attempt resulted in a satisfactory factor analysis solution (see Table 7.9). In other words, all the items loaded to a significant extent (greater or equal to .4).

TABLE 7.9 CAPITEC SUB-SAMPLE FACTOR MATRIX

	Factor				
	Factor 1- Perceived quality	Factor 2- Status fit	Factor 3- Communication fit	Factor 4- Extension evaluation	Factor 5- Brand image
Perceived quality PQ5	.886	.432	-.765	.540	-.695
Perceived quality PQ1	.841	.412	-.636	.506	-.592
Reputation image RI2	.827	.425	-.727	.477	-.721
Reputation image RI4	.816	.481	-.678	.521	-.672
Reputation image RI1	.801	.297	-.577	.476	-.526
Perceived quality PQ2	.798	.351	-.606	.395	-.593
Perceived quality PQ4	.790	.414	-.695	.438	-.704
Functional image F11	.775	.430	-.685	.497	-.711
Reputation image RI3	.774	.405	-.706	.550	-.662
Reputation image RI5	.721	.369	-.633	.394	-.655
Status fit SF2	.298	.856	-.368	.166	-.244
Status fit SF1	.280	.841	-.361	.154	-.207
Status fit SF7	.384	.829	-.400	.172	-.296
Status fit SF3	.389	.820	-.397	.218	-.348
Status fit SF8	.409	.801	-.449	.249	-.319
Status fit SF9	.304	.788	-.348	.153	-.302
Status fit SF4	.492	.614	-.580	.377	-.482
Communication fit CF1	.675	.431	-.913	.450	-.575
Communication fit CF4	.682	.424	-.894	.499	-.605
Communication fit CF2	.667	.373	-.883	.456	-.578
Communication fit CF5	.651	.381	-.879	.490	-.614
Communication fit CF6	.641	.471	-.875	.445	-.547
Communication fit CF3	.671	.433	-.850	.440	-.533
Status fit SF6	.489	.415	-.631	.419	-.534
Extension evaluation EE4	.393	.156	-.372	.817	-.338
Extension evaluation EE5	.424	.179	-.414	.682	-.399
Affective image AI4	.698	.309	-.615	.540	-.873
Affective image AI5	.661	.346	-.629	.456	-.860
Affective image AI3	.718	.412	-.652	.515	-.838

Extraction Method: Principal Axis Factoring.

Rotation Method: Oblimin with Kaiser Normalization.

To summaries, the following items were deleted to increase the discriminant validity among the constructs: AI1 (*When I think of Capitec it makes me feel: always inferior/ often inferior/ sometimes inferior/ neither inferior nor superior/ sometimes superior/*

often superior/ always superior), EI1 (*“Capitec continues to grow rapidly in the younger and higher income groups in South Africa”*), F14 (*Capitec makes it easy for me to do my transactions i.e cash withdrawals at PnP*), F15 (*Capitec’s online services are effective*), PQ3 (*Capitec’s employees are competent*), F13 (*The Global One account makes it easy to manage my financial affairs*), SF5 (*I can associate myself with customers of other banks*), EE2 (*“The profile of our credit clients is definitely changing as we are seeing new credit clients with higher income levels attracted to our offer”*), AI2 (*When I think of Capitec it makes me feel: always unsuccessful/ often unsuccessful/ sometimes unsuccessful/ neither unsuccessful nor successful/ sometimes successful/ often successful/ always successful*), F12 (*I am impressed by the innovative technology i.e. fingerprint scanning of Capitec*).

7.4.1.1 Factor one- Perceived service quality

The following items loaded on factor one and included the following statements:

- PQ2- Capitec delivers a consistent level of quality
- PQ1- Capitec’s service is of high quality
- RI2- Capitec is one of the best banks in the sector
- RI1- Capitec has never disappointed me
- PQ4- Capitec is superior in quality compared to other banks
- PQ5- Capitec always meet my expectations
- RI4- I believe Capitec will deliver what they promise
- RI5- Capitec has a reputation that distinguishes it from other banks
- F11- When I enter a Capitec branch the environment impresses me
- RI3- I trust in Capitec to deliver what they promise

This factor was renamed ‘perceived quality’. Four out of the then items are perceived quality items. However, the reputation image questions also loaded on this factor. The reputation image items have a strong correlation with the perceived quality items. It can be argued that respondents interpreted the reputation image questions

as relevant to perceived quality. Furthermore, item F11 can also be interpreted as perceived quality as it refers to the tangible aspect of service delivery.

All the items have significant loadings on the factor with scores higher than .7

7.4.1.2 Factor two- Status fit

As expected, items SF1, SF2, SF3, SF4, SF7, SF8, and SF9 loaded on factor two. This factor is named 'status fit' and includes the following statements:

- SF1- My status is similar to Absa customers' status
- SF2- My status is similar to Standard Bank customers' status
- SF3- My status is similar to FNB customers' status
- SF4- Capitec customers possess the same status as other banks' customers
- SF7- My social class is similar to that of the customers of Absa
- SF8- My social class is similar to that of the customers of Standard Bank
- SF9- My social class is similar to that of the customers of FNB

7.4.1.3 Factor three- Communication fit

The following items loaded on factor three and included the following statements:

- CF1- Capitec's advertisements reflect who I am
- CF2- I can identify with the advertisements
- CF3- I can associate with the Capitec advertisements
- CF4- The advertisements communicate who I am to other people
- CF5- The advertisements reflect the type of person I want to be
- CF6- The advertisements reflect who I consider myself to be
- SF6- I am similar to other banking customers

All the communication fit items loaded on factor three, but it was not expected that item SF6 would also load on factor three. The loading of item SF6 can be explained. In the questionnaire the communication fit questions were asked first and directly after the communication fit questions question SF6 were asked. It is assumed that respondents confused SF6 with the communication fit items, which explains SF6 loading on factor three.

7.4.1.4 Factor four- Extension evaluation

The only two factors that loaded on factor four are items EE4 and EE5. According to Pallant (2010), it is up to the researcher how to interpret the data from a factor analysis. Therefore, it was decided not to delete these two items. Factor four comprises of the following two statements:

- EE4- “Capitec is working to introduce a credit card”
- EE5- “The bank is acquiring both new-to banking clients and other banks’ clients”

7.4.1.5 Factor five- Brand image

Factor five was renamed brand image, because three affective image questions loaded on this factor. Interestingly, not one of the other brand image items loaded on this factor.

- AI4- When I think of Capitec it makes me feel: always embarrasses/ often embarrassed/ sometimes embarrassed/ neither embarrassed nor proud/ sometimes proud/ often proud/ always proud
- AI3- When I think of Capitec it makes me feel: always unsophisticated/ often unsophisticated/ sometimes unsophisticated/ neither unsophisticated nor sophisticated/ sometimes sophisticated/ often sophisticated/ always sophisticated
- AI5- When I think of Capitec it makes me feel: always unsecured/ often unsecured/ sometimes unsecured/ neither unsecured nor secured/ sometimes secured/ often secured/ always secured

7.4.2 Reliability of Capitec’s sub-sample revised scales

The reliability of the revised scales was again assessed. The Cronbach Alpha for each construct is listed in Table 7.10. Item SF6 was deleted from factor three, which increased the reliability from .945 to .955.

TABLE 7.10 RELIABILITY OF REVISED SCALES

Factor	Construct	Cronbach Alpha
Factor one	Perceived quality	.953
Factor two	Status fit	.922
Factor three	Communication fit	.955
Factor four	Extension evaluation	.718
Factor five	Brand image	.907

7.4.3 Absa’s sub-sample

The interval scaled items of the Absa sub-sample were used in a data reduction technique, more specifically an exploratory factor analysis. In Table 7.11 the KMO equals .896 and Barlett’s sphericity equals a significant value ($p < 0.05$). Thus, there is a sufficient amount of inter-correlation among items for it to be subjected to a factor analysis. Furthermore, a maximum numbers of five factors were extracted to reflect the constructs of the theoretical model. The assumption was that the data would be multivariate normally distributed, therefore a maximum likelihood factor analysis was conducted. To make the factor structure more interpretable an oblique rotation was used as it was expected that factors would correlate with each other.

TABLE 7.11 KMO AND BARTLETT’S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.896
Approx. Chi-Square		5489.370
Bartlett's Test of Sphericity	df	780
	Sig.	.000

In the first exploratory factor analysis, items E3, RI2, RI1 and FI3 did not load to a significant extent on any factor. A second factor analysis was done after the above mentioned items were deleted. After a series of iterations the most appropriate factor

structure to emerge was the one reported in Table 7.12. It is evident that all the items loaded strongly on the factors.

TABLE 7.12 ABSA SUB-SAMPLE FACTOR MATRIX

	Factor				
	Factor 1- Perceived quality	Factor 2- Communication fit	Factor 3- Brand image	Factor 4- Status fit	Factor 5- Extension evaluation
Perceived quality 5	.777	.417	-.425	.234	.424
Perceived quality 1	.777	.330	-.347	.363	.302
Perceived quality 4	.759	.355	-.396	.380	.302
Functional image 4	.755	.238	-.257	.285	.176
Perceived quality 2	.748	.298	-.404	.260	.330
Reputation image 5	.747	.310	-.374	.296	.377
Reputation image 4	.744	.274	-.396	.285	.308
Reputation image 3	.682	.266	-.357	.321	.180
Perceived quality 3	.669	.191	-.207	.297	.222
Functional image 1	.557	.388	-.299	.372	.190
Functional image 5	.528	.182	-.315	.244	.265
Functional image 2	.464	.125	-.176	.268	.128
Communication fit 1	.222	.840	-.206	.374	.301
Communication fit 2	.386	.834	-.248	.417	.260
Communication fit 6	.362	.825	-.274	.426	.246
Communication fit 5	.379	.805	-.271	.373	.288
Communication fit 4	.206	.773	-.219	.310	.308
Communication fit 3	.295	.733	-.305	.397	.242
Affective image 1	.365	.336	-.869	.105	.257
Affective image 2	.440	.329	-.852	.135	.277
Affective image 4	.497	.262	-.807	.110	.258
Affective image 5	.475	.275	-.706	.054	.352
Affective image 3	.271	.089	-.654	.105	.234
Extension evaluation 5	.230	.182	-.551	.068	.284
Extension evaluation 4	.181	.180	-.446	.140	.271
Status fit 3	.362	.248	-.116	.736	.141
Status fit 2	.157	.380	-.118	.699	.141
Status fit 4	.330	.376	-.258	.667	.240
Status fit 5	.389	.340	-.098	.607	.165
Status fit 1	.225	.310	-.050	.606	.072
Status fit 6	.189	.451	-.149	.578	.048
Status fit 8	.324	.308	-.196	.536	.220
Status fit 7	.289	.212	-.013	.516	.069
Status fit 9	.296	.192	-.010	.475	.158

Extension evaluation 1	.338	.370	-.346	.244	.804
Extension evaluation 2	.323	.288	-.331	.159	.781

Extraction Method: Maximum Likelihood.

Rotation Method: Oblimin with Kaiser Normalization.

To summarise, the following items were deleted to increase the internal consistency of the factor analysis:

E3 (*Absa is offering basic and affordable banking products to entry-level clients*), RI2 (*Absa is one of the best banks in the sector*), RI1 (*Absa has never disappointed me*) and FI3 (*A bank account that has no banking fees would be a good way of save money*).

7.4.3.1 Factor one- Perceived quality

The following items loaded on factor one and include the statements:

- FI1- When I enter an Absa branch the environment impresses me
- FI2- A bank account that allows customers to send money anywhere in the country where recipients can withdraw the cash without an account simply using a PIN code, would be very convenient
- FI4- Absa makes it easy for me to do my transactions
- FI5- Absa's online services are effective
- RI3- I trust in Absa to deliver what they promise
- RI4- I believe Absa will deliver what they promise
- RI5- Absa has a reputation that distinguishes it from other banks
- PQ1- Absa's service is of high quality
- PQ2- Absa delivers a consistent level of quality
- PQ3- Absa's employees are competent
- PQ4- Absa is superior in quality compared to other banks

- PQ5- Absa always meets my expectations

Factor one was renamed the perceived quality construct because five out of the twelve items consist of perceived quality questions. Furthermore, it is not unusual for reputation image items and functional image items to load on the perceived quality construct, because these items can be associated with perceived quality.

7.4.3.2 Factor two- Communication fit

All the communication fit items loaded on factor three and include the following statements:

- CF1- Absa's advertisements reflect who I am
- CF2- I can identify with the advertisements
- CF3- I can associate with the Absa advertisements
- CF4- The advertisements communicate who I am to other people
- CF5- The advertisements reflect the type of person I want to be
- CF6- The advertisements reflect who I consider myself to be

7.4.3.3 Factor three- Brand image

The respondents in this sample considered affective image questions as relevant to brand image. Furthermore, no other brand image items loaded on this factor. Respondents considered items EE4 and EE5 similar to the affective image items. The following items loaded on factor three:

- AI1- When I think of Absa it makes me feel: always inferior/ often inferior/ sometimes inferior/ neither inferior nor superior/ sometimes superior/ often superior/ always superior
- AI2- When I think of Absa it makes me feel: always unsuccessful/ often unsuccessful / sometimes unsuccessful/ neither unsuccessful nor successful/ sometimes successful/ often successful/ always successful

- AI3- When I think of Absa it makes me feel: always unsophisticated/ often unsophisticated/ sometimes unsophisticated/ neither unsophisticated nor sophisticated/ sometimes sophisticated/ often sophisticated/ always sophisticated
- AI4- When I think of Absa it makes me feel: always embarrassed/ often embarrassed/ sometimes embarrassed/ neither embarrassed not proud/ sometimes proud/ often proud/ always proud
- AI5- When I think of Absa it makes me feel: always unsecured/ often unsecured/ sometimes unsecured/ neither unsecured nor secure/ sometimes secured/ often secured/ always secured
- EE4- “Absa has just launched ‘in-store banking’ for its rural customers that allows deposits, withdrawals and purchases in participating retail stores
- EE5- “ Absa introduced a pre-paid debit card, which is possibly the cheapest way for low income and irregular earners to transact electronically”

7.4.3.4 Factor four- Status fit

All nine status fit items loaded on factor four, therefore this factor was renamed status fit.

- SF1- My status is similar to Capitec customers’ status
- SF2- My status is similar to Standard Bank customers’ status
- SF3- My status is similar to FNB customers’ status
- SF4- Absa customers possess the same status as other banks’ customers
- SF5- I can associate myself with customers from other banks
- SF6- I am similar to other banking customers
- SF7- My social class is similar to customers from Capitec
- SF8- My social class is similar to customers from Standard Bank
- SF9- My social class is similar to customers of FNB

7.4.3.5 Factor five- Extension evaluation

Factor five consists of only two loadings, items EE1 and EE2. These items are consistent with the extension evaluation construct and include the following statements:

- EE1- “Absa is directly challenging the Capitec market, it has over the last few years produced innovative products for the masses.”
- EE2- “...Absa is aggressively targeting the entry-level market”

Even though only two items loaded on this factor it was considered necessary to include it due to the theoretical model of this study.

7.4.4 Reliability of Absa’s revised scales

The reliability of the revised scales is listed in Table 7.13. All the factors had Cronbach Alphas above .7, which indicate strong internal consistency among items (Bagozzi, 1994).

TABLE 7.13 RELIABILITY OF REVISED SCALES

Factor	Construct	Cronbach Alpha
Factor one	Perceived quality	.915
Factor two	Communication fit	.916
Factor three	Brand image	.873
Factor four	Status fit	.838
Factor five	Extension evaluation	.787

7.5 THE DIFFERENCE BETWEEN CAPITEC AND ABSA’S FACTOR ANALYSIS

A total of five factor loadings, in the Capitec sample, were considered as appropriate. Factor one was renamed perceived quality, here perceived quality items, reputation image items and one functional image item loaded. Factor two was renamed status fit and the majority of the status fit items loaded on this factor. Factor three was renamed communication fit, because all the communication fit items loaded on this factor. Factor four was renamed to extension evaluation, where only two extension evaluation items loaded. However, these two extension evaluation items were not deleted because they were considered important for this study and had strong

internal consistency. The last factor, factor five was renamed to brand image and three affective image items loaded on this factor.

Absa, on the other hand, had five appropriate factor loadings where factor one was renamed perceived quality, here perceived quality items, reputation items and functional image items loaded. Factor two was renamed communication fit, because all the communication fit items loaded on this factor. Factor three was renamed brand image. Interestingly, all the affective image items loaded on the brand image factor, as well as two extension evaluation items. Factor four was renamed status fit, because all the status fit items loaded on this factor. Factor five was renamed extension evaluation and only two extension evaluation items loaded on factor five, just as in the case of Capitec.

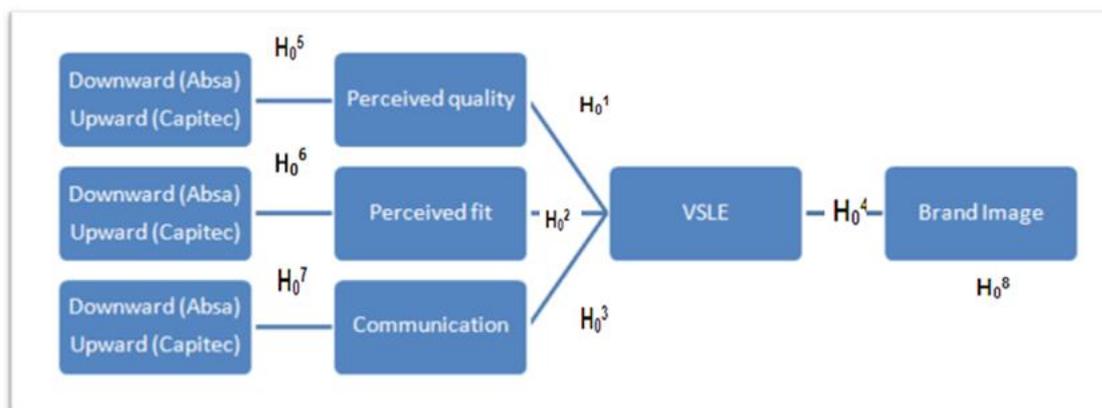
To conclude, there are some similarities in the factor loadings of both banks with the exception of Absa's brand image factor where all the affective image items loaded as well as two extension evaluation items. Furthermore, Absa's perceived quality factor consists of more functional image items than Capitec's. Capitec, on the other hand, had more reputation image loadings on perceived quality than Absa.

Now that the data has been analysed to a manageable extent, it can be used in the inferential analysis.

7.6 INFERENCE ANALYSIS

It is important to recall the theoretical model to understand how the constructs and hypotheses fit together (see Figure 7.5).

FIGURE 7.5 THEORETICAL MODEL



7.6.1 Influence of perceived quality, status fit and communication fit on attitudes towards the VSLE

The first three objectives in this study are addressed by assessing the influence of perceived quality, perceived status fit and perceived fit between respondents' self-image and the communication, on attitudes towards a vertical service line extension (VSLE). In the theoretical model (see Figure 7.5) these objectives are represented by hypotheses H_0^1 , H_0^2 and H_0^3 .

Whether the independent variables (perceived quality, status fit and communication fit) exert a statistically significant relationship on respondents' attitudes towards the VSLE, was tested

H_0^1 : Perceived quality has no effect on the attitudes towards a VSLE

H_0^2 : Perceived status fit has no effect on the attitudes towards a VSLE

H_0^3 : Self-brand communication fit has no effect on the attitudes towards a VSLE

- Capitec

To address these hypotheses a *multiple regression analysis* was conducted on the Capitec sub-sample. Perceived quality, perceived status fit and communication fit were specified as the independent variables and attitudes towards the VSLE as the dependent variable. The results are reported in Table 7.14.

The coefficient of determination (R^2) is the proportion of variance in the dependent variable, in this case the $R^2 = .261$. About 26% of the variance in respondents' attitudes towards the VSLE is explained by respondents' perceived quality, their level of status fit with other markets and their self-brand communication fit.

However, perceived quality was the only variable that significantly influenced attitudes towards the VSLE ($p < 0.05$, $t = 4.393$). Perceived quality had a Beta value of .410, which is the highest score among the three variables. Following perceived quality is communication fit with a Beta value of .156. The higher the Beta value of the variable, the higher the contribution that variable makes in explaining the

dependent variable. In this case, the perceived quality variable explained most of attitudes towards VSLE.

Communication fit and status fit do not significantly influence attitudes towards the VSLE ($p > 0.05$). The collinearity statistics indicate that both the Tolerance and VIF values are within acceptable range (Tolerance $> .10$ and VIF < 10) for all the variables, suggesting that the risk of multicollinearity is low. In other words, the variability of the specified independent variables is not explained by the other independent variables in the model.

The conclusion is drawn that there is a statistically significant relationship between perceived quality and respondents' attitudes towards a VSLE. Therefore hypothesis H_0^1 which postulated that perceived quality does not have an effect on respondents' attitudes towards a VSLE, is rejected. However, H_0^2 and H_0^3 are not rejected, as both status fit and self-brand communication fit do not exert a significant effect ($p > 0.05$) on the attitudes towards a VSLE.

TABLE 7.14 CAPITEC MULTIPLE REGRESSION ANALYSIS RESULT: INFLUENCE OF PERCEIVED QUALITY, COMMUNICATION FIT AND STATUS FIT ON ATTITUDES TOWARDS A VSLE

	Beta coefficient	t-value	Sig.	Tolerance	VIF
Perceived quality	.410	4.393	.000	.351	2.852
Communication fit	.156	1.687	.093	.356	2.806
Status fit	-.067	-1.036	.301	.725	1.379

- Absa

In the Absa sub-sample a *multiple regression analysis* was also used to address the hypotheses. Once again, perceived quality, communication fit and perceived status fit were specified as the independent variables and attitudes towards the VSLE were specified as the dependent variable. Table 7.15 shows that 24.9% of the variance in the dependent variable is explained by the independent variable ($R^2 = .249$). In other words, 24.9% of respondents' attitudes towards the VSLE in the Absa sub-sample are explained by respondents' perceived quality towards the brand, their level of status fit with other markets and their self-brand communication fit with regard to the brand.

Both perceived quality and communication fit had a significant effect on attitudes towards the VSLE ($p < 0.05$). However, status fit does not exert a significant effect on the attitudes towards a VSLE ($p > 0.05$). Perceived quality returned the largest Beta value, which suggests that this variable made the strongest unique contribution to explain the dependent variable. Communication fit had the second largest Beta value (see Table 7.15).

It is thus concluded that perceived quality and communication fit significantly influence attitudes towards VSLE in the Absa sub-sample. However, status fit did not significantly influence attitudes towards the VSLE. H_0^1 and H_0^3 are therefore rejected, but H_0^2 is not rejected.

TABLE 7.15 ABSA MULTIPLE REGRESSION ANALYSIS RESULT: INFLUENCE OF PERCEIVED QUALITY, COMMUNICATION FIT AND STATUS FIT ON ATTITUDES TOWARDS A VSLE

	Beta coefficient	t-value	Sig.	Tolerance	VIF
Perceived quality	.359	5.542	.000	.735	1.361
Communication fit	.236	3.523	.001	.691	1.446
Status fit	-.017	-.256	.798	.676	1.479

7.6.2 The influence of attitudes towards VSLE on brand image

The fourth objective is related to the question of whether attitudes towards the VSLE extension influence brand image. In this case, the dependent variable is brand image and the independent variable is extension evaluation. A *simple regression analysis* was conducted to assess whether there is a relationship between the variables.

- Capitec sub-sample

In the Capitec sub-sample the dependent variable was brand image and the independent variable was attitudes towards the VSLE. A simple regression analysis was used because the researcher wanted to investigate whether there is a significant difference in brand image that can be explained by attitudes towards the VSLE.

It is found that 22% ($R^2 = .229$) of the variance in brand image can be explained by respondents' attitudes towards the VSLE. Furthermore, the relationship between

attitudes towards the VSLE and the brand image is positive. Attitudes towards a VSLE have a statistically significant effect ($p < 0.05$) on brand image (see Table 7.16). Therefore, the following hypothesis is rejected:

H_0^4 : Attitudes towards a VSLE have no effect on brand image

The launch of a VSLE may place the brand image in jeopardy, because a vertical extension is a variation in price points or quality levels of the original product or service (Kirmani *et al.*, 1999). However, if the extension induces positive feelings among customers it may influence the brand image positively. Therefore, this result is consistent with the literature. Attitudes towards the extension will also determine its success in terms of favourable attitudes towards the extension (Arslan and Altana, 2010). Thus, the way customers feel towards a VSLE can influence their feelings towards the brand, because there is a positive and significant relationship between the two variables.

TABEL 7.16 CAPITEC SIMPLE REGRESSION ANALYSIS RESULT: INFLUENCE OF ATTITUDES TOWARDS THE VSLE ON BRAND IMAGE

	Beta coefficient	t-value	Sig.	Tolerance	VIF
Extension evaluation	.478	8.501	.000	1.000	1.000

- Absa sub-sample

In the case of Absa, the dependent variable was brand image and the independent variable was attitudes towards the VSLE. Once again a simple regression analysis was used to address the hypothesis. It is evident from the results that 44.3% ($R^2 = .443$) of the variance in brand image can be explained by attitudes towards the VSLE (see Table 7.17). Furthermore, there is a positive relationship between the attitudes towards the VSLE and brand image. Attitudes towards the VSLE have a statistically significant effect on brand image ($p < 0.05$). Therefore the following hypothesis is rejected:

H_0^4 : Attitudes towards a VSLE have no effect on brand image

In both the Capitec and Absa samples, attitudes towards the VSLE had a significant effect on brand image. Therefore, the conclusion is drawn that attitudes towards a

VSLE can influence customers' brand image because there is a positive and significant relationship between the two variables.

TABLE 7.17 ABSA'S SIMPLE REGRESSION ANALYSIS RESULT: INFLUENCE OF ATTITUDES TOWARDS THE VSLE ON BRAND IMAGE

	Beta coefficient	t-value	Sig.	Tolerance	VIF
Extension evaluation	.666	13.966	.000	1.000	1.000

7.6.3. The difference between upward extension (Capitec) and downward extension (Absa)

The final objective is concerned whether or not there is a difference between customers', perceived quality, perceived fit, communication fit and brand image of a bank that introduces an upward extension and one that introduces a downward extension.

An *independent sample t-test* was used, where the mean scores of two different groups were compared. The independent variable is group membership (Capitec or Absa) and the dependent variable is perceived quality, status fit, communication fit and brand image. The following hypotheses are addressed:

H_0^5 : There is no difference between customers' perceived quality of a bank that introduces an upward extension and one that introduces a downward extension

H_0^6 : There is no difference between customers' perceived own status of a bank that introduces an upward extension and one that introduces a downward extension

H_0^7 : There is no difference between customers' self-brand communication fit with a bank that introduces an upward extension and one that introduces a downward extension

H_0^8 : There is no difference between customers' brand image of a bank that introduces an upward extension and one that introduces a downward extension

First, the result of hypothesis H_0^5 is addressed in Table 7.18. The Levene's test of equal variance in the two groups is not significant ($p > 0.05$) and as a result equal variance is assumed. It is found that there exist a difference between customers' perceive quality of a bank that introduces an upward extension (Capitec) and one that introduces a downward extension (Absa). Thus, hypothesis H_0^5 is rejected because, there is a statistical difference between the two samples ($t=3.8$, $p < 0.05$).

Capitec had a mean score of 5.31 and Absa of 4.94. It is evident that Capitec customers had a higher mean score than Absa's customers, indicating that Capitec customers view the bank as possessing more quality than what Absa customers can say for their bank. This does not mean that Absa customers do not think their bank possesses quality but rather that Capitec customers evaluated their bank as possessing a higher level of quality than what Absa customers did. This result explains a lot about the banks' brand equity. Even though Absa has been operating longer in the banking sector than Capitec, one can conclude from this result that Capitec has higher brand equity than Absa.

It is unclear to what extent these two sub-samples differ. The effect size statistics provide an indication of the extent to which the two samples differ. Regrettably, SPSS statistics do not calculate this statistic. Therefore, the Eta squared common statistic is used to measure the effect size statistics. Eta square ranges from 0-1 and represents the proportion of variance in the dependent variable that is explained by the independent variable (Pallant, 2010). A score of 0.01 is equal to a small effect, 0.06 is equal to a moderate effect and 0.14 is equal to a large effect (Cohen, 1988 cited in Pallant, 2010).

$$\begin{aligned} \text{Eta square} &= \frac{t^2}{t^2 + (N1 + N2 - 2)} \\ &= \frac{3.8^2}{3.8^2 + (246 + 247 - 2)} \\ &= 0.0294 \end{aligned}$$

The effect size of 0.0294 is small. Expressed as a percentage, only 2.9% of the variance in perceived quality is explained by group membership. Due to the small difference in sample means it is concluded that both sub-samples have similar associations and perceptions regarding perceived quality of their banks. Even though the mean difference is small, it is still significant and cannot be attributed to chance.

TABEL 7.18 INDEPENDENT SAMPLE T-TEST RESULT OF PERCEIVED QUALITY

	Levene's test for equality of variance		t-test for equality of means				
	F	Sig.	t	df	Sig.(2-tailed)	Mean difference	Std. error difference
Equal variance assumed	.768	.381	3.864	491	.000	.375	.097

The result of the statistical test used to address hypothesis H_0^6 is reported in Table 7.19. An independent sample t-test is used to address H_0^6 , where the independent variable is group membership and the dependent variable is perceived status. Levene's test of equal variance in the two groups is not significant ($p>0.05$) and as a result equal variance is assumed.

It is found that Capitec and Absa customers differ in their perceived status ($t=4.320$, $p<0.05$). Therefore, H_0^6 is rejected due to the significant difference between the two groups. In other words, there is a difference between customers' perceived own status of a bank that introduces an upward extension and one that introduces a downward extension.

Capitec had a higher mean score (4.87) than Absa (4.46), indicating that Capitec customers had a higher status fit with customers of other banks than that of Absa customers. In other words, Capitec respondents could associate themselves more with customers from other banks than Absa respondents could associate themselves with customers of other banks. However, the difference between the two groups is still small, just as the Eta square determines.

$$\text{Eta square} = \frac{t^2}{t^2 + (N1 + N2 - 2)}$$

$$= \frac{4.320^2}{4.320^2 + (246+247-2)}$$

$$= 0.0366$$

The size effect is small therefore, only 3.66% of the variance in status fit is explained by group membership. To conclude, the two sub-samples did not differ much in their attitudes towards their level of status fit with customers of other banks. This is in connection with the high levels of variance in the responses of the two sub-samples to the perceived status fit questions.

TABEL 7.19 INDEPENDENT SAMPLE T-TEST RESULT OF STATUS FIT

	Levene's test for equality of variance		t-test for equality of means				
	F	Sig.	t	df	Sig. (2-tailed)	Mean difference	Std. error difference
Equal variance assumed	2.069	.151	4.320	491	.000	.416	.096

The result of the independent sample t-test which was used to address hypothesis H_0^7 is reported in Table 7.20. The independent variable is self-brand communication fit and the dependent variable is group membership. The results of Levene's test of equal variance in the two groups is not significant ($p > 0.05$) and as a result equal variance is assumed.

There is a significant difference between customers' self-brand communication fit with a bank that extended upward and one that extended downward (see Table 7.20). Therefore, hypothesis H_0^7 is rejected ($t = 7.562$, $p < 0.005$). There is a significant difference between customers' self-brand communication fit with a bank that introduced an upward extension and one that introduced a downward extension. The effect size, however indicates that there is a rather large difference.

$$\text{Eta square} = \frac{t^2}{t^2 + (N1 + N2 - 2)}$$

$$= \frac{7.562^2}{7.562^2 + (246+247-2)}$$

$$= 0.1$$

Thus, 10% of the variance in communication fit can be attributed to group membership. This effect is quite large. Capitec had a mean score of 5.04 and Absa 4.21. It can be concluded that Capitec respondents reported a greater level of match-up between their self-image and the communication than Absa respondents. In other words, Capitec respondents could associate with the Capitec advertisement that centred around aspiration towards a higher standard of living. On the other hand, Absa respondents did not have a strong match between self-image with the Absa advertisements that centred on cheaper banking fees and banking solutions. However, communication fit had a significant influence on attitudes towards VSLE in the Absa sub-sample, but not in the Capitec sub-sample.

TABLE 7.20 INDEPENDENT SAMPLE T-TEST RESULT OF COMMUNICATION FIT

	Levene's test for equality of variance		t-test for equality of means				
	F	Sig.	t	df	Sig. (2-tailed)	Mean difference	Std. error difference
Equal variance assumed	1.516	.219	7.562	491	.000	.830	.110

Once again an independent sample t-test was used to address hypothesis H₀⁸. The result is reported in Table 7.21.

Levene's test of equal variance in the two groups is significant (p<0.05) and as a result equal variance is not assumed. However, there is still a significant difference between Capitec and Absa customers' brand image (p<0.05). Therefore hypothesis H₀⁸ is rejected, there is a difference between customers' brand image of a bank that introduces an upward extension and one that introduces a downward extension. This is to be expected.

Capitec respondents had a higher mean score (5.52) than Absa (4.43) respondents. It is assumed that Capitec respondents evaluated their bank more favorably than Absa respondents did their bank.

$$\begin{aligned} \text{Eta square} &= \frac{t^2}{t^2 + (N1 + N2 - 2)} \\ &= \frac{9.641^2}{\dots} \end{aligned}$$

$$9.641^2 + (246+247-2)$$

$$= 0.159$$

The difference between the two groups is significant, and large. Presented as a percentage, 15.9% of the variance in brand image can be accounted for by group membership. It is evident from the results that Capitec respondents have favorable attitudes towards the bank. This result can be explained by the direction of the VSLE. A brand that extends upward often creates a level of aspiration among customers, where a downward extension may evoke negative feelings. This assumption is proved in the descriptive statistics of interval scaled data (see section 7.2.4), where it is evident that Absa respondents had a higher standard deviance and variance in the brand image questions than Capitec respondents did. This variance can be explained by respondents' controversial feelings about the extension.

TABLE 7.21 INDEPENDENT SAMPLE T-TEST RESULT OF BRAND IMAGE

	Levene's test for equality of variance		t-test for equality of means				
	F	Sig.	t	df	Sig.(2-tailed)	Mean difference	Std. error difference
Equal variance not assumed	-	-	9.641	436.623	.000	1.095	.114

7.7 CONCLUSIONS

It was found that the Capitec sub-sample's responses to the factors influencing the attitudes towards the VSLE significantly differ from those of the Absa sub-sample. The majority of the Capitec sample consisted of Coloured females that earn less than R3 000 a month. Furthermore, the majority have banked at Capitec for between two and three years and possess a Grade 12 education.

The majority of the Absa sample consisted of White males that earn more than R20 000 a month. Furthermore, the majority of Absa respondents had been banking at Absa for more than three years and had some sort of higher education.

In the Capitec sub-sample it emerged that perceived quality significantly influences attitudes towards the VSLE. Furthermore, attitudes towards the VSLE significantly influence brand image.

In the Absa sub-sample it was found that both perceived quality and communication fit significantly influence attitudes towards the VSLE. Furthermore, attitudes towards the VSLE significantly influence brand image.

In addition, perceived quality, status fit and self-brand communication fit did significantly differ among customers of a bank that introduces an upward extension and one that introduces a downward extension. However, the size of the effect differed among variables.

In the next chapter the empirical results will be discussed and conclusions are drawn with reference to the literature.

CHAPTER 8: FINDINGS AND CONCLUSIONS

Marketing, as a business function, is important as it constitutes the firm's connection to its target market (Van Rensburg, 2008:130)

8.1 INTRODUCTION

This study was designed to investigate the extent to which attitudes towards a VSLE influence brand image. This was done by comparing an upward VSLE (Capitec) with a downward VSLE (Absa). The first five chapters were the point of departure in generating the theoretical model. Furthermore, these chapters covered the literature that provided the building blocks of this study.

In chapter six the research methodology was discussed. In the seventh chapter the empirical findings were presented and discussed. In this chapter however, the key findings of the empirical results are highlighted. Furthermore, the implications these findings may have on Capitec and Absa respectively, are also discussed. Finally, concluding remarks are offered with recommendation. Future research areas are also discussed.

8.2 THE INFLUENCE OF PERCEIVED QUALITY ON ATTITUDES TOWARDS THE VSLE

Perceived quality is a concept that is well known in the service industry. One can even say that without quality a service would be mundane. Quality is what differentiates one service provider from another.

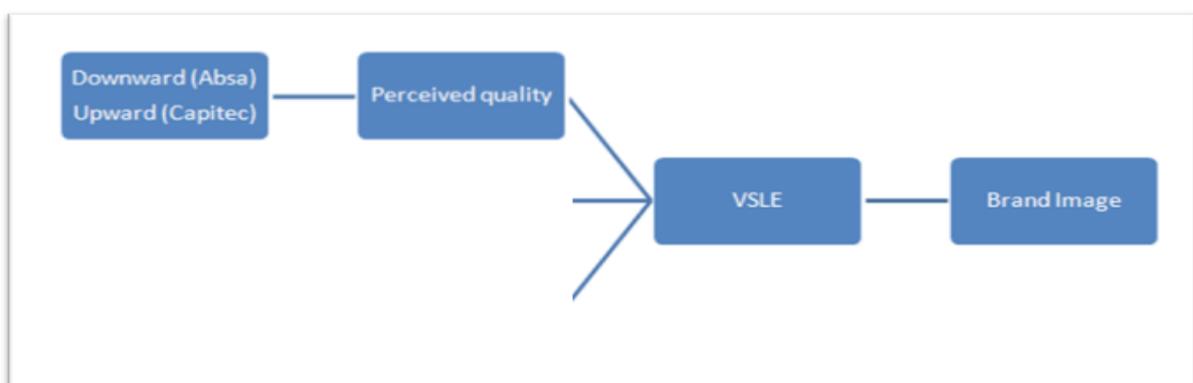
Quality paves the way for strategies such as VSLE (Sheena, 2009). The contention is that an extension capitalises on the equity build up in the parent brand. A VSLE is an upward or downward extension based on price and/or quality variation which may create inconsistency. Therefore, if customers perceive the brand to have quality they are more likely to accept the extension or evaluate it as positive.

According to Völckner *et al.* (2010) and Zimmer and Bhat (2009) perceived quality influences extension success. In other words, the quality customers perceive the

bank to have will influence their attitudes towards the VSLE. Figure 8.1 illustrates perceived qualities' position within the theoretical model.

The variation in price and quality due to the upward or downward extension signals to customers the difference in the quality levels (Kim and Lavack, 1996). Perceived quality is a type of brand association (Keller, 1993) which customers use to identify the brand. This quality association can be defined further as functional or symbolic concepts (Park *et al.*, 1991).

FIGURE 8.1 PERCEIVED QUALITY



In Capitec's case functional perceived quality brand concepts are strongly linked to the brand (simplicity, technologic, convenience, lower-prices). Capitec had to work hard in changing perceptions formed in its early micro-credit days (Manson, 2012). Thus, it is more difficult to enter a low-income segment and then move to higher-income segments. According to Tafani *et al.* (2009) associations from the parent brand still spill over to the extension no matter whether it's an upward or downward extension.

On the other hand, Absa has symbolic perceived quality brand concepts that are strongly connected to the brand (achievement of dreams and prosperity). Absa increased their performance to defend their market share from entrants like Capitec. Therefore they drastically introduced more affordable banking products to retaliate to Capitec. This strategic move may have resulted in brand image dilution or lost quality.

The findings of this study reflect the difference between Capitec's (upward) and Absa's (downward) perceived quality. Evidently, the Capitec sub-sample evaluated

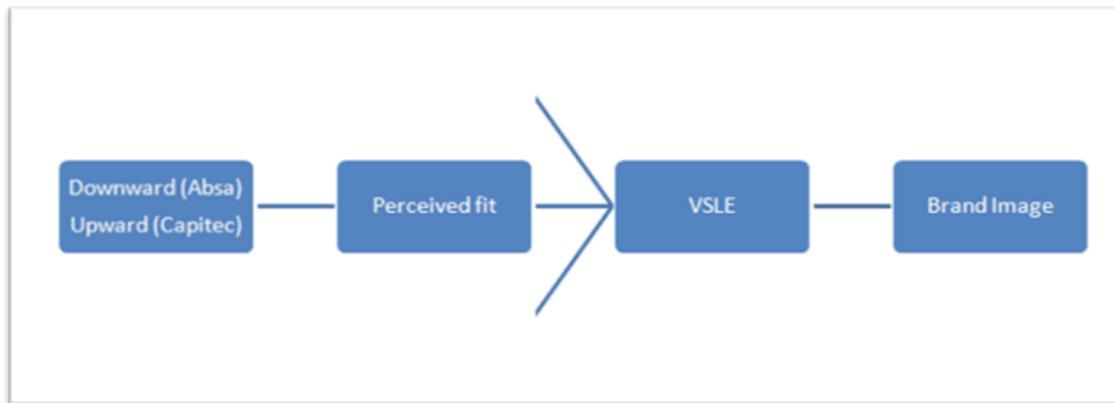
the upward extension more favourably than Absa's downward extension. This variation among the two sub-samples can be explained by current customers' perceived quality. In both sub-samples perceived quality was the largest contributor to the variation in attitudes towards the VSLE. Furthermore, in both sub-samples perceived quality had a significant relationship with attitudes towards the VSLE. It is therefore important to take note that in both an upward VSLE and downward VSLE the perceived quality current customers believe the brand to possess plays the biggest role in determining their attitudes towards VSLE.

8.3 THE INFLUENCE OF STATUS FIT ON ATTITUDES TOWARDS THE VSLE

According to Keller (1993) fit can be any association linked to the parent brand and the customer's memory. These links can include exploratory links such as the type of user (Keller, 1993). In this case the focus was on the fit between the current market and the market the extension tries to reach. Status fit was used to measure the level of perceived fit between the current market and the target market. Figure 8.2 illustrates the role of status fit within the theoretical model.

It was found that status fit did not have a significant effect on attitudes towards VSLE in both the Capitec and the Absa sub-samples. This result was not anticipated. Due to the demographic difference between Capitec and Absa it was expected that status fit would significantly contribute to respondents' attitudes towards a VSLE.

Even though there was not a significant effect of status fit on attitudes towards VSLE, there were a lot of discrepancies in the responses towards the status fit questions. The discrepancies can be explained by respondents' uncomfortable feelings in comparing themselves with other banking customers. It was noted the variance and standard deviation were quite high among the status items, which may indicate that some respondents did not fully understand the question, the question was too difficult, or most likely they did not feel comfortable comparing their status to that of other customers from Absa, FNB and Standard Bank.

FIGURE 8.2 STATUS FIT

As comparison theory suggests, upward comparison often leads to feelings of inferiority (Morrison *et al.*, 2004) and it can be surmised that this was the case in the Capitec sub-sample. Upward comparison occurs when people compare themselves with others that are better off than themselves regarding a particular dimension (Chan, 2008; Morrison *et al.*, 2004; Martin and Kennedy, 1994). Other banks charge higher banking fees than Capitec, it can therefore be concluded that the customers from other banks can afford expensive banking fees. It can be argued that Capitec customers possibly felt inferior towards customers of other banks because these customers are wealthier than the average Capitec customer. However, the conclusion is not based on empirical facts.

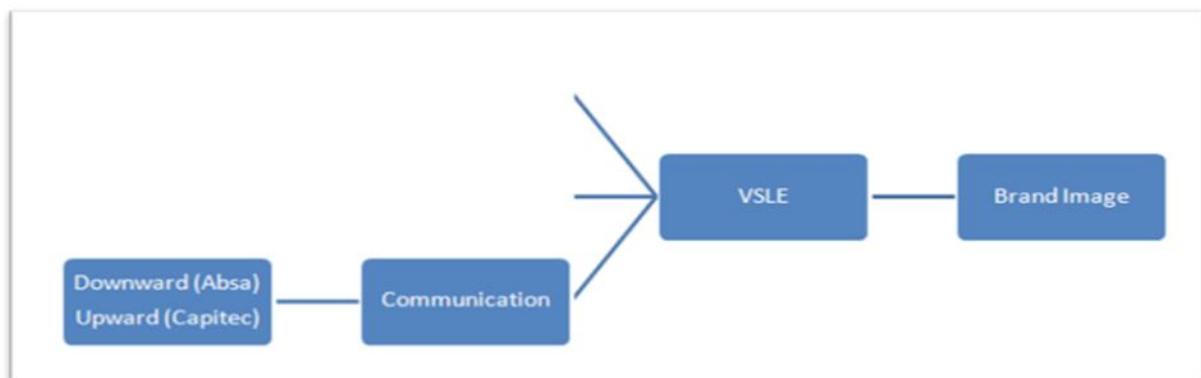
Even though the banks strayed from their current target market to reach new segments this did not influence current customers' attitudes towards a VSLE. This finding may be explained by the nature of banking. Even though status fit did not influence attitudes towards a VSLE, managers still need to keep it in mind when introducing new extensions. This does not mean markets need to be differentiated based on social standing, but it will give insight into the market's needs and wants.

According to Carl Fisher, Head Executive of Marketing and Corporate Affairs at Capitec bank, social class and income have nothing to do with customers banking abilities (Manson, 2012).

8.4 THE INFLUENCE OF COMMUNICATION FIT ON ATTITUDES TOWARDS VSLE

Joher and Sirgy (1991) believe that if there is a match between customers' self-image and the communication message they will be more receptive to the message and the brand. The self-brand communication fit was used to measure the level of match between customers' self-image and the communication. It was argued that if customers can associate themselves with the communication they are indirectly being associated with the VSLE. Figure 8.3 illustrates communication's position within the theoretical model.

FIGURE 8.3 COMMUNICATION FIT



In the Capitec sub-sample it was found that communication fit did not significantly influence attitudes towards the VSLE. However, it did have a significant effect in the Absa sub-sample. Therefore, Absa customers had a higher level of match-up between the communication and their self-image, creating a significant relationship with their attitudes towards the VSLE. This match can be explained by respondents' trust in the brand.

It can be argued that Capitec does not want to target its communication at specific customers' self-images, but rather at all banking customers i.e their need for simplified banking. Therefore, the sub-respondents did not find a match between self-image and the communication because the communication was not designed to match with customers' self-image but rather match with their banking needs.

Absa followed a narrower approach in their communication, because it wanted to target the sample of the market that has a need for affordable banking fees. Thus Absa communicated differently with different segments within the market.

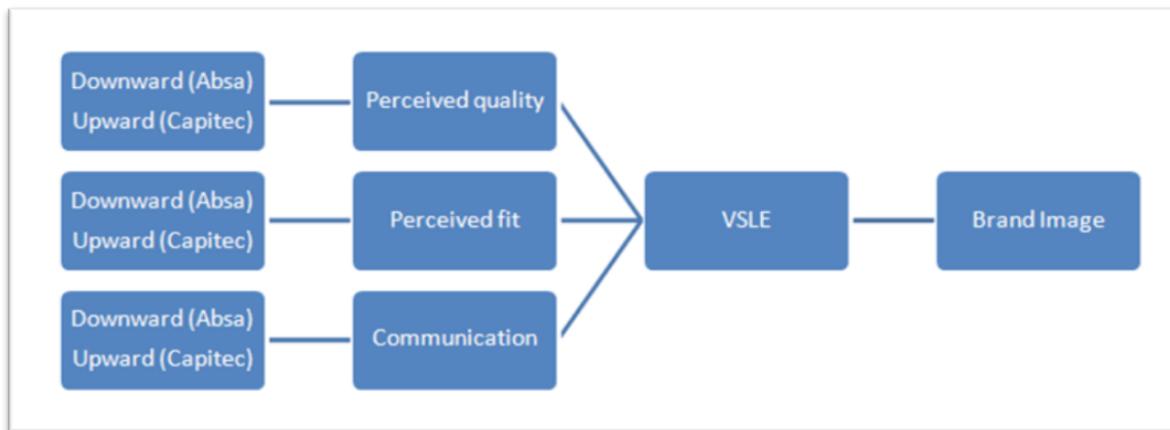
Communication can be used to create brand awareness or assist brand image development. In other words, communication is used to facilitate brand knowledge among customers (Keller, 1993). It is evident from the findings of this study that Absa respondents' attitudes towards the VSLE are influenced by the level of similarity between the communication and their self-image. On the other hand, Capitec respondents' attitudes towards the VSLE are not influenced by the self-image and communication match.

8.5 THE INFLUENCE OF ATTITUDES TOWARDS THE VSLE ON BRAND IMAGE

In earlier chapters brand image was described as an ownership of a particular impression. A type of association strongly connected to the brand is an example of such an impression, for example the strong connection Capitec has with low prices.

According to Keller (1993) brand image consists of several factors, of which attitudes is one. Attitudes towards the brand determine behaviour (Shiffman and Kanuk, 2007). Arslan and Altuna (2010) believe that attitudes influence whether customers will accept or reject an extension. The power behind influencing customers' decisions is influenced by their attitudes. However, this is no simple task. It was proposed that perceived quality, perceived fit (status fit) and communication fit will influence attitudes towards the VSLE. Furthermore, these attitudes towards the VSLE are expected to influence the brand image, as depicted in Figure 8.4.

In simple terms a VSLE is an extension of the brands' products or service based on variations in price points or quality levels (Kirmani *et al.*, 1999). These variations may influence customers' current attitudes towards the brand. In the case of Capitec and Absa the extension is not a tangible product or a specific service, but an overall marketing attempt to acquire new markets (although specific products and services are associated with the extension). The essence of the study was to investigate whether attitudes incurred by a vertical extension influence brand image. In both, the Capitec and the Absa sub-sample attitudes towards the VSLE did significantly influence brand image, which is reflected in the theoretical model.

FIGURE 8.4 EXTENSION EVALUATION

Brand attitudes form the basis of customers' behaviour and are used as their overall evaluation of a brand (Hawkins and Mothersbaugh, 2010). According to Schiffman and Kanuk (2007) the customers' attitude towards a brand determines whether they will purchase the product or service, become loyal etc. Therefore, if attitudes can be changed, perceptions and beliefs about the brand can also be changed. Beliefs such as Capitec is a bank for the poor.

In the Capitec sub-sample 22% of the variance in brand image is explained by respondents' attitudes towards the VSLE (see section 7.6.2). Furthermore, attitudes towards a VSLE have a statistically significant effect on brand image. If managers can influence attitudes towards the extension positively, these attitudes may transfer to the brand image. Hence, this may influence the brand image.

This transfer of affect is also true when the customers generate negative feelings towards the brand, which leads to brand image dilution. According to Kim *et al.* (2001) brand image dilution is the result of an incompatible brand concept between the extension and that of the brand image. In other words, the extension does not fit with customers' perceived brand image. Hence, the VSLE can influence customers' attitudes towards the brand image positively as well as negatively depending on whether the VSLE fits their current beliefs about or attitudes towards the parent brand.

Capitec is mainly associated with relatively inexpensive, no-frills services, thus creating the association of a functional-orientated brand concept. Customers may question the credibility of this function-orientated brand extending into a higher-

income market and this may lead to an unfavourable extension evaluation which may have a damaging effect on brand image. On the other hand, the self identification function may increase the likelihood of a favourable extension evaluation when the brand extends to higher-income markets (Del Río *et al.*, 2001). The motive behind this favourable extension evaluation is the brand's association with an aspirational market with which individuals want to be associated.

In the Absa sub-sample, attitudes towards the VSLE had a statistical significant effect on brand image. It emerged that 44.3% of the variance in brand image can be explained by attitudes towards the VSLE (see section 7.6.2). The result indicates that Capitec respondents' attitudes are less influenced by the VSLE than Absa respondents' attitudes are.

8.6 THE DIFFERENCE BETWEEN A BANK THAT INTRODUCES AN UPWARD EXTENSION AND ONE THAT INTRODUCES A DOWNWARD EXTENSION.

It was found that there is a difference between customers' perceived quality, status fit and self-brand communication fit of a bank that introduces an upward extension and one that introduces a downward extension. However, the sizes of difference vary among variables. The largest difference was found in communication fit (10%) and brand image (15%) (see section 7.6.3). In other words, 10% of the difference in communication fit can be explained by group membership and 15% of the variance in brand image can be explained by group membership.

Capitec had a higher mean score than Absa in all the t-tests, and this indicates that Capitec respondents evaluate their bank's perceived quality as more favourable than Absa respondents do. Capitec respondents perceived their status to fit more with the status of customers of other banks than what Absa respondents perceived. Capitec respondents had a better match between their self-image and the communication than Absa respondents had with their bank and lastly, Capitec customers evaluated their bank's brand image more favourably than Absa respondents evaluated theirs. Once again, this may be explained by the direction of both banks' extensions

An upward vertical service line extension is normally evaluated more favourable because the brand is improving by moving up. On the other hand, a downward extension can easily be associated with failure or risk of losing equity.

From these results it is concluded that the Capitec brand is more 'flexible' to extend to other markets than Absa. This is inconsistent with Kim and Lavack's (1996) finding that the 'ceiling effect' will limit a brand, extending upward extension to a certain point. It is argued that a brand positioned at the lower-income market is not capable of extending and reaching higher-income markets. However, the finding of the Capitec sub-sample contradicts the findings of Kim and Lavack (1996).

Capitec respondents can associate themselves with customers from other banks, but Absa respondents do not feel the same way. The resistance of Absa's customers to associating with customers of other banks may be due to their traditional way of banking and their 'set ways'. Capitec, on the other hand, is still a young entrant with new horizons and can adapt to change faster.

8.7 LIMITATIONS OF THIS STUDY

The lack of a sample frame was disappointing, but corporate banks rarely make customer information available to third party research. As a result the study had to rely on a convenience sample, which limits the generalisability of the results. Budget constraints were also considered as a limitation.

The scarcity of literature with regard to the vertical extensions in the service domain was a further limitation. Hopefully this study will contribute to the scarce research.

8.8 AREAS FOR FUTURE RESEARCH

Areas future research can pursue is to investigate the extent to which perceived brand image influences customers' behaviour in the banking sector, especially switching behaviour and word- of- mouth behaviour. Furthermore, VSLE is an area of research worth pursuing in the service domain, such as insurance, investments, and real estate.

The implication of attitudes that influence brand image is enormous. First, what are customers' current attitudes towards the brand? Which attitudes are more important? These are questions future research needs to answer.

8.9 CONCLUSIONS

Both Capitec and Absa are stretching their brand to either a higher-income market or a lower-income market segment. The purpose of these extensions is to increase their market share. The question arises whether this strategy will influence their current customers' perceived brand image and if this new extension will enhance or diminish current customers' attitude towards the different brands, respectively. Will the vertical extension have an effect on customers' attitudes towards the parent brand image? Well, this study answered that question.

The conclusion is drawn that Capitec respondents are less influenced by the VSLE than Absa respondents. This is good news for Capitec making the brand more flexible. It is advisable that Capitec focus on its perceived quality and build their equity on that strength. The result is consistent with the findings of Völckner *et al.* (2010) who found that perceived quality is a better measure of extension success than perceived fit.

Absa, on the other hand, needs to make sure they have well differentiated segments within their market. Furthermore, communication strategies to reach each segment without alienating other segments need to be considered. It is evident from this study's results that attitudes towards the VSLE did influence brand image in both Capitec and Absa. In the next chapter managerial implications for Capitec and Absa will be discussed in detail.

CHAPTER 9: MANAGERIAL IMPLICATIONS

“...although a service vendor may have a variety of offerings- first class, business class; checking accounts and loan services- customers tend to perceive all of them as components of a single brand (Berry, Leftkowitz and Clark, 1988).

9.1 INTRODUCTION

In Chapter 1 the importance of management in a business context was highlighted. The decision making of managers can have a lasting impact on the brand and its customers, especially decisions regarding marketing. Marketing is the function within business management that creates value for its customers. In other words, the primary goal of marketing is to satisfy customers' needs (Lamb *et al.*, 2008).

Capitec noticed that there was a need in the lower-income markets for affordable and simplified banking service, and as a result changed from a micro-credit service provider to a retail bank to serve the under-banked segment of the market. However, the bank soon realised that the main stream market is dissatisfied with traditional banking and are also in need of simplified banking services. Capitec launched a VSLE strategy targeted at mainstream or higher-income banking customers who have a need for simplified and affordable banking services. Capitec's extension resulted in counter attacks from the Big Four banks.

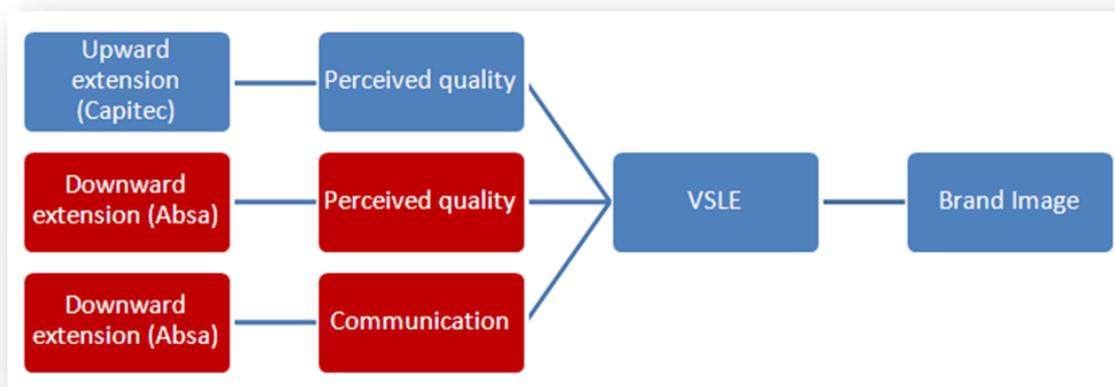
Absa, among others, has retaliated to Capitec's strategy and introduced various products and services to capitalise on Capitec's primary market, the lower-income market. Both Capitec and Absa extended from their primary markets to reach different segments by offering value products and services or higher quality. However, it was found in this study that current customers' attitudes towards the VSLE are influenced by perceived quality (Capitec and Absa) and communication fit (Absa). Furthermore, customers' brand image, with regard to both banks, is influenced by their attitudes towards the VSLE. It was evident that there was a significant difference between customers from a bank introducing an upward extension (Capitec) and one introducing a downward extension (Absa).

In the previous chapter conclusions were drawn from the empirical results. In this chapter however, the managerial implications for both Capitec and Absa are addressed by exploring their upward and downward extension strategies respectively.

9.2 MODEL OF EMPIRICAL RESULTS

The theoretical model of this study was adapted after the empirical results were scrutinised. Figure 9.1 is an illustration of the revised theoretical model.

FIGURE 9.1 MODEL OF EMPIRICAL RESULTS



In an upward vertical service line extension it was found that perceived quality was the only variable that significantly influences attitudes towards the VSLE. In a downward extension strategy perceived quality and communication fit significantly influence attitudes towards the VSLE. In both an upward and downward VSLE, attitudes towards the VSLE significantly influence brand image. Furthermore, it was found that perceived fit did not significantly influence attitudes towards the VSLE in both an upward and downward extension.

In the following section the managerial implications will be discussed with the focus on the revised theoretical model.

9.3 MANAGERIAL IMPLICATIONS FOR CAPITEC BANK

Because banking is a service that requires high involvement with customers due to the perceived risk associated with it, banks use various cues to decrease their risk (whether financial-, social- or time risk). Several authors advise that the focus should

be on a brand's perceived quality during an extension (Boisvert and Ashill, 2011; Boisvert, 2012a) which may help customers to decrease their risk associated with the extension. If customers perceive the bank as having more quality, compared to having no quality, they may cultivate feelings of trust and liking, which may positively influence their attitudes towards a VSLE (Völckner *et al.*, 2010).

An ideal situation would be where customers transfer their positive associations, initiated by the brand's quality and equity, towards the extension. This transfer of positive feelings creates positive attitudes towards the VSLE. The positive attitudes of the VSLE may then be transferred back towards the brand image, creating a reciprocal transfer. In other words, high perceived quality may lead to positive attitudes towards the VSLE and ultimately the brand image. This reciprocal transfer may strengthen the brand equity.

In this study it was found that Capitec customers' perceived quality influenced attitudes towards the VSLE. Furthermore, Capitec customers evaluated their bank as having a favourable level of quality. In simple terms, quality, for current customers of Capitec bank, is a determining factor in their attitudes towards a VSLE and ultimately the brand image.

9.3.1 Perceived quality implications for Capitec

Capitec currently enjoys high brand equity, because the bank was rated the second best bank in South Africa (Muller, 2012). Capitec can strengthen their equity even more in the minds of the customer. The more equity customers believe the brand to have, the more they will trust and like the brand. Capitec does not have as many product offerings as the Big Four banks and do not tailor specific products for specific markets. Therefore, while infiltrating new markets (higher-income markets) it is important to rather sell the brand's quality and not the products so that the brand can benefit from the transfer of affect in the future when they introduce new products or when the bank cross-sells their products. To recap, the transfer of affect is when feelings are transferred from the extension to the parent brand and the parent brand to the extension.

Capitec needs to focus on the brand associations that distinguish it from other banks, i.e. perceived quality. However, prototypicality may prohibit the brand from

changing beliefs about the brand. The prototypicality can be describe as a strong belief or associations with the brand that may prevent it from extending to new markets (Hen and Iversen, 2009). In Capitec's case, the belief that Capitec is a bank for the poor may limit it from creating other associations.

Increasing customers' perceived quality is no easy task, but one recommendation should be successful to exceed customers' expectations. Capitec has a favourable reputation with regard to their unique service that challenges the traditional way of banking. Nevertheless, they need to exceed customers' expectations at all the interaction points with the customers, including communication.

Capitec's results revealed that communication fit did not influence attitudes towards the VSLE. In other words, whether customers' self-image matches with that of the communication message is irrelevant, because it does not influence their attitudes towards the VSLE. Even though there is not a significant link between self-brand communication and attitudes towards the extension, communication still has the power to influence customers.

It is advised that Capitec focus their efforts on their functional benefits within their integrated marketing communication strategies. Capitec has a lot of appeal because it is different from what South African banking customers are used to. The bank uses innovative technology that inspires growth. Customers need to be aware of the bank's strengths. In other words, Capitec need to facilitate brand knowledge (brand awareness and brand image). Brand awareness is easy to accomplish, however, brand image is more complex. Capitec should continue to build their brand image by focussing on their core values. Building and improving the quality of the brand must be a primary consideration for Capitec bank, because perceived quality influence attitudes towards a VSLE and ultimately brand image.

Furthermore, in their current advertising they are comparing themselves with the traditional way of banking (queues, banking hours and paperwork) which highlights Capitec's functional appeal of simplified banking. The bank is differentiating themselves from the status quo of banking. Capitec can use various communication channels, but the same message must be reflected in all of them.

In addition, Capitec is advised to do research regarding why some customers do not want to make use of their banking services and to use that information when creating strategies to change those customers' opinions.

9.4 MANAGERIAL IMPLICATIONS FOR ABSA BANK

Perceived quality and communication fit were the only two variables that had a significant effect on attitudes towards the VSLE. Furthermore, current customers' attitudes towards Absa's VSLE did significantly influence their brand image.

9.4.1 Perceived quality implications for Absa

Absa has the reputation of being a traditional bank, with characteristics such as respect, integrity, stewardship and excellence (Absa, 2013). However, Absa is not immune to the threat of new entrants such as Capitec. It is for this reason that Absa introduced a downward vertical service line extension, even though the majority of their market is at a higher-income level. In this study the majority of the Absa respondents were White individuals earning more than R20 000 with relatively high education.

The results indicate that perceived quality was the variable that exerts the strongest influence on Absa respondents' attitudes towards the VSLE. In a downward extension strategy the perceived quality current customers believe the brand to have, will be a determining factor in their evaluation of the extension. According to Kim and Lavack, (1999) the risk of cannibalisation is a key concern when executing a downward extension strategy. The reasoning is that when a downward extension is perceived to be similar in quality to the parent brand, but only less expensive, the risk of cannibalisation is apparent (Reddy *et al.*, 1994). To limit the risk of cannibalisation, Absa is advised to ensure that their VSLE is well defined and targeted at a specific niche market.

A downward extension strategy may cause customers to lose trust in the brand or view the brand as less favourable. Therefore, quality is a tool that can be used to decrease the risk of losing equity. Absa's management must use this tool to embed the reputation of the brand. Even though a downward extension may cause some

controversy among customers (see section 7.2.4) it can also be an opportunity to assure Absa customers of the bank's resources and capabilities.

A strategy that Absa can follow is one of 'caring'. Absa wants to target the lower-income groups which also can be classified as the under-banked segment or the underprivileged segment. Absa can introduce a few campaigns where the bank is communicating their desire to increase the standard of living among rural communities. They can use these campaigns to build equity in the minds of the customer.

In other words, Absa uses campaigns to facilitate a link between the bank and the under-banked segment making it easier for the primary market to understand the downward extension. The primary market may then evaluate the downward extension as favourable. Furthermore, they may transfer these favourable attitudes towards the Absa brand image.

In addition it is advised that Absa address the atmosphere within their branches by creating a more approachable and less formal environment (Stafford, 1996). The less formal atmosphere in branches may attract lower-income, less educated customers and encourage them to purchase Absa products. Absa can adapt their branches to customers' demographic profile. However, it is advised that Absa should first do research to ascertain customers' attitudes towards this changed atmosphere within the branches of the bank.

9.4.2 Communication implications for Absa

It was found that self-brand communication or communication fit did significantly influence respondents' attitudes towards the VSLE. In other words, if respondents' self-image matches with that of the brand's communication, it has an effect on their attitudes towards the VSLE. This result emphasises the power of communication. It was posited that if customers can perceive a level of similarity between their self-image and the communication, they are indirectly being associated with the VSLE, the reason being that the communication is used to reach a different market than the current market i.e. lower-income market.

This similarity between current customers' self-image and the communication is a good indication of Absa's ability to influence customers' attitudes. One may assume

that current customers perceived a similarity because the communication appealed to their needs. In other words, maybe they (the higher-income group) also have a need for affordable banking services as advertised in the communication. Once again, the risk of cannibalisation is relevant. It is advised that Absa strengthen its relationships with its different segments to ensure that customers are happy with the wealth management products and services offered by the bank. For example, Absa should up-sell home loans to the middle-income segment and promote the benefits of Absa Private Bank to the higher-income segment. To the lower-income segments Absa should promote the affordable and value bundles. Absa should treat each segment differently, paying attention to each segment's own needs and wants.

To summarise, Absa has a diverse market ranging through high-income markets, medium-income and lower-income segments. It is for this reason that the bank should use diversified market communication and not mass communication strategies. Absa can use distancing techniques to limit damage to the parent brand. Managers can use linguistic and graphical distancing techniques in advertising (Kim and Lavack, 1996) to increase the distance between Absa's different market segments.

It is advised that Absa should use symbolic appeals in its communication when it wants to reach the middle or higher-income groups. Here, the role of the communication should be to strengthen existing salient (Bridges *et al.*, 2000) beliefs about the brand. The symbolic strategy involves creating or strengthening the personality of the brand (Johar and Sirgy, 1991). Absa should use functional appeals in its communication designed to reach the lower-income market. Here, the role of the communication is to inform customers of product benefits and the functional appeal of the products (Johar and Sirgy, 1991).

Nevertheless, management must still create an integrating marketing communication strategy that reflects the bank's quality, expertise and strength to all of its segments. Furthermore, Absa should be careful not to reflect just a certain type of customer in their communication message. For example, if the bank only uses young, successful, upcoming Black individuals in their advertising, the White customer base may not connect or associate with the advertisement. It is advisable to use specific communication channels targeted to specific segments. This will ensure that a

specific segment is reached without the risk of enstranging other markets. For example, to reach the White customer base advertisements portraying successful businessman in magazines such as “Golf Digest” or “House and Leisure” will reach the intended market. On the other hand, to reach the under-banked market it is advised to advertise on Mixit, where the majority of the underprivileged market communicates with one another. Absa is advised to promote the VSLE and the affordable benefits available. Furthermore, the Mixit platform is an opportunity for Absa to facilitate brand knowledge among the lower-income market.

In this study communication fit did significantly influence attitudes towards the VLSE. Furthermore, the attitudes towards the VSLE (incurred by perceived quality and communication fit) did significantly influence customers perceived brand image of Absa.

9.5 IMPLICATIONS ON BRAND IMAGE FOR BOTH BANKS

Managers of banks need to be careful in their development of a VSLE. According to O’Loughlin and Szmigin (2007) customers have conflicting emotions towards banking. Customers may have positive perceptions towards people-related components of the banking service (love), but have negative associations (hate) towards the sector. If customers do not associate favourably with the extension, the results may be damaging to the brand image. It is true to say that if attitudes can be changed, perceptions about the brand image also can be changed. However, this change may be either positive or negative depending on customers’ attitudes. It is these affective attitudes that spill over to the brand image, enhancing or damaging the brand.

What does this result mean for Capitec and Absa? Firstly, it means the banks should be careful about extending if they are not sure that customers will respond favourably. Secondly, if the banks can change attitudes they can change brand image perceptions. In a continuously growing and competitive market it is essential to keep up with the changing environment and market. Therefore, banks’ brand image needs to be managed so that it signals what to expect from the brand and helps customers with identification of their needs and wants. (Martínez *et al.*, 2008; Sheena, 2009). In the banking sector managing a brand image can be difficult.

Some banking services are commodities such as home loans and car finance and if the brand does not matter to customers they will 'buy' the product which is the most affordable (Manson, 2012). However, according to Carl Fischer (2012), it is the one-to-one transactions where the brand becomes a determining factor (Manson, 2012). This one-to-one transaction can be viewed as daily banking transactions. If a bank fails to deliver as expected in daily transactions attitudes, towards the brand image may be diluted.

It is for this reason that Capitec and Absa should continuously evaluate their service quality and whether or not it meets customer expectations. However, Capitec and Absa are two completely different brands competing for market growth within the same market.

9.6 UPWARD VS DOWNWARD EXTENSION STRATEGIES

It is concluded that customers differ in their attitudes towards the VSLE. In this study, however it was found that Capitec respondents' attitudes had a lesser effect on brand image than in the case of Absa. This result indicates that Capitec customers' attitudes are less influenced by the VSLE than those of Absa respondents. Whether an extension is upward or downward, brand image will be influenced.

The benefits and the risk in launching a VSLE need to be weighted against the benefits and risks of a VSLE on brand image. In launching new service extensions, managers must compare the quality of the extension with that of the parent brand.

When considering an upward extension, such as in the case of Capitec, the goal needs to be to build the brand, whereas in a downward extension strategy, as in the case of Absa, the goal needs to be to increase profits brought about by capitalising on under-served segments (Lei *et al.*, 2008). Capitec needs to continue building their brand image by strengthening associations with technology, innovativeness and simplified banking.

To capitalise on Absa's present equity it is advised that Absa consider a sub-branding strategy. Here, Absa could introduce affordable banking products without the risk of cannibalisation or alienating the primary market. The sub-brand must be a fresh approach rather than an adoption of traditional values and operating methods.

To conclude, Capitec and Absa should proceed differently in executing a VSLE strategy. However, both banks should do market research to predict customers' attitudes towards extensions.

9.7 CONCLUSION

The primary objective of this study was to investigate the influence attitudes towards a VSLE have on current consumers' perceived brand image. Furthermore, the difference between customers' attitudes towards a bank pursuing an upward vertical service line extension and one pursuing a downward vertical service line extension, was investigated.

The secondary objectives of the study was to assess whether or not (1) perceived quality influences customers' attitudes towards a VSLE; (2) perceived status fit influences customers' attitudes towards a VSLE; (3) customers' perceived fit between their self-image and the communication influences attitudes towards a VSLE; (4) attitudes towards a VSLE influence brand image (5) there is a difference between customers' brand image, perceived quality, perceived fit, and self-brand communication fit of a bank that introduced an upward extension and one that introduced a downward extension.

In an upward VSLE (Capitec) perceived quality was the only variable that influences attitudes towards a VSLE. In a downward VSLE (Absa) perceived quality and communication fit significantly influenced attitudes towards a VSLE. Furthermore, in both an upward and downward extension attitudes towards the VSLE significantly influenced brand image. In addition, Capitec and Absa customers differ in their evaluation of perceived quality, status fit, communication fit and brand image. It was found that Capitec customers evaluated their bank more favourably than Absa customers did their bank. This result can be attributed to the direction of the extension and customers feelings towards it.

It was evident that target market fit as a function of perceived fit did not have a significant effect on attitudes towards the VSLE. The finding of perceived fit is consistent with the findings of Zimmer and Bhat (2004) who argue that the impact of fit on parent brand is minimal. In both the Capitec and Absa sub-samples status fit

did not have a significant effect on brand image. However, future research in VSLE can confirm the generalisability of this finding in the banking sector.

Whether an upward or downward VSLE is introduced both strategies have an impact on the brand's image. It is for this reason that marketing practitioners in the banking sector need to measure the trade-off in extending upward or downward.

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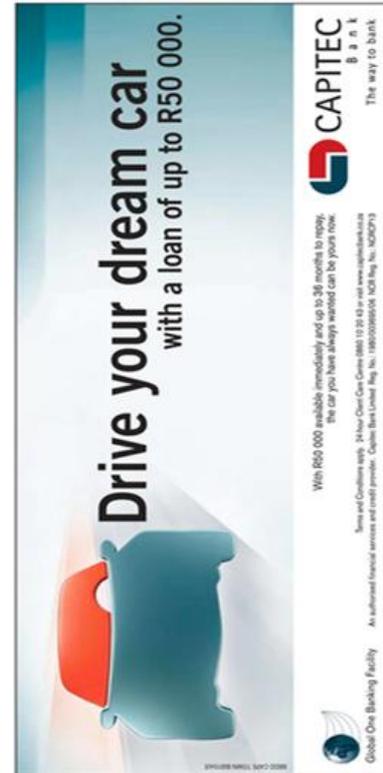
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Addendum A – Capitec and Absa questionnaires

Please look at the two advertisements and answer the questions that follow. Rate your level of agreement with the following statements on a scale from 1 to 7: where 1 = Strongly disagree; and 7 Strongly agree.



Rate your level of agreement with the following statements on a scale from 1 to 7: where 1 = Strongly disagree; and 7 Strongly agree								
CF4	The advertisements communicate who I am to other people	1	2	3	4	5	6	7
CF1	Capitec's advertisements reflect who I am	1	2	3	4	5	6	7
CF5	The advertisements reflect the type of person I want to be	1	2	3	4	5	6	7
CF2	I can identify with the advertisements	1	2	3	4	5	6	7
CF6	The advertisements reflect who I consider myself to be	1	2	3	4	5	6	7
CF3	I can associate with the Capitec advertisements	1	2	3	4	5	6	7
SF6	I am similar to other banking customers	1	2	3	4	5	6	7
FI1	When I enter a Capitec branch the environment impresses me	1	2	3	4	5	6	7
SF2	My status is similar to Standard Bank customers' status	1	2	3	4	5	6	7
FI3	The <i>Global One</i> account makes it easy to manage my financial affairs	1	2	3	4	5	6	7
SF1	My status is similar to Absa customers' status	1	2	3	4	5	6	7
RI3	I trust in Capitec to deliver what they promise	1	2	3	4	5	6	7
SF4	Capitec customers poses the same status as other banks customers'	1	2	3	4	5	6	7
RI1	Capitec has never disappointed me	1	2	3	4	5	6	7
PQ1	Capitec's service is of high quality	1	2	3	4	5	6	7
SF5	I can associate myself with customers of other banks	1	2	3	4	5	6	7
F15	Capitec's online services are effective	1	2	3	4	5	6	7
SF3	My status is similar to FNB customers' status	1	2	3	4	5	6	7
RI4	I believe Capitec will deliver what they promise	1	2	3	4	5	6	7
PQ3	Capitec's employees are competent	1	2	3	4	5	6	7
SF7	My social class is similar to customers from Absa	1	2	3	4	5	6	7
FI4	Capitec makes it easy for me to do my transactions (i.e cash withdrawals at PnP)	1	2	3	4	5	6	7
PQ4	Capitec is superior in quality compared to other banks	1	2	3	4	5	6	7
RI2	Capitec is one of the best banks in the sector	1	2	3	4	5	6	7
SF8	My social class is similar to customers from Standard Bank	1	2	3	4	5	6	7
PQ2	Capitec delivers a consistent level of quality	1	2	3	4	5	6	7
FI2	I am impressed by the innovative technology (i.e. fingerprint scanning) of Capitec	1	2	3	4	5	6	7
SF9	My social class is similar to customers from FNB	1	2	3	4	5	6	7
RI5	Capitec has a reputation that distinguishes it from other banks	1	2	3	4	5	6	7
PQ5	Capitec always meet my expectations	1	2	3	4	5	6	7

Please read the following news quotes and indicate your attitudes towards it						
EE1	"Capitec continues to grow rapidly in the younger and higher income groups in South Africa."	Very favourable	Unfavourable	Neutral	Favourable	Very favourable
EE2	"The profile of our credit client is definitely changing as we are seeing new credit clients with higher income levels attracted to our offer."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable
EE3	"Capitec is signing leases at high-end shopping centers where it wants to attract the affluent customer base of big banks."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable
EE4	"Capitec is working to introduce a credit card."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable
EE5	"The bank is acquiring both new to bank clients and other bank's clients."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable

Please tick the block that closely reflect your feelings towards the bank								
AI1	When I think of Capitec it makes me feel	Always inferior	Often inferior	Sometimes inferior	Neither inferior nor superior	Sometimes superior	Often superior	Always superior
AI2	When I think of Capitec it makes me feel	Always unsuccessful	Often unsuccessful	Sometimes unsuccessful	Neither unsuccessful nor successful	Sometimes successful	Often successful	Always successful
AI3	When I think of Capitec it makes me feel	Always unsophisticated	Often unsophisticated	Sometimes unsophisticated	Neither unsophisticated nor sophisticated	Sometimes sophisticated	Often sophisticated	Always sophisticated
AI4	When I think of Capitec it makes me feel	Always embarrassed	Often embarrassed	Sometimes embarrassed	Neither embarrassed nor proud	Sometimes proud	Often proud	Always proud
AI5	When I think of Capitec it makes me feel	Always insecure	Often insecure	Sometimes insecure	Neither insecure nor secure	Sometimes secure	Often secure	Always secure

D1 Please indicate your level of monthly income by ticking the applicable block			
<input type="checkbox"/>	Less than R3 000	<input type="checkbox"/>	Between R15 001 and R20 000
<input type="checkbox"/>	Between R3 001 and R10 000	<input type="checkbox"/>	More than R20 000
<input type="checkbox"/>	Between R10 001 and R15 000	<input type="checkbox"/>	

D2 Please indicate how long you have been banking at Capitec by ticking the applicable block			
<input type="checkbox"/>	Less than 1 year	<input type="checkbox"/>	Between 2 and 3 years
<input type="checkbox"/>	Between 1 and 2 years	<input type="checkbox"/>	More than 3 years

D3 Please indicate your gender by ticking the applicable block	
<input type="checkbox"/>	Male

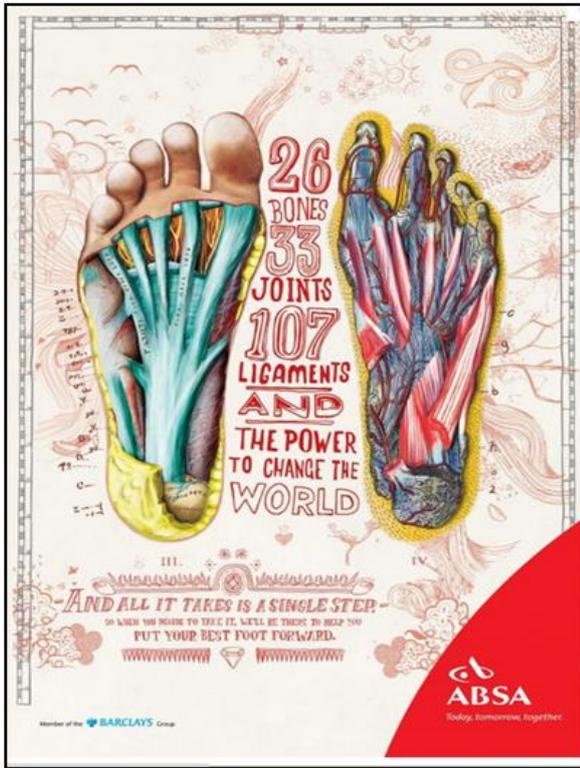
<input type="checkbox"/>	Female										
D4 Tick the block that represents your population group											
<input type="checkbox"/>	Colored	<input type="checkbox"/>	Black	<input type="checkbox"/>	White	<input type="checkbox"/>	Indian	<input type="checkbox"/>	Asian	<input type="checkbox"/>	Other
D5 Indicate in which age category you belong by ticking the applicable block											
<input type="checkbox"/>	Between 18 and 25	<input type="checkbox"/>	Between 38 and 50 years								
<input type="checkbox"/>	Between 26 and 37 years	<input type="checkbox"/>	50+								

D6 Please indicate your level of education					
<input type="checkbox"/>	Grade 9	<input type="checkbox"/>	Grade 12	<input type="checkbox"/>	Higher education

Please provide your cell number for back-up checks
<input type="text"/>

THANK YOU

Please look at the two advertisements and answer the questions that follow. Rate your level of agreement with the following statements on a scale from 1 to 7: where 1 = Strongly disagree and 7 Strongly agree



Rate your level of agreement with the following statements on a scale from 1 to 7: where 1 = Strongly disagree and 7 Strongly agree								
CF4	The advertisements communicate who I am to other people	1	2	3	4	5	6	7
CF1	Absa's advertisements reflect who I am	1	2	3	4	5	6	7
CF5	The advertisements reflect the type of person I want to be	1	2	3	4	5	6	7
CF2	I can identify with the advertisements	1	2	3	4	5	6	7
CF6	The advertisements reflect who I consider myself to be	1	2	3	4	5	6	7
CF3	I can associate with the Absa advertisements	1	2	3	4	5	6	7
SF6	I am similar to other banking customers	1	2	3	4	5	6	7
FI1	When I enter a Absa branch the environment impress me	1	2	3	4	5	6	7
SF2	My status is similar to Standard Bank customers' status	1	2	3	4	5	6	7
FI3	A bank account that has no monthly fees would be a good way of saving money	1	2	3	4	5	6	7
SF1	My status is similar to Capitec customers' status	1	2	3	4	5	6	7
RI3	I trust in Absa to deliver what they promise	1	2	3	4	5	6	7
SF4	Absa customers poses the same status as other banks customers'	1	2	3	4	5	6	7
RI1	Absa has never disappointed me	1	2	3	4	5	6	7
PQ1	Absa's service is of high quality	1	2	3	4	5	6	7
SF5	I can associate myself with customers of other banks	1	2	3	4	5	6	7
FI5	Absa's online services are effective	1	2	3	4	5	6	7
SF3	My status is similar to FNB customers' status	1	2	3	4	5	6	7
RI4	I believe Absa will deliver what they promise	1	2	3	4	5	6	7
PQ3	Absa's employees are competent	1	2	3	4	5	6	7
SF7	My social class is similar to customers from Capitec	1	2	3	4	5	6	7
FI4	Absa makes it easy for me to do my transactions	1	2	3	4	5	6	7
PQ4	Absa is superior in quality compared to other banks	1	2	3	4	5	6	7
RI2	Absa is one of the best banks in the sector	1	2	3	4	5	6	7
SF8	My social class is similar to customers from Standard Bank	1	2	3	4	5	6	7
PQ2	Absa delivers a consistent level of quality	1	2	3	4	5	6	7
FI2	A bank account that allows customers to send money anywhere in the country where recipient can withdraw the cash without an account simply using a PIN code would be very convenient	1	2	3	4	5	6	7
SF9	My social class is similar to customers from FNB	1	2	3	4	5	6	7
RI5	Absa has a reputation that distinguishes it from other banks	1	2	3	4	5	6	7
PQ5	Absa always meet my expectations	1	2	3	4	5	6	7
Please read the following news quotes and indicate your attitudes towards it								
EE1	" Absa is directly challenging the Capitec market, it has over the last few years produces innovative products for the masses."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable		
EE2	"...Absa is aggressively targeting the entry-level market."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable		

EE3	"Absa is offering basic and affordable banking products to entry-level clients."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable
EE4	"Absa has just launched 'in-store banking' for its rural customers that allow deposits, withdrawals and purchases in participating retail stores."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable
EE5	"Absa introduced a pre-paid debit card, which is possibly the cheapest way for low income and irregular earners to transact electronically."	Very unfavourable	Unfavourable	Neutral	Favourable	Very favourable

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Please tick the block that closely reflect your feelings towards the bank

AI1	When I think of Absa it makes me feel	Always inferior	Often inferior	Sometimes inferior	Neither inferior nor superior	Sometimes superior	Often superior	Always superior
AI2	When I think of Absa it makes me feel	Always unsuccessful	Often unsuccessful	Sometimes unsuccessful	Neither unsuccessful nor successful	Sometimes successful	Often successful	Always successful
AI3	When I think of Absa it makes me feel	Always unsophisticated	Often unsophisticated	Sometimes unsophisticated	Neither unsophisticated nor sophisticated	Sometimes sophisticated	Often sophisticated	Always sophisticated
AI4	When I think of Absa it makes me feel	Always embarrassed	Often embarrassed	Sometimes embarrassed	Neither embarrassed nor proud	Sometimes proud	Often proud	Always proud
AI5	When I think of Absa it makes me feel	Always unsecure	Often unsecure	Sometimes unsecure	Neither unsecure nor secure	Sometimes secure	Often secure	Always secure

D1 Please indicate your level of monthly income by ticking the applicable block

<input type="checkbox"/>	Less than R3 000	<input type="checkbox"/>	Between R15 001 and R20 000	<input type="checkbox"/>
<input type="checkbox"/>	Between R3 001 and R10 000	<input type="checkbox"/>	More than R20 000	<input type="checkbox"/>
<input type="checkbox"/>	Between R10 001 and R15 000	<input type="checkbox"/>		<input type="checkbox"/>

D6 Please indicate your level of education

<input type="checkbox"/>	Grade 9	<input type="checkbox"/>	Grade 12	<input type="checkbox"/>	Higher education
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D2 Please indicate how long you have been banking at Absa by ticking the applicable block

<input type="checkbox"/>	Less than 1 year	<input type="checkbox"/>	Between 2 and 3 years	<input type="checkbox"/>
<input type="checkbox"/>	Between 1 and 2 years	<input type="checkbox"/>	More than 3 years	<input type="checkbox"/>

Please provide your cell phone number. This is only for administrative purposes and you will not necessarily be contacted

D3 Please indicate your gender by ticking the applicable block

<input type="checkbox"/>	Male	<input type="checkbox"/>
<input type="checkbox"/>	Female	<input type="checkbox"/>

D4 Tick the block that represents your population group

<input type="checkbox"/>	Colored	<input type="checkbox"/>	Black	<input type="checkbox"/>	White	<input type="checkbox"/>	Indian	<input type="checkbox"/>	Asian	<input type="checkbox"/>	Other
--------------------------	---------	--------------------------	-------	--------------------------	-------	--------------------------	--------	--------------------------	-------	--------------------------	-------

D5 Indicate in which age category you belong by ticking the applicable block

<input type="checkbox"/>	Between 38 and 50 years	<input type="checkbox"/>
<input type="checkbox"/>	50+	<input type="checkbox"/>

THANK YOU

Addendum B- Descriptive statistics for interval-scaled items

CAPITEC: DESCRIPTIVE STATISTICS FOR INTERVAL-SCALED ITEMS

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Affective image AI1	246	1	7	5.25	1.816	3.297
Affective image AI2	246	1	7	5.54	1.529	2.337
Affective image AI3	246	1	7	5.37	1.625	2.641
Affective image AI4	246	1	7	5.61	1.469	2.158
Affective image AI5	246	1	7	5.67	1.545	2.386
Communication fit CF1	246	1	7	4.87	1.233	1.521
Communication fit CF2	246	2	7	5.04	1.245	1.549
Communication fit CF3	246	1	7	5.06	1.229	1.511
Communication fit CF4	246	1	7	4.79	1.273	1.620
Communication fit CF5	246	1	7	5.00	1.279	1.637
Communication fit CF6	246	1	7	5.03	1.186	1.407
Extension evaluation EE1	246	1	5	3.88	.807	.651
Extension evaluation EE2	246	1	5	3.74	.962	.925
Extension evaluation EE4	246	1	5	3.76	.945	.893
Extension evaluation EE5	246	1	7	3.76	.968	.936
Functional image FI1	246	1	7	5.56	1.247	1.554
Functional image FI2	246	1	7	5.85	1.135	1.287
Functional image FI3	246	1	7	5.22	1.178	1.388
Functional image FI4	246	1	7	4.23	1.937	3.754
Functional image FI5	246	1	7	4.68	1.559	2.430
Perceived quality PQ1	246	1	7	5.39	1.212	1.469
Perceived quality PQ2	246	1	7	5.19	1.330	1.769
Perceived quality PQ3	246	2	7	5.41	1.223	1.497
Perceived quality PQ4	246	1	7	5.14	1.326	1.757
Perceived quality PQ5	246	1	7	5.51	1.273	1.621
Reputation image RI1	246	1	7	5.13	1.385	1.918
Reputation image RI2	246	1	7	5.19	1.370	1.877
Reputation image RI3	246	1	7	5.31	1.226	1.503
Reputation image RI4	246	1	7	5.29	1.236	1.528
Reputation image RI5	246	1	7	5.41	1.311	1.718
Status fit SF1	246	1	7	4.80	1.431	2.048
Status fit SF2	246	1	7	4.78	1.448	2.098
Status fit SF3	246	1	7	4.79	1.411	1.990
Status fit SF4	246	1	7	5.28	1.236	1.529
Status fit SF5	246	1	7	5.26	1.171	1.372
Status fit SF6	246	1	7	5.37	1.308	1.710
Status fit SF7	246	1	7	4.86	1.431	2.049
Status fit SF8	246	1	7	4.88	1.403	1.968
Status fit SF9	246	1	7	4.74	1.282	1.643
Valid N (listwise)	246					

ABSA: DESCRIPTIVE STATISTICS FOR INTERVAL-SCALED ITEMS

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Communication fit 1	247	1	7	3.99	1.502	2.256
Communication fit 2	247	1	7	4.27	1.418	2.010
Communication fit 3	247	1	7	4.33	1.438	2.067
Communication fit 4	247	1	7	3.96	1.452	2.108
Communication fit 5	247	1	7	4.26	1.508	2.274
Communication fit 6	247	1	7	4.12	1.490	2.221
Status fit 6	247	1	7	4.57	1.484	2.202
Status fit 2	247	1	7	4.64	1.419	2.013
Status fit 1	247	1	7	4.23	1.585	2.511
Status fit 4	247	1	7	4.52	1.413	1.997
Status fit 5	247	1	7	4.57	1.240	1.537
Status fit 3	247	1	7	4.40	1.320	1.743
Status fit 7	247	1	7	4.36	1.415	2.002
Status fit 8	247	1	7	4.62	1.259	1.586
Status fit 9	247	1	7	4.41	1.264	1.598
Functional image 1	247	1	7	4.89	1.563	2.442
Functional image 3	247	1	7	6.12	1.255	1.575
Functional image 5	247	1	7	4.91	1.375	1.891
Functional image 4	247	1	7	5.11	1.420	2.016
Functional image 2	247	1	7	5.28	1.424	2.029
Reputation image 3	247	1	7	4.90	1.448	2.096
Reputation image 1	247	1	7	4.28	1.691	2.860
Reputation image 4	247	1	7	4.76	1.450	2.103
Reputation image 2	247	1	7	4.91	1.431	2.049
Reputation image 5	247	1	7	4.88	1.356	1.839
Perceived quality 1	247	1	7	4.77	1.476	2.178
Perceived quality 3	247	1	7	4.83	1.324	1.754
Perceived quality 4	247	1	7	4.77	1.431	2.048
Perceived quality 2	247	1	7	4.78	1.431	2.049
Perceived quality 5	247	1	7	4.67	1.483	2.198
Extension evaluation 1	247	1	6	3.44	.965	.930
Extension evaluation 2	247	1	5	3.40	.952	.907
Extension evaluation 3	247	1	5	3.49	.941	.885
Extension evaluation 4	247	1	5	3.61	.888	.789
Extension evaluation 5	247	1	6	3.73	.924	.855
Affective image 1	247	1	7	4.67	1.326	1.758
Affective image 2	247	1	7	4.76	1.377	1.896
Affective image 3	247	1	7	4.62	1.462	2.136
Affective image 4	247	1	7	4.78	1.353	1.830
Affective image 5	247	1	7	4.86	1.529	2.339
Valid N (listwise)	247					

