



## Effect of Brand Loyalty on Brand Equity: The Mediating Role of Brand Extension

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### Abstract

*Brand loyal customers are fundamental for the growth of any firm. Every marketer strives to attain a large base of loyal customers. Brand loyalty helps in enhancing brand equity; it also affects the attitude of consumer towards brand extension. The understanding of brand equity helps to gather the reason of dominance enjoyed by the known brands in the market; therefore brand equity is a key concept in branding and has been studied with the help of diverse approaches. The study has proposed a framework to understand the impact of brand loyalty on brand equity and further the effect of brand equity on the purchase intention of the customers. It has also identified the mediating role of attitude towards brand extension with respect to brand equity. Research design utilized is cross sectional in nature and non probability sampling is used to gather data from Delhi/NCR region. Since the study has taken brand extension as a mediating variable, the findings of the study are crucial for the literature in the aforesaid subject.*

**Keywords:** Brand Equity, Brand Extension, Brand Loyalty, Purchase Intention

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### Introduction

Researches done in the area of branding provides vital inputs to marketers it helps them to strategize their actions for the decisions related to brand. It has been identified that brand equity gives value to the brand and helps the customer to recognize a particular brand in the clutter of several competitors. Marketers use several strategies to strengthen brand equity; one of them is brand extension which helps firms to explore new segments and markets. Brand extension is practiced by almost every marketer after getting itself established in the market. Marketers today have realized that it's important to grab a significant and visible position in market and for extension into new product categories can help to gain sustainability in market share.

### Literature Review and Theoretical Framework

#### Brand Loyalty

Brand loyalty refers to the tendency to consider a particular brand as a primary choice (Yoo and Donthu, 2001). The phenomenon related to brand loyalty was first discussed by Copeland (1923), he called this occurrence as "Brand insistence", further to it the consistencies in the

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### Research Hypotheses

On the basis of existing literature, we have proposed a framework (Figure 1) and following hypotheses are developed –

H1: Brand loyalty has direct positive effect on brand equity.

H2: The effect of brand loyalty on brand equity is mediated (indirect effect) by brand extension.

H2a: Brand loyalty has direct positive effect on brand extension.

H2b: Brand extension has direct positive effect on Brand Equity.

H3: Brand equity has direct positive effect on purchase intention.

### Research Methodology

**Research Design:** Research Design is cross sectional in nature which involves the collection of information from any given sample of population only once (Malhotra and Dash, 2016). The data for this research has been collected through online mediums. E-copies of questionnaire were prepared through Google docs and they were circulated via emails and facebook to the respondents.

**Stimulus:** The stimulus for the study is real apparel brand BIBA and its latest brand extension in the category of jewellery called BIBA jewellery. The extension is launched in October 2017. The price of jewellery is starting from 299. It is a famous ethnic clothing brand for women.

**Respondents:** The respondents are working women chosen through Snowball Sampling covering different sectors like IT industry, Education, BPOs/KPOs etc. The sample size is of 371 respondents.

### Instrument and Measures

Scales used in the study has been formed by revisiting the existing scales in the available literature of relevant area. Three items for brand loyalty are taken from Ailawadi et al. (2001). Brand equity is measured with the help of three items taken from Yoo and Donthu (2001). Brand extension is measure by taking two items from Dwivedi Abhishek (2010) and one item from Keller and Aaker (1992). Three items are used to measure purchase intention are taken from Shukla (2010).

### Data Analysis

**Outliers and Normality:** Mahalanobis distance (D2) is calculated for each case. The result doesn't indicate any major deviation from the regular pattern or distinction of any case at large. This clearly indicated the absence of multivariate outliers (Byrne, 2010). Skewness and kurtosis values for variables were within range of  $\pm 1$  (Ranaweera and Prabhu, 2003) therefore no such deviation from normality is observed .

### Construct reliability and validity

Reliability of scale is assessed through values of cronbach alpha and composite reliability. Table 1 indicates cronbach alpha values of brand loyalty, brand equity, brand extension and purchase intention i.e.835,.851,.890 and .817 respectively. All the values are above the recommended level of 0.7 (Hair, et al., 2013) and (Garver and Mentzer's, 1999). Table 2 shows the average variance extracted values of all the four variables the values lie above 0.5 this shows convergent validity is established. The values of MSV (maximum shared variance) are less than AVE (average variance extracted) this indicates discriminant validity is established (Hair, et al., 2013).The square-root of AVE for a given construct is greater than the absolute

value of standardised correlation of the given construct with all other constructs. It shows discriminant validity is also established (Fornell and Larcker, 1981).

**Table 1: Factors used in the study**

Construct/ Items	Source	Cronbach Alpha
<b>Brand Loyalty</b>		.835
I would rather stick with a biba brand I usually buy than try something I am not very sure of	Ailawadi et al. (2001)	
I consider myself to be loyal to biba	Ailawadi et al. (2001)	
I feel confidence in brand biba that I always buy	Ailawadi et al. (2001)	
<b>Brand Equity</b>		.851
Even if another brand has the same features as biba, I would prefer to buy biba. (1 strongly disagree to 7 strongly agree)	Yoo and Donthu (2001)	
If there is another brand as good as biba, I prefer to buy biba. (1 strongly disagree to 7 strongly agree)	Yoo and Donthu (2001)	
If another brand is not different from biba in any way, it seems smarter to purchase biba. (1 strongly disagree to 7 strongly agree)	Yoo and Donthu (2001)	
<b>Brand Extension</b>		.890
I am very positive to extension biba jewellery.( 1 strongly disagree to 7 strongly agree )	Keller and Aaker (1992)	
According to me extension biba jewellery is great.( 1 strongly disagree to 7 strongly agree )	Dwivedi Abhishek (2010)	
I admire extension biba jewellery a lot.( 1 strongly disagree to 7 strongly agree )	Dwivedi Abhishek (2010)	
<b>Purchase Intention</b>		
I would buy biba rather than any other brands available	Shukla (2010)	.817
I am willing to recommend others to buy biba	Shukla (2010)	
I intend to purchase biba in the future	Shukla (2010)	

**Table 2: Statistical results**

	CR	AVE	MSV	ASV	BEQ	BL	BE	P
<b>BEQ</b>	0.854	0.594	0.342	0.200	0.770			
<b>BL</b>	0.837	0.633	0.154	0.129	0.393	0.795		
<b>BE</b>	0.900	0.751	0.342	0.175	0.585	0.341	0.867	
<b>P</b>	0.839	0.647	0.117	0.096	0.320	0.342	0.260	0.805

Indices: CR= Composite Reliability, AVE = Average Variance Extracted

### Measurement Model Results

The measurement model indicates the GFI - .942 and CFI-.958 this indicates that the model is good fit (Hair et. al, 2013). Badness of it is measured using RMSEA the value for RMSEA is .07 which lies in the acceptable range of .03 to .08 (Hair et. al, 2013).

**Table 3: Hypothesis testing**

Direct relationship tested	P value	Results
Brand loyalty → Brand Extension	.001	Significant
Brand loyalty → Brand Equity	.001	Significant
Brand Extension → Brand Equity	.001	Significant
Brand Equity → Purchase Intention	.001	Significant

**Table 4: Indirect relationship test**

Indirect relationship tested	P value	Results
Brand Loyalty → Brand Extension → Brand equity	.000	Significant

Table 3 & 4 shows the path estimates of both direct and indirect relationships which are tested. Table 3 shows the direct relationship of brand loyalty and brand extension is significant i.e. brand loyalty does affect brand extension positively since  $p < 0.05$  therefore H1 is accepted. Brand loyalty has direct positive affect on brand extension since  $p < 0.05$  hence H2a is also accepted. Brand extension positively affect brand equity since  $p < 0.05$  therefore H2b is also accepted. The affect of brand equity on purchase intention is also positive and significant since the  $p < 0.05$  hence H3 is also accepted. Since direct and indirect effects both are significant the mediation model is partial mediation model.

### Discussions and Implications

The research has expanded the existing literature in the area of branding. The frameworks discussed in available literature has focussed on factors which are relevant for brand extension and the effects of brand extension on brand equity are examined , but the role of brand extension as a mediating variable with the important dimensions of brand equity i.e. brand loyalty are not analyzed till now. Also the studies have focussed more on brand extensions in FMCG market,

the latest extension of apparel brand called BIBA has reinforced that brand extension is a successful strategy for clothing brands too.

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