

Branding the hotel industry: the effect of step-up versus step-down brand extensions

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Abstract

The study investigates how customer perceptions of parent brands influence the perceived value of brand extensions in the hotel industry and how these relationships are moderated by the nature of the brand extension in question. Drawing on brand equity logic, the study proposes that perceived positive brand attributes, awareness, attitudes, and loyalty toward the parent brand positively relate to higher perceived value of the brand extension, and that these positive relationships grow stronger in cases of step-down extensions rather than step-up extensions. Survey results from UK hotel customers reveal that only perceived parent brand attributes and attitudes seem to have a positive impact on perceived value of the extension and subsequent (re)visit intentions. The moderation results further reveal that the positive relationships turn stronger in cases of step-down extensions and insignificant during step-up extensions. Managers are therefore cautioned to apply step-up extensions too frivolously, as such extensions seem largely ineffective in generating consumer value and subsequent behavioral intentions, whereas the effectiveness is heightened in cases of step-down extensions.

Keywords: brand extension, hotel, brand value, step-up extension, step-down extension, brand equity

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1. Introduction

In an increasingly competitive service landscape, brand extension strategies—that is, the launch of new services or products under familiar brand names—are often employed by branded organizations when competing for customers (Goedertier et al., 2015). In the international lodging industry, major hotel chains place great emphasis and investment on branding, which, in turn, enable them to leverage their brands through extensions (O'Neill & Mattila, 2010). A great number of hotel organizations (e.g., Marriott, Accor, Hilton to name a few) therefore introduce new brands into their portfolios on a regular basis to better serve manifold market segments, differentiate their offerings, and further promote their services globally.

Notwithstanding the potential upsides of following a successful brand extension strategy, the extant academic literature reveal inconsistencies with regard to the direction of the parent brand–extended brand relationship and its outcomes (Ye et al., 2019). While some studies report positive effects (e.g., Lei et al., 2008), others find evidence of parent brand dilution following the introduction of brand extensions (e.g., Childs et al., 2018). Ye et al. (2019), in addition to highlighting inconsistencies in current empirical brand extension research, further observe that the majority of extant studies take a manufacturing industry perspective, with limited research conducted in the hospitality services sector. Therefore, while there is an apparent need to examine the link between hotel brand extensions and their outcomes, few studies have, in fact, explored this, and even fewer have investigated the boundary conditions that may serve to explain some of the empirical inconsistencies (cf. Lei et al., 2008; Pontes et al., 2017). Moreover, given the rise of online hospitality brokers like Airbnb and the new breed of consumers whose needs and demands are entirely different to those of previous generations, catering for different market segments and leveraging existing brand value are of utmost importance for lodging firms (Ye et al., 2019).

Against this backdrop, our study aims to address the aforementioned gaps in the extant body of knowledge by investigating what drives consumers' perceived value of hotel brand extensions and how this subsequently influences their decision to patronize a hotel chain. The study further seeks to investigate some of the inconsistent findings in prior research by providing insights into how different forms of extensions (step-up versus step-down) moderate the relationship between parent brand features and the perceived value of the extension.

In addition to addressing the aforementioned gaps in the literature, the study findings contribute to the literature by encouraging managers to revisit their hotel brand extension

strategies and evaluate their merits and pitfalls. Hotels that strategically manage their brands, particularly customers' favorable attitude toward their brand, are more likely to sustain their competitive edge in today's hypercompetitive environment (Kim et al., 2008). Further, with multiple extensions within a brand family, major hotel brands stand to benefit by knowing how consumers perceive and intend to behave toward their brand extensions depending on the extension type.

The remainder of this article is organized into five major sections. First, we present an overview of the extant literature on lodging industry brand extensions and its main theoretical tenets. Second, we develop a conceptual model that introduces the hypothesized antecedents, outcomes, and boundary conditions of brand extension value in the lodging industry. Third, we describe the study's research design and methodology. Fourth, the empirical analysis and study results are presented before we, fifth, conclude by discussing the major findings and their theoretical and managerial implications.

2. Literature review

2.1 Significance of brand extensions in the lodging industry

Brand extensions refer to the introduction of new products or services by leveraging an existing brand name (Aaker & Keller, 1990). The importance of brand extension strategies is highlighted throughout the literature. Apart from being cost-effective strategies when introducing new brands, brand extensions create additional sources for leveraging brand equity (Pitta & Katsanis, 1995; Pontes et al., 2017). Additionally, brand extension activities enable brands to compete in less saturated markets, provided the parent brand's assets are also considered assets in the extended markets (Kapferer, 2008).

The lodging industry has been experimenting with brand extensions since the 1970s (Jiang et al., 2002) with some early examples of successful brand extensions including Holiday Inn's extensions into Holiday Inn Express and Holiday Inn Crowne Plaza. There are different approaches when it comes to brand extension strategies (O'Neill & Mattila, 2010); some providers like Choice Hotels International use consistent branding (e.g., QualityInn, ComfortInn etc.), while others, like Marriott, incorporate their brand name in most extensions. There are also examples of lodging companies that follow mixed approaches, for instance, Hilton has introduced extensions like Waldorf Astoria and Double Tree by Hilton.

Brand extension strategies can be fruitful for firms, since they can potentially gain additional market share (O'Neill & Mattila, 2004), reduce the risk of new product failure (Hem & Iversen, 2003), and increase overall loyalty, as customers (both existing and new) are

encouraged to patronize a brand family (Jiang et al., 2002; Kwun & Oh, 2007). Large full-service hotel brands can often not apply a one-size-fits-all brand strategy, as consumers are constantly seeking targeted and specialized products and services. Therefore, major hotel brands, in an effort to differentiate, have undertaken extensions to influence consumers' brand choices by catering to specific needs (Jiang et al., 2002; Mahasuweerachai & Qu, 2015).

Indeed, empirical findings reveal many advantages related to hotel brand extension strategies, including higher customer acceptance, lower introductory and promotional expenditures, reduced risks associated with the launch of new hotel brands, and guest retention on diverse travel occasions and locations (Jiang et al., 2002; Swaminathan et al., 2001; Völckner & Sattler, 2006). Naturally, despite the many upsides that follow successful brand extension strategies, there are also risks associated with the approach. For instance, dilution of the parent brand's image can prove particularly dangerous (Boisvert & Ashill, 2018; Kim et al., 2001; Martínez Salinas & Pina Pérez, 2009). In addition, cannibalism can occur if the brand extension strategy fails or if the brand is extended far beyond its core (Albrecht et al., 2013; Pitta & Katsanis, 1995). Appendix A provides a further overview of extant research investigating brand extensions in the lodging industry.

2.2 Brand Equity

Yuan et al. (2016) suggest that the associative network theory (Aaker, 1996) can shed light on the knowledge transfer between a parent and an extended brand. Evaluations of a stimulus (the parent brand) are conveyed to another consistent stimulus (the extended brand), and thereby brand associations are formed (Yuan et al., 2016). In this sense, the brand equity, namely, attitude, perceived quality, brand loyalty, and awareness (Aaker, 1996), of the core brand is likely driving how customers perceive its extensions as well (Pitta & Katsanis, 1995). The current study therefore draws on brand equity logic by especially focusing on the roles of perceived quality attributes, brand loyalty, brand awareness, and brand attitude.

2.2.1 Brand Attributes

Both symbolic and functional attributes of a brand are linked to consumer brand perceptions (Foroudi et al., 2018). Quality determinants that drive value in lodging include physical and functional property attributes such as architecture and aesthetics of exterior and public spaces, guest-room design and facilities, and bathroom furniture and amenities (Dubé & Renaghan, 2000). However, Miniard et al. (2018) show that it is the symbolic, not the physical, attributes that play a key role in determining the extension's evaluations. These mental attributes

represent quality associations between the core and the extended brand that help customers evaluate and ultimately purchase a product or service (Keller, 2001; Kwun & Oh, 2007). For example, Courtyard's "by Marriott" tag offers assurance to customers, as it signals that the property is managed by a reputable premium hotel brand with distinctive service standards; therefore, the perceived quality of Marriott reduces the uncertainty of purchase (Muller, 1998).

2.2.2 Brand Awareness

Although some researchers argue that brand awareness, namely, a consumer's ability to identify a brand (Percy & Rossiter, 1992), is not the most significant aspect of brand equity (Liu et al., 2017), generating awareness is critical for the evaluation of a brand extension. Brand awareness acts as a means of retrieving important and relevant information about the brand in question. For instance, the strong brand awareness of the Marriott brand among business customers led the firm to employ extension strategies and introduce a new hotel chain: Courtyard by Marriott. Marriott intentionally placed the well-known parent brand name conspicuously on the new hotel buildings in order to leverage high awareness and positively influence its customers' evaluations of the extension (Miniard et al., 2018).

2.2.3 Brand Attitude

Pitta and Katsanis (1995, p. 55) view brand attitude as "the sum of salient beliefs a consumer holds about a product or service, multiplied by the strength of evaluation of each of those beliefs as good or bad." The literature well established that the attitude toward a parent brand can influence the value perceptions of its extension and vice versa (e.g., Hem et al., 2014; Liu et al., 2020).

2.2.4 Brand Loyalty

When consumers form brand quality perceptions, increased affection and association with the brand are created, which then result in stronger brand loyalty (Foroudi et al., 2018). Brand loyalty is an important competitive edge for hotels since loyal customers provide repeat business, referrals, higher market shares, and ultimately profits (Kayaman & Arasli, 2007). A brand loyal guest will develop certain behavioral patterns, such as more frequent purchases and repeated patronage (Gounaris et al., 2007), positive word of mouth, even if there is no repeat purchase (Kursunluoglu, 2011; Umashankar et al., 2017), and revisit intentions (Kim & Kim, 2005). Loyalty is therefore the core of brand equity (Aaker, 1996), which can ultimately drive evaluations of an extended brand (Hem & Iversen, 2003).

Taken together, we expect that these key parent brand features will be influential in determining the perceived value of the brand extension, which, in turn, will generate vital (re)visit intentions. Figure 1 introduces this study's conceptual model and the research hypotheses, which are subsequently discussed.

-Figure 1 about here-

3. Hypotheses

3.1 Antecedents and Outcomes of Perceived Brand Extension Value

When forming value perceptions, customers consider specific brand attributes, with the quality perceptions of service representing the majority of such attributes (Wallin Andreassen & Lanseng, 1997). Perceived quality can be conceptualized as the consumer's judgment toward the supremacy of a core service (Zeithaml, 1988). In a lodging brand, however, perceived quality would encompass both product and service quality, namely, brand attributes that range from functionality to aesthetics (Kwun & Oh, 2007). Perceived value, in contrast, is a more holistic concept that incorporates both benefits and sacrifices after using a service (He & Li, 2011). Therefore, and as expected, a plethora of studies has shown that (service and product) quality ultimately drives customer value perceptions (e.g., Parasuraman & Grewal, 2000; Sweeney & Johnson, 1997; Wu et al., 2018).

Moreover, the literature reveals that the perceived quality of the parent brand positively influences the evaluation of its extensions, as the parent brand, acting as an indirect quality link, transfers quality perceptions to the extension (Aaker & Keller, 1990; Kwun, 2010; Sunde & Brodie, 1993). In accordance with brand extension logic, the perceived quality of a parent brand attenuates any risk associated with the use of its extension services. In this sense, customers hold the belief that a parent brand firm would not associate its brand with a substandard quality extension brand (Völckner et al., 2010).

H1: Perceived positive attributes of the parent brand relate positively to perceived value of the extended brand.

Studies (e.g., Kwun, 2010; Oh, 2000) show that robust brand awareness plays an important and significant role in shaping customer value perceptions. Brand awareness, which can be seen as a consumer's ability to recognize and recall a brand in a category of brands (Percy & Rossiter, 1992), can ultimately contribute to an extended brand's enhanced value perceptions. Theoretical support for this association comes from a cognitive process called "analogical reasoning" (Ross, 1970). Many theorists have portrayed the transfer of awareness

from a multifarious source or domain to a less diverse target or co-domain through the process of relational mapping (Green et al., 2008; Shen et al., 2011). Similarly, a brand extension can be considered as the target that evokes the source or, in this case, the focal brand. This evocation comprises thoughts, facts, events, and experiences that form a compact awareness network that flows from one end to the other (Guo et al., 2018). Therefore, it is likely that brand extension evaluations are formed by the analogy between the core brand category and its extension brand (Aaker & Keller, 1990; Esch et al., 2009).

H₂: High awareness of the parent brand relates positively to perceived value of the extended brand.

One of the major rationales behind the employment of brand extension strategies is the attitude transfer that occurs between the parent and the extended brand (Bambauer-Sachse et al., 2011). The transfer of attitudes from an entrenched parent brand to its extended brand lead customers to favor extensions stemming from relatively well-liked brands (Kwun, 2010). Formation of value perceptions toward a brand extension depends heavily on the aforementioned attitude transfer process. When drawing conclusions about brand extensions, customers have to allocate the new extended brand in an existing parent brand category, and this process is enabled by the established attitude one holds about the focal parent brand (Bambauer-Sachse et al., 2011). Consequently, favorable attitudes toward a parent brand can generate an increase in the perceived value of brand extensions, especially in cases where the congruity levels are high (Nan, 2006). Otherwise stated, when consumers detect similarities or relations between a core brand and its extensions, positive parent brand attitudes will form positive evaluations of the extended brand (Völckner & Sattler, 2006).

H₃: Attitude toward the parent brand relates positively to perceived value of the extended brand.

Brand loyalty generally represents a customer's attachment to a brand (Bottomley & Holden, 2001; Aaker, 1990) and willingness to repurchase the same brand in the future (Gounaris et al., 2007). Being a multifaceted phenomenon, brand loyalty is increasingly being treated as a two-dimensional construct based on its behavioral and attitudinal nature (Umashankar et al., 2017). This distinction is rather important, as it can clarify when repurchase intentions depend on convenience (behavioral loyalty) or emotional commitment (attitudinal loyalty) (Liu-Thompkins & Tam, 2013; Oliver, 1999; Yi & Jeon, 2003).

Both types of brand loyalty can shape value perceptions through a trade-off between benefits and costs, namely, the minimization of transaction costs and the maximization of convenience (Kumar & Reinartz, 2016). Loyal customers perceive more value in a brand, as they invest considerable time and resources after repeated purchases (Fornell, 1992). This strong relationship between the customer and parent brand may lead to a positive evaluation of the brand extensions as well (Hem & Iversen, 2003).

H4: Loyalty toward the parent brand relates positively to perceived value of the extended brand

It is widely accepted that purchase and repurchase intentions are a major consequences of value perceptions (Bues et al., 2017; Fornell et al., 1996; Sweeney & Soutar, 2001). Such findings have been replicated for the lodging industry, where perceived value has a clear, significant effect on revisit intentions. In other words, when deciding to visit or return to a specific service provider in the future, customers will take into account the value they have received and form their perceptions (Hu et al., 2009). If they develop high value perceptions, they are likely to visit or return there in the future (Kim et al., 2008). Therefore, a favorable evaluation of a hotel brand extension should lead to future visits.

H5: Perceived value of the extended brand relates positively to (re)visit intentions towards the extended brand.

3.2 Moderating Effect of Brand Extension Type

Brand extensions can be classified as vertical or horizontal. In vertical extensions, a similar brand is introduced in the same product category as the parent but with different quality and price levels in an effort to attract new market segments (Pitta & Katsanis, 1995). Vertical extensions are further categorized to step-down or downscale extensions and to step-up or upscale extensions.

Step-up extensions carry enhanced features and are often priced notably higher than the parent brand (Lei, Dawar, et al., 2008). Irrespective of the parent brand's capabilities, they involve high performance and financial risk perceptions (Pontes et al., 2017). High performance risk is evident in step-up extensions, as consumers doubt whether the brand is capable of delivering distinctive service as expected in a premium setting (Aaker, 1997; Lei, de Ruyter, et al., 2008). Additionally, the higher costs associated with step-up extensions highlight losses that could emanate from potential poor performance (Shimp & Bearden, 1982). On the contrary, in step-down extensions, performance and financial risks are considerably lower. High-price

offerings are beyond the bounds of possibility, as step-down extensions bear less features than the core brand, and meeting service expectations is easier due to parent brand associations (Pontes et al., 2017).

This study examines the role of vertical extensions in the relationship between the four brand equity dimensions and perceived value. In the case of step-down extensions, pre-expectations are relatively low due to the nature of the extension type, but the perceived performance is likely higher due to parent brand perceptions. As a result, consumers perceive good value for money (cf. Lichtenstein et al., 1993) and respond to the bargain stimulus. In addition, the perceived value for money is expected to be stronger for the value market, which is the main target segment of step-down extensions (Riley et al., 2013). It is not necessary that budget-oriented consumers are incapable of affording more expensive services; their purchasing philosophy may revolve around financial responsibility (Baker et al., 2019). Moreover, when social risk is low and the visibility of a brand purchase is also low, then consumers are likely to form favorable perceptions both in the context of luxury (Riley et al., 2013) and functional (Kirmani et al., 1999) brands.

On the other hand, step-up hotel extensions inevitably do not disclose any budget-related characteristics and are frequently associated with higher room prices (Kim et al., 2020). In this case, the premium market sector (e.g., business or high-income customers) is targeted by hotel chains that offer a high-caliber version of the parent brand. Perceived value for money may also be present in upscale extensions, as it can derive from self-congruity, which refers to self-image and brand image matching (Baker et al., 2019).

Yet, another key driver of value perception, namely, consumer expectations, also affect the parent brand-extension value perceptions. According to the expectation confirmation (EC) theory (Oliver, 1980), consumer expectations are key drivers of value perceptions, and ultimately satisfaction; when pre-expectations are lower and the product or service outperforms, there is greater confirmation and favorable evaluations. On the contrary, when pre-expectations are high and the product underperforms, customers will form negative evaluations (Guo et al., 2018). Pre-expectations of a step-up extension are therefore expected to increase and customers will become more demanding. Additionally, when a new step-up extension is introduced from a recognized parent brand, customers experience a perceptual conflict and the risk of parent brand dilution is heightened (Boisvert, 2012); customers are suspicious of brands that pledge to deliver upscale hedonic and utilitarian services (Dall'Olmo Riley et al., 2013). Therefore, positive perceptions of a parent's brand equity will have an impact on the evaluation of the extension, and this relationship will be stronger for step-down *vis-à-vis* step-up extensions:

H₆: The positive relationships between perceived value of the extended brand and (a) perceived positive attributes of the parent brand, (b) high awareness of the parent brand, (c) positive attitude toward the parent brand, and (d) loyalty toward the parent brand is stronger (weaker) in cases of step-down (step-up) extensions.

4. Methodology

4.1 Data collection and sample

The study hypotheses were tested using survey responses from UK-based hotel customers. In order to qualify for the survey, respondents should have experience staying at either Hilton, Marriott, or Hyatt in the last two years. These hotels were chosen on the basis of geographical reach, history, and prominence in consumers' minds. While the focal hotels have multiple step-up and step-down extensions, the most common local step-up and step-down extension for each hotel was picked to ease questionnaire design and data collection.

Respondents were sourced from public groups on social media sites for UK residents interested in traveling. A link to the survey was posted on discussion boards directing the respondents to the survey instrument. The original posting was followed by a reminder two weeks later. From the initial 536 respondents that had started engaging with the survey instrument, 201 respondents were excluded from further analysis due to missing data, abnormal data (e.g., extreme outliers), or non-UK residence status, yielding an effective sample of 335 (62.5%). The respondents were fairly evenly distributed in terms of gender, with female respondents (42.6%) being slightly underrepresented. Fifty-four percent of respondents chose to answer the survey referring to Hilton, whereas 44% referred to Marriott, leaving only two percent answering the survey with Hyatt in mind. Thirty-eight percent of respondents were members of their chosen hotel's loyalty program, and approximately 13% had lodged at the hotel's brand extension.

We statistically compared early and late respondents' responses (i.e., answers from the original posting versus answers coming in after the reminder) to the study variables and found no significant differences. Thus indicating that nonresponse bias would not pose a problem in this study (Armstrong & Overton, 1977).

4.2 Measures

The study's measures are all based on established scales. Having identified appropriate constructs in extant literature, we employed two academic tourism experts and two branding experts to evaluate the face validity of the selected measures. Following their comments, the

constructs were further tested through additional interviews with potential respondents and a small pre-test ($n=27$) to ensure effective semantic design and question ordering.

We captured the constructs using multi-item scales and Likert-type format whenever applicable. *Parent brand attributes* was captured with four items adapted from Kim and Kim (2005) and Kayaman and Arasli (2007) ($\alpha = .85$). The three-item *parent brand awareness* scale was based on Kim et al. (2008) and Kwun (2010) ($\alpha = .81$). *Parent brand attitude* was operationalized with three items adapted from Erdem and Swait (2004) and Kwun and Oh (2007) ($\alpha = .86$), and *Parent brand loyalty* was based on Kim and Kim (2005) and Kim et al. (2008) ($\alpha = .84$). We measured *perceived value of extended brand* with three items modified from Erdem and Swait (2004) and Kim et al. (2008) (.76); further, following precedence in the literature, *(re)visit intentions toward extended brand* was captured with a single indicator (Hultman et al., 2017; Kim et al., 2008).

The moderator variable was captured by having two versions of the survey randomly distributed to the respondents, one representing step-up extensions (for Hilton – Conrad Hilton; for Marriott – JW Marriott Hotels & Resorts; for Hyatt – Park Hyatt), and one representing step-down extensions (for Hilton – Hilton Garden Inn; for Marriott – Courtyard by Marriott; for Hyatt – Hyatt Place). The ratio of step-up versus step-down surveys analyzed was 48/52%, respectively. The model covariates were informed by pre-study expert interviews and deemed highly relevant, as the investigated hotel chains rely on their international loyalty programs for effective customer relationship management. The two covariates were measured by simple dummy variables asking if (1) the respondent had ever lodged at the focal brand extension (thus capturing experience with extended brand) and (2) whether the respondent was a member of the focal hotel chain's loyalty program (capturing loyalty program membership). All survey items are shown in detail in Appendix B.

5. Analysis and Results

5.1 Measure Validation

A confirmatory factor analysis (CFA) was estimated in order to assess the measures' construct validities. The elliptical reweighted least-squares (ERLS) method was used for estimation due to its ability to produce unbiased parameter estimates for both multivariate normal and non-normal data (Sharma et al., 1989). The measurement model's chi-square statistic is significant ($\chi^2_{(104)} = 349.84$; $p < .01$), but the other fit indexes (normed fit index [NFI] = .98, non-normed fit index [NNFI] = .98, comparative fit index [CFI] = .97, and root mean-square error of

approximation [RMSEA] = .068) suggest that the model fits the data well (Scheremelleh-Engel et al., 2003).

-Tables 1 and 2 about here-

The data presented in Table 1 indicate acceptable convergent validity as shown by the high and significant factor loadings of the items on their posited indicators ($\beta \geq .70$; $t \geq 12.07$). Table 2 provides a summary of the descriptive statistics and intercorrelations among the study constructs. The table shows that the composite reliabilities ($\geq .73$) and average variances extracted (AVE) ($\geq .52$) of the multi-item constructs are all above the recommended thresholds (Bagozzi & Yi, 1988) and also that the AVE square roots exceed the correlations of all construct pairs, evidencing significant discriminant validity (Fornell & Larcker, 1981).

In order to control for the possibility of common method bias (CMB) affecting the hypothesized relationships, we estimated a single latent factor reflected by all the study's manifest items (Podsakoff et al., 2003). The estimated model statistics show very poor fit (NFI = .49; NNFI = .44; CFI = .43; RMSEA = .198), indicating that CMB is unlikely to severely influence study results. In addition to this *post hoc* statistical test, we also employed procedural remedies during the data collection, such as assuring respondents that there are no right or wrong answers, ensuring full anonymity, randomized ordering of criterion and predictor variables, and different scale formats.

5.2 Hypothesis Testing

To formally address the study hypotheses, we estimated a full-information structural model pertaining to the hypothesized direct links using the ERLS approach. The results suggest good model fit ($\chi^2_{(140)} = 341.13$; $p < .01$; NFI = .97; NNFI = .97; CFI = .98; RMSEA = .073). Table 3 displays the investigated paths' standardized parameter estimates, *t*-values, and significance levels. The results reveal some unexpected findings in that not all model paths are significant ($p < .05$).

Specifically, in line with H1, favorable perceived parent attributes relate positively to perceived value of the brand extension ($\beta = .27$; $t = 2.71$). Surprisingly, in the content of H2, parent brand awareness does not significantly relate to perceived brand extension value ($\beta = .13$; $t = 1.11$). As predicted in H3, parent brand attitudes are positively related to perceived value of the brand extension ($\beta = .32$; $t = 2.96$). Contrary to initial expectations in H4, parent brand loyalty is not a significant predictor of perceived brand extension value ($\beta = .09$; $t = 1.15$), whereas H5 finds support in the data since high perceived value of the extended brand

relates positively to (re)visit intentions ($\beta = .30$; $t = 7.54$). Analysis further reveals that the covariates are all positive and significant, as expected, given international hotel chains' reliance on repeat customers (e.g., Huang & Chen, 2010). The explanatory power of the estimated model is good as it accounts for 80% of the variance in perceived brand extension value and almost 60% of the explained variance in (re)visit intentions.

-Table 3 about here-

The conditioning role of step-up versus step-down brand extensions was assessed using multigroup analysis. Specifically, the data were divided into two groups based on whether the respondent had answered the step-up or step-down survey. Subsequently, we estimated two structural models for each moderated relationship: one in which the moderated path was constrained to be equal, and one in which the focal parameter estimate was permitted to vary freely. A significant change in chi-square value for one degree of freedom ($\Delta\chi^2_{(1)} < 3.84$) would support the conditioning effect of brand extension type on the investigated paths. Table 4 shows the result of the-split group moderation analysis results and the respective changes in paths depending on the type of brand extension.

-Table 4 about here-

The results reveal that the type of brand extension indeed affects the relationship between parent brand dimensions and perceived value of the extended brand in all cases but one. Specifically, it appears that the positive relationship between perceived value of the extended brand and attributes of the parent brand, attitude toward the parent brand, and loyalty toward the parent brand is not only stronger in cases of step-down extensions compared with step-up extensions but are even fully conditioned on the type of extension. This is evidenced by the significant positive relationships displayed in the step-down columns compared to the insignificant relationships in the step-up columns in combination with the significant change in chi-square. Conversely, the relationship between parent brand awareness and perceived brand extension value remains unaffected by the type of brand extension as demonstrated by the insignificant change in chi-square. Thus, the analysis supports H6a, H6c, and H6d ($\Delta\chi^2_{(1)} \leq 4.53$) whilst rejecting H6b ($\Delta\chi^2_{(1)} > 3.84$).

6. Conclusions and Discussion

On the whole, the study results have provided empirical support to the effect of hotel parent brand perceptions on the evaluation of its extensions as well as the moderating role of the brand extension nature on focal relationships.

We specifically found, as expected, that forming high-quality perceptions and presenting positive attitudes toward a parent brand will lead to the extended brand being more positively evaluated. Moreover, our results confirmed the positive relationship between value perceptions of the extended brand and behavioral intentions, indicating that consumers who positively evaluate a hotel brand extension will very likely visit and revisit the hotel in the future. Surprisingly, however, no significant relationship was found between awareness and loyalty toward a parent brand and perceived value of the extended brand, not even when conditioned by step-up-versus step-down extensions.

6.1 Theoretical Implications

As an integral dimension of brand equity, brand awareness—the ability to recognize or recall a brand (Percy & Rossiter, 1992)—has traditionally been considered a key driver of evaluations (Aaker, 1996). Yet, it does not appear to be strong enough in itself to drive perceived brand extension value in the current context. Liu et al. (2015) conclude that consumers' brand awareness is a cognitive process that relies upon memory representations. These representations can be either concrete or abstract (Park et al., 1989); in other words, different cognitive modes can have an impact on its efficacy. For example, consumers with a concrete cognition style can easier recall functional brands (Albrecht et al., 2013). In this sense, the cognition style of the study's participants in combination with the current service context might have impeded the activation of their brand awareness.

Additionally, our insignificant result concerning the relationship between parent brand loyalty and perceived value of its extended brand may be attributed to the fact that brand loyalty is a multidimensional phenomenon. Liebermann (1999) suggests three loyalty types, Bennett and Rundle-Thiele (2002) distinguish between two loyalty types, and Fornell (1992) and Fournier (1998) discuss two different types of commitment that form loyalty. It is therefore clear that there is no consensus on how loyalty should be measured; as such, we suggest that future studies operationalize loyalty in different ways in order to discern more fine-grained results.

With regard to the boundary conditions of the investigated relationships, we confirmed that step-down extensions will strengthen the positive relationship between the parent brand

dimensions and brand extension value perceptions in all cases except for brand awareness. In other words, the effect of brand loyalty, attitude toward the parent brand, and attributes of the parent brand on the evaluation of the brand extension will be the strongest for step-down extensions. Further, step-up extensions were found to have a nonsignificant moderating effect. In the case of step-up extensions, pre-expectations are likely to be much higher than those of step-down extensions. Nevertheless, the insignificant result might imply that the step-up extension neither outperforms nor underperforms, suggesting that value perceptions are not affected. Although these general findings offer a viable explanation for some of the mixed results in the literature concerning performance outcomes of brand extensions (e.g., Childs et al., 2018; Lei et al., 2008; Ye et al., 2019), future research should investigate the discrepancy between step-up and step-down extensions and their role in value perception and revisit intentions as well as the differing mechanisms that might drive it.

6.2 Managerial Implications

Our study's findings disclosed important boundary conditions with regard to the impact of parent brand perceptions on extension evaluations, which may explain some of the inconsistent findings in previous research. In a nutshell, the effect of brand attributes, the attitude toward the brand, and brand loyalty of the parent brand lead to favorable evaluations of the extension brand, and this relationship seems activated only in cases of step-down extensions. Such a finding has implications for brand management in that caution should be taken when allocating resources toward expensive and risky step-up extension strategies since some enhanced value perception benefits seem to be nonexistent.

Hotel brand managers should also pay attention toward the quality of service, because it not only affects the evaluation of the brand's extensions but ultimately leads to enhanced visits and revisits. Moreover, the present study revealed the importance of attitude toward the parent brand and its impact on extension evaluations. When consumers hold a positive attitude toward a parent brand, this perception will transfer to its brand extension. This is therefore an important advantage that should be highlighted throughout the communication channels. In addition, lodging managers should appropriately train their personnel to ensure that these brand perceptions are appropriately communicated to the customers through appropriate channels, especially since it seems to transcend across the brand portfolios.

Finally, the present study revealed the importance of step-down extensions. Our results indicate that consumers form favorable evaluations more intensely for extension hotel brands, which encompass less features, sophistication, and lower service quality and often come at a

lower price (Kim et al., 2020). Managers can capitalize on this finding and must not be afraid to introduce step-down extensions, a strategy that might be deemed unsuitable at first sight. However, although a step-down extension may find greater acceptability from a targeted market than a step-up extension, brand managers must understand that practicing a step-down strategy carries some longer-term threats. For example, dilution of the brand name and erosion of positive brand associations in the minds of both existing and newly targeted customer segments can occur (Aaker, 1990). Hence, hotels must ensure that their step-down extensions do not undermine their brand promise and favorable positioning in the consumers' minds.

6.3 Limitations and Suggestions for Future Research

This study is not without limitations. Although there are certain constraints, these can also serve as reference points for future studies in the field. While the proposed model and hypotheses were conceptualized after a thorough review of existing literature, the narrow sampling frame (UK-based consumers) limits the generalizability to other consumer segments. Future studies could therefore investigate markets with less mature and less developed lodging industries to see if the results hold. Further, data on consumers' actual patronage of both the parent brand and extended brand, as opposed to customers' behavioral intentions toward them, would also enhance the validity of the current findings.

Although the hotel industry has recently grown through extensions, there has also been a lot of acquisition activity; further, most premier hotels have lots of different extensions in their brand portfolio such as vacation homes and extended stays. This study only examined brand extension strategies (not acquisition or franchising strategies) and singled out one step-up and one step-down extension for each of the three investigated hotels. Future studies could examine the effect of a brand portfolio on consumers' evaluation of extensions, reciprocal effects of extended brands on parent brands, effectiveness of franchising, and effects of trial and cannibalization on brand families (Lomax & McWilliam, 2001), to name a few.

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Figure 1: Conceptual Model

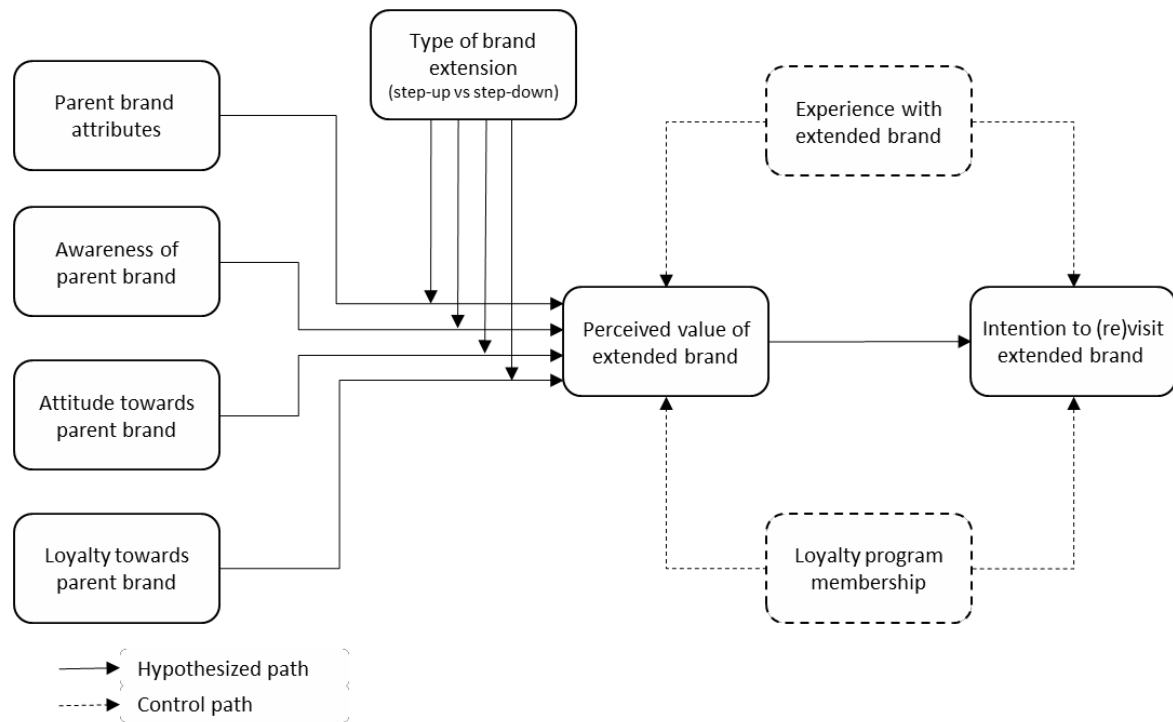


Table 1: Measurement model results

Factors and Items	Standardized Loadings ^a
Parent brand attributes ($\alpha = 85$)	
Attr1	.74 (12.81)
Attr2	.75 (13.04)
Attr3	.74 (12.75)
Attr4	.83 (15.12)
Awareness of parent brand ($\alpha = 81$)	
Awar1	.76 (12.99)
Awar2	.82 (14.48)
Awar3	.73 (12.40)
Attitude toward parent brand ($\alpha = 86$)	
Att1	.79 (14.33)
Att2	.85 (15.69)
Att3	.86 (16.12)
Loyalty toward parent brand ($\alpha = 84$)	
Loy1	.81 (14.44)
Loy2	.70 (21.06)
Loy3	.90 (16.79)
Perceived value of extended brand ($\alpha = 76$)	
Value1	.81 (14.44)
Value2	.70 (12.07)
Value3	.90 (16.79)
Intention to (re)visit the extended brand	
Intent1	.89 (16.69)
Fit Indices: $\chi^2_{(104)}=349.84$; $p < .01$; NFI=.98; NNFI=.98; CFI=.98; RMSEA=.068	

^a *t*-values reported within parentheses

Table 2: Measurement statistics and interconstruct correlations ^a

	Mean	SD	1	2	3	4	5	6	7	8
1. Parent brand attributes	3.62	.56	1							
2. Awareness of parent brand	4.27	.57	.58	1						
3. Attitude toward parent brand	3.87	.48	.64	.66	1					
4. Loyalty toward parent brand	2.77	.65	.52	.37	.54	1				
5. Perceived value of brand extension	3.67	.47	.48	.53	.60	.37	1			
6. (Re)visit intentions	3.04	.83	.50	.51	.48	.54	.53	1		
7. Experience with extended brand	.13	.33	-.01	.13	.07	.18	.05	.33	1	
8. Loyalty program membership	.38	.49	.11	.21	.30	.43	.39	.35	.17	1
Composite reliability			.78	.73	.79	.77	.69	-	-	-
Average variance extracted (AVE)			.58	.59	.69	.65	.52	-	-	-
Square root of AVE			.76	.77	.83	.80	.72	-	-	-

^a Correlations $\geq \pm .08$ are significant at the .05 level

Table 3: Structural model results

	Path	Expected sign	β	t
H1	Attributes of parent brand → Perceived value of extended brand	+	.27	2.71**
H2	Awareness of parent brand → Perceived value of extended brand	+	.13	1.11
H3	Attitude toward parent brand → Perceived value of extended brand	+	.32	2.96**
H4	Loyalty toward parent brand → Perceived value of extended brand	+	.09	1.15
H5	Perceived value of extended brand → (Re)visit intentions	+	.30	7.54**
<i>Control paths</i>				
	Experience with extended brand → Perceived value of extended brand		.41	2.07*
	Experience with extended brand → (Re)visit intentions		.63	2.66**
	Loyalty program membership → Perceived value of extended brand		.71	4.10**
	Loyalty program membership → (Re)visit intentions		.43	2.11*
Fit Indices: $\chi^2_{(140)} = 341.13^{**}$; NFI = .97; NNFI = .97; CFI = .98; RMSEA = .073				

* $p < .05$; ** $p < .01$

Variance explained in dependent variables: Perceived value of extended brand: 80.0%; (Re)visit intentions: 59.9%

Table 4: Moderation analysis results

Main effects	Step-up extension	Step-down extension	$\Delta\chi^2$ (Δ d.f. = 1)
Attributes of parent brand → Perceived value of extended brand	$\beta = -.03$ $t = -.85$	$\beta = .38$ $t = 3.21^{**}$	4.58*
Awareness of parent brand → Perceived value of extended brand	$\beta = .02$ $t = .52$	$\beta = .19$ $t = 1.44$	1.21
Attitude toward parent brand → Perceived value of extended brand	$\beta = .06$ $t = 1.08$	$\beta = .40$ $t = 3.90^{**}$	5.61*
Loyalty toward parent brand → Perceived value of extended brand	$\beta = -.11$ $t = -1.02$	$\beta = .27$ $t = 2.95^{**}$	4.53*

* $p < .05$; ** $p < .01$

Appendix A: Selected Empirical Studies on Brand Extension Strategies in the Lodging Industry

Study (Year)	Context	Unit of analysis / Stimuli	Operationalization of the independent variable	Operationalization of the dependent variable	Key findings
Rompf (1999)	American consumers	Lodging industry	Feature and concept-based similarity of the parent-target brand (similarity and prestige)	Evaluation of the brand extension before and after a cue (perceptions of prestige and favorable attitude)	Product – category congruence leads to favorable evaluations of the extension brand
Jiang, Den, & Rao (2002)	Lodging customers (primary data) Business publications (secondary data)	Lodging industry	Brand extensions (number of brand names in the product line)	Customer loyalty (customer turnover)	Introduction of brand extensions positively influences customer retention
Kwun & Oh (2007)	University faculty and staff	Lodging industry	Brand portfolio (quality, brand image, brand awareness, attitude)	Attitude toward the brand extension (attractiveness, enjoyment, likeness, pleasure)	The brand portfolio has an effect on the evaluation of brand extensions
Lei, Ruyter & Wetzels (2008)	Consumers	Lodging industry	Type of brand extensions (step-up vs step-down)	Brand extension evaluation (positive, favorable and attractive value perceptions)	Step-up brand extensions positively affect the evaluation of the brand extension
Volckner et al. (2010)	German consumers	Various industries, including the lodging industry	Parent brand service quality and conviction (interaction quality, physical environment quality, perceived outcome quality, service conviction)	Service quality of the brand extension (expected overall service quality)	Parent brand dimensions positively affect brand extension quality
Kwun (2010)	University staff	Lodging Industry	Evaluation of brand extension (brand awareness, brand class, brand reputation)	Evaluation of the Brand portfolio (brand attitude)	Evaluation of the brand extension positively impacts the evaluation of the brand portfolio
Mahasweerachai & Qu (2015)	US travelers	Lodging Industry	Previous brand extensions (quality perceptions)	New brand extensions (attitude and quality perceptions)	Perceived quality of previous hotel brand extensions has a positive effect

					on consumers' perceptions of a new hotel brand extension
Pontes, Palmeira, & Jevons (2017)	American consumers	Lodging industry	Perceived consistency between extension-parent brand (price)	Brand extension evaluation (favorability and liking)	Consistency between the parent brand and the extension brand affects brand extension evaluations; high consistency leads to favorable evaluations for upscale extension brands
Tan, Wan, & Qiu (2017)	Case study of a Chinese hotel resort	Lodging Industry (in emerging markets)	Vertical and horizontal brand extensions	Parent brand growth	n/a. Parent brand growth pattern identification
Wang, Qu, & Yang (2019)	US travelers	Lodging industry	Brand extension love (feelings toward the sub-brand)	Parent brand love (feelings toward the corporate brand)	Love of the extension brand is positively related to love of the parent brand. There is a love spillover effect from a sub-brand to its corporate brand.
Ye, Yu, & Paek (2019)	Chinese consumers	Lodging industry	Extended brand performance (i.e., quality, innovativeness, and involvement)	Customer attitude toward parent budget brands	The three extension performance components can directly or indirectly affect attitude toward parent brands.

Appendix B: Measures

Attributes of parent brand (Kim & Kim, 2005; Kayaman & Arasli, 2007)

Please read each statement and select the number between 1 and 5 that best reflects your level of agreement with what is stated with regards to your perception of the chosen hotel brand (1=strongly disagree; 5=strongly agree)

Attr1: It is comfortable

Attr2: The staff gives individualized attention to guests

Attr3: It is luxurious

Attr4: The physical facilities are visually appealing

Awareness of parent brand (Kim et al., 2008; Kwun, 2010)

Awar1: Its brand is familiar to me

Awar2: I know what the hotel's physical appearance looks like

Awar3: I can recognize the hotel from competing brands

Attitude toward parent brand (Erdem & Swait, 2004; Kwun & Oh, 2007)

Att1: The hotel brand is very competent

Att2: I enjoy staying at this hotel

Att3: The overall appeal of this hotel is very attractive

Loyalty toward parent brand (Kim & Kim, 2005; Kim et al., 2008)

Loy1: The hotel brand would be my first choice

Loy2: I am unlikely to switch to another hotel brand that runs promotions

Loy3: I consider myself to be loyal to the hotel brand

Perceived value of extended brand (Erdem & Swait, 2004; Kim et al., 2008)

Value1: The hotel will have the ability to deliver what it promises

Value2: The hotel is likely to offer great service

Value3: The hotel is likely to offer great quality

(Re)visit intention toward the extended brand (Hultman et al., 2017; Kim et al., 2008)

I plan to (re)visit the hotel chain within a foreseeable future.

Loyalty program membership

Are you currently a member of the chosen hotel chain's loyalty program? [For Hilton – Hilton Honors, For Marriott – Marriott Rewards, For Hyatt – Hyatt Gold Passport]

Experience with extended brand

Have you ever lodged at the step-down/step-up extension of the chosen brand? [yes/no]

Step-up versus step-down extension

Step-up: please respond to the following questions with regards to the step-up extension of the chosen hotel chain [*For Hilton – Conrad Hilton; For Marriott – JW Marriott Hotels & Resorts; For Hyatt – Park Hyatt*]

Step-down: please respond to the following questions with regards to the step-down extension of the chosen hotel chain [*For Hilton – Hilton Garden Inn; For Marriott – Courtyard by Marriott; For Hyatt – Hyatt Place*]