






# “Brand extension strategies and customer loyalty: Empirical evidence from fast-moving consumer goods companies”

<b>AUTHORS</b>	Banji Rildwan Olaleye  Tsediso Joseph Sekhampu  Joseph Nembo Lekunze  Ntseliseng Khumalo 
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Banji Rildwan Olaleye, Ph.D. in Business Management, Lecturer, Faculty of Economics and Management Sciences, Business School, North West University, South Africa. (Corresponding author)

Tsediso Joseph Sekhampu, Ph.D., Business School, North West University, South Africa.

Joseph Nembo Lekunze, Ph.D., Business School, North West University, South Africa.

Ntseliseng Khumalo, Ph.D., Business School, North West University, South Africa.



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Banji Rildwan Olaleye (South Africa), Tsediso Joseph Sekhampu (South Africa), Joseph Nembo Lekunze (South Africa), Ntseliseng Khumalo (South Africa)

# BRAND EXTENSION STRATEGIES AND CUSTOMER LOYALTY: EMPIRICAL EVIDENCE FROM FAST-MOVING CONSUMER GOODS COMPANIES

## Abstract

The expansion of brands through new product lines in the fiercely competitive fast-moving consumer goods (FMCG) industry is aimed at bolstering companies' brands and market share while catering to customer preferences. In creating FMCG value chains and fostering company sustainability, companies need to have a strong grasp of the interplay between the company's brand strategies and customer loyalty. This study investigated how brand trust mediates the effect of brand extension strategies on customer loyalty among people in Lagos State metropolis, Nigeria, who buy a variety of FMCG. Data were collected from 293 respondents via an online survey and analyzed using partial least squares structural equation modeling. The analysis revealed that brand familiarity ( $\beta = 0.376$ ;  $p < 0.05$ ), similarity ( $\beta = 0.397$ ;  $p < 0.05$ ), and reputation ( $\beta = 0.392$ ;  $p < 0.05$ ) are the strategies adopted in brand extension. It was found that brand extension strategy positively influences brand trust ( $\beta = 0.659$ ;  $p < 0.05$ ), while customer loyalty is positively impacted by brand trust ( $\beta = 0.585$ ;  $p < 0.05$ ). Besides, the results showed that brand trust mediates the relationship between brand extension strategies and customer loyalty ( $\beta = 0.385$ ;  $p < 0.05$ ). These results suggest that satisfaction with and trust in a specific product brand can significantly enhance the likelihood of repeat purchases by customers.

**Keywords** brand trust, brand extension strategy, customer loyalty, FMCG companies, PLS-SEM

**JEL Classification** M10, M31

## INTRODUCTION

The fast-moving consumer goods (FMCG) sector in Nigeria has experienced growth recently due to heightened investment in the hospitality, food, and restaurant industries. Such investment has enabled the sector to penetrate new markets, identify suppliers, and enhance its promotion. Studies have shown that strong brands increase organizations' economic performance. Building brand equity includes numerous elements, with one of the main strategies being brand extension. Numerous studies on brand extension approaches have demonstrated the crucial role of trust in brand loyalty (e.g., Keller & Lehmann, 2006; Ibrahim & Aljarah, 2023; Suhan et al., 2022). The likeability of trust in a brand substantially influences consumers' views of the credibility of a brand, while Keller and Lehmann (2006) examined the likelihood and consequences of failed brand growth.

Even though this dominant trend helps businesses connect with a wider range of customers and adapts to changing consumer behaviors, which leads to faster industry growth, it comes with some worries. Fast-moving consumer goods (FMCG) companies often struggle

with informational challenges and misinformation regarding their products, alongside systemic issues related to operations and supply chains. Therefore, there is a growing concern regarding the identifiable brand extension strategies, which affect customer loyalty and brand trust. Understanding how these factors impact consumer brand extension is essential to help FMCG companies take prompt action, grab new opportunities, and enhance their strategy in increasing satisfaction and repurchase decisions. Meanwhile, considering brand trust as a mediating variable remains novel, as does its focal point on the FMCG industry in a metropolitan area of a developing nation.

## 1. LITERATURE REVIEW

While various theories have been proposed to elucidate the connection between brand extension strategy, customer loyalty, and brand trust, the present research relied on social exchange theory. In the context of marketing, consumers trust a brand when they have confidence in the brand and are satisfied with it, knowing that the supplier would never breach the psychological contract between provider and customer. The relationships progress towards high commitment as partners invest more time, effort, and resources into them, whether through transactions or the expansion of shared memories. Thus, the concept of norms of reciprocity posited by social exchange theory cannot be disregarded.

Social exchange theory holds that, whether intentionally or unintentionally, people perform cost-benefit analyses and comparisons with alternatives in assessing relationships. People will stay in a relationship if the benefits outweigh the costs, and they will cut ties if the expenses outweigh the profits (Cortez & Johnston, 2020; Cropanzano & Mitchell, 2005). Thus, individuals assess the degree of reciprocity in interactions (Bahadir et al., 2024). Social exchange theory holds that, in organizations, subordinates and their superiors will exchange 'gestures of goodwill' in reciprocal relationships that enhance both organizational and individual performance. Hence, this also applies to the relationship between company and customers (Bahadir et al., 2024).

Arslan and Altuna (2010) use the term 'brand extension' to describe the expansion of an existing successful brand into other product categories or services. Unlike rebranding, which entails changing the name, logo, or both, of an existing brand to create a new and distinct identity, brand extension involves using the existing brand for a

new product line or service (Jobber & Fahy, 2009; Maziriri, 2024). Brand extension is an effective marketing strategy that offers firms two primary benefits. Firstly, it mitigates the risk of failure of a new product by introducing the product under an established brand. Secondly, it reduces costs by eliminating the need for extensive marketing efforts. Nevertheless, expanding a brand's market presence carries inherent risks (Olaleye et al., 2024c). For instance, the new products or services may fail to meet customer expectations, thereby jeopardizing the reputation of the company's present offerings.

Customers could be loyal to goods and/or a company, known as 'brand loyalty, which is a relational phenomenon. This loyalty is expressed through customers' attitudes and actions. Brand loyalty has been defined as an unwavering dedication to a specific brand (Stenberg & Volleng, 2023). An ardent brand loyalist is one who not only prefers one brand over another, but also actively seeks out opportunities to promote the brand amongst others (Loureiro et al., 2012). In its most basic form, brand loyalty is an acceptance-rejection function. Customer attitudes include how likely they are to buy from the company again, how likely they are to recommend it to others, how unlikely they are to switch to a competitor, and how much they are willing to pay for the product or service. Additional purchases, sharing positive reviews of the product, and a tendency to choose the brand in the future are all signs of customer loyalty (Stenberg & Volleng, 2023).

Brand trust is the extent to which customers associate positive feelings with a brand. The studies on trust (Delgado-Ballester & Munuera-Alemán, 2005; Olaleye et al., 2021a) have shown that the foundation of brand trust, when viewed as an expectation, is the consumer's belief that the brand represents attributes such as competence, hon-

esty, responsibility, among others. Thus, trust develops when consumers ascribe positive dispositional attributes to the company's intentions, actions, and character traits. The research on brand trust by Delgado-Ballester and Munuera-Alemán (2005) indicated that trust is underpinned by both technical and intentional attributes ascribed to the product and company, which fits with the two-dimensional view of trust that is common in management and marketing literature (Delgado-Ballester & Munuera-Alemán, 2005; Gelaidan et al., 2021). The capacity and desire to fulfill customer demands and uphold commitments constitute the technical or competency-based nature of the first component of brand trust and stability. Therefore, a reliable brand is one that delivers steadfastly on the value it promises to consumers throughout the product lifecycle, from development to production, advertising, sales, and service. Such a brand's reputation will remain intact even in times of crisis.

Brand extension strategies are conceptualized based on similarity, familiarity, and reputation. Similarity is the degree to which the brand extensions are perceived by consumers as similar to other items linked to the brand (Hem & Iversen, 2009). This requires consumers being familiar with the brand and its products (Matarid et al., 2014). The product's quality and the brand's reputation will determine the market's acceptance of the brand.

Although expanding a brand's name into other areas based on familiarity and the company's reputation for high-quality goods and services often yields positive results, the strategy is not immune to competition. While extensions aim to improve the primary brand, they could potentially lead to negative brand associations via the extension. The extension needs to be compatible with the brand; a solid connection between the two can serve as a starting point in determining compatibility.

Marketers place significant emphasis on trust, due to its positive correlation with loyalty (Tammubua, 2021). Trust plays a major role in customers' decisions to make repeat purchases and their long-term satisfaction (Miao et al., 2022; Olaleye et al., 2024a). Building trust as a component of brand management is critical in building a loyal customer base (Akbar & Parvez, 2009; Olaleye et al.,

2024a). Customers who trust a brand will prefer the product, use it continually, and recommend it to others. Trust leads to action without consideration of the immediate consequences. Thus, building trust in a brand is essential to increasing customer loyalty, and should form the basis of all marketing campaigns.

In today's market, where product differentiation is limited and unanticipated occurrences are on the rise, loyal customers are crucial in ensuring a competitive advantage (Passikoff, 2006). Loyalty to the brand protects the company against new market entrants and gives the business time to react to risks. Brand loyalty leads to increased sales and profits for the company, and makes customers less susceptible to competitors' marketing efforts (Delgado-Ballester & Munuera-Alemán, 2005). Genuine devotion to and affection for a brand have a greater impact than trust on consumers (Loureiro et al., 2012). However, studies have shown that building trust in the brand could increase loyalty (Loureiro et al., 2012; Matosas-López, 2024), making consumers more likely to buy from the company again, thereby boosting revenue (Hem et al., 2014). The research suggests that strong emotional connections between customers and the original brand can enhance the performance of an extension. Besides, the expansion may attract new, dedicated customers to the parent brand (Hem et al., 2014).

This study seeks to examine the relevance of brand extension strategy across selected companies and its relationship with brand trust and customer loyalty in the fast-moving consumer goods sector. It also investigates the mediating impacts of brand trust. Based on the literature, the following hypotheses were formulated:

*H1a: Brand familiarity as a dimension of brand extension strategy is evidence-significant.*

*H1b: Brand reputation as a dimension of brand extension strategy is evidence-significant.*

*H1c: Brand similarity as a dimension of brand extension strategy is evidence-significant.*

*H2: Brand extension strategy has a positive and significant effect on brand trust.*

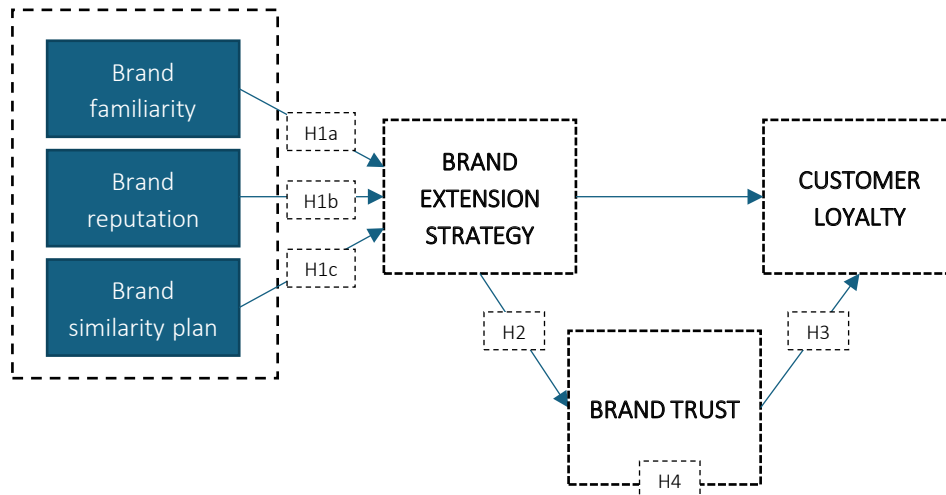


Figure 1. Research model

- H3: Brand trust is positively related to customer loyalty.
- H4: Brand trust mediates the relationship between brand extension strategy and customer loyalty.

Figure 1 illustrates the hypothesized relationships between the variables.

## 2. METHODOLOGY

This study followed an empirical approach in investigating the connection between brand extension strategy, customer loyalty, and brand trust. Data were obtained through a survey of customers of FMCG firms in Lagos State, Nigeria. This region was chosen due to its expanding service economy. The FMCG industry, which includes trade, food, and beverages, and the manufacturing sector, holds significant value in terms of its potential to propel Nigeria’s economic growth. The study population comprised 25 FMCG companies in the Lagos metropolis, with 20 customers each, i.e., 500 potential respondents. Over the course of four months, 314 questionnaires were gathered using an online survey. A total of 21 outliers were deleted, yielding a valid sample of 293 (a 58.6% response rate).

As shown in Table 1, data were gathered on the respondents’ demographic attributes, which encompassed gender, age, marital status, employment

experience, and educational qualification. The gender distribution analysis showed that 67.2% were women and 32.8% were men. A significant percentage (48.8%) of respondents fell within the age bracket 30-39 years, while only 5.5% were aged 50 years or older. A total of 47.1% of the respondents held a Bachelor’s degree, followed closely by those who held a national diploma or certificate (31.4%). The smallest percentage (8.2%) had a high school qualification.

Table 1. Demographic profile of respondents

Source: Own work.

Variables	Categories	Freq (n = 293)	Percentage
Gender	Male	96	32.8
	Female	197	67.2
Age	Below 30 years	53	18.1
	30-39 years	143	48.8
	40-49 years	81	27.6
	50 years or older	16	5.5
Institution	High school	24	8.2
	NCE/diploma	92	31.4
Educational level	Bachelor	138	47.1
	Postgraduate level	39	13.3
Marital status	Single	74	25.3
	Married	206	70.3
	Divorced	13	4.4

The questionnaire was developed based upon prior research (Ibrahim & Yesiltas, 2021; Narayandas, 1996) that identified five factors with which to assess consumer loyalty. The questionnaire contained nine statements on the three dimensions employed by Hem and Iversen (2009), Matarid

et al. (2014), and Poerwadi et al. (2020), namely brand familiarity, reputation, and similarity. Brand trust was assessed using a five-point Likert scale adapted from Ball et al. (2004) and Olaleye et al. (2021a), with response options ranging from “strongly disagree” to “strongly agree”.

Descriptive analysis of the data was performed, using the SPSS software package, to describe the sample, which yielded frequencies and percentages. Furthermore, psychometric and multi-collinearity tests were done on the proposed structural model, using SmartPLS, a statistical tool designed to conduct partial least squares structural equation modeling.

### 3. RESULTS AND DISCUSSION

Table 2 displays the intercorrelations between the three variables: brand extension strategy, brand trust, and customer loyalty. The results showed that brand expansion strategy positively correlated with both brand trust ( $r = 0.659$ ;  $p < .01$ ) and customer loyalty ( $r = 0.666$ ;  $p < .01$ ), although the effect size was insignificant. Brand trust showed a moderately significant positive correlation with customer loyalty ( $r = 0.585$ ;  $p < .01$ ).

Partial least squares structural equation modeling (PLS-SEM) was conducted to investigate the measurement and structural models. The measurement model was assessed by examining its convergent validity. All items in the analysis had outer loadings that surpassed the threshold of 0.5 recommended by Lin et al. (2016), Igbaria et al. (1995), and Olaleye et al. (2024b). Furthermore, the composite dependability and associated measures exceeded the criterion of 0.7 proposed by Dijkstra and Henseler (2015). The measurement model demonstrated a converging relationship between items and constructs. The convergent validity of all constructs was adequate, as evidenced by the Average Variance

Extracted (AVE) values equal to or greater than 0.5. Table A1 presents a summary of the findings (see Appendix).

Table 3 depicts the result of the discriminant validity, pertaining to the degree to which a measurement may differentiate between distinct ideas or notions. Fornell and Larcker’s (1981) principle was used to determine discriminant validity, inter-construct correlation values, and the square root of the AVE for each construct. A valid measurement has been arrived at when the square root of the AVE exceeds the inter-construct correlation for each construct (Fornell & Larcker, 1981; Odunjo-Saka et al., 2023; Olaleye et al., 2021b).

Both the structural model and the measurement model were investigated. The structural model investigated the cause-and-effect relationship between the instrument’s various components using 5,000 re-sampling techniques. This study examined the direct influence of the predictor variable on outcome variables using a brand extension plan encompassing three dimensions. Positive and statistically significant correlations among the dimensions were hypothesized. *H1a* had a beta coefficient ( $\beta$ ) of 0.374 and a t-value of 26.254. The beta coefficient of *H1b* was 0.394, and the t-value was 40.692. The beta coefficient of *H1c* was 0.397, and the t-value was 33.926. Regarding *H2*, the results showed a robust and statistically significant correlation between brand extension strategy and brand trust (*H2*:  $\beta = 0.659$ ;  $t = 17.666$ ;  $p < 0.05$ ). Furthermore, a direct relationship was found between brand trust and customer loyalty (*H3*:  $\beta = 0.585$ ;  $t = 13.664$ ;  $p < 0.05$ ).

The results revealed a statistically significant impact of brand trust on the relationship between brand expansion strategy and consumer loyalty (*H4*:  $\beta = 0.385$ ;  $t = 9.360$ ;  $p < 0.05$ ). Hence, the study established that brand trust significantly

**Table 2.** Correlation of the observed and latent variables

Source: Field survey (2023).

Variable	Mean	Std. dev.	BES	BTS	CL
Brand extension strategy (BES)	3.358	0.884	1	0.659	0.666
Brand trust (BTS)	4.724	0.481	–	1	0.585
Customer loyalty (CL)	3.528	0.835	–	–	1

and directly impacts the relationship between brand expansion strategy and consumer loyalty, illustrated in Figures 2 and 3. The study of the determinant coefficients ( $R^2$ ) for *H1* showed that brand expansion strategy explained 34.3% of the variance in brand extension when seen as dimensions. This was because the determinant coefficient was 0.343, which is below the threshold for a strong correlation. Therefore, external factors accounted for 65.7% of the variability of brand extension.

Besides, the relationship between brand extension strategy and brand trust had a low level of explanatory ability, as indicated by a coefficient of determination below 0.5 and an  $R^2$  value of 0.434. Sullivan and Feinn (2012) note that it is important to consider substantive significance ( $F^2$ ), statistical significance ( $p$ -value), and variance explained ( $R^2$ ) in order to clearly under-

stand the size of the effects. Table 4 presents the square root of the AVE and the inter-construct correlation.

**Table 3.** Discriminant validity

Source: Field survey (2023).

Variable	BES	BTS	CL
Brand extension strategy (BES)	0.926	–	–
Brand trust (BTS)	0.659	0.834	–
Customer loyalty (CL)	0.666	0.585	0.846

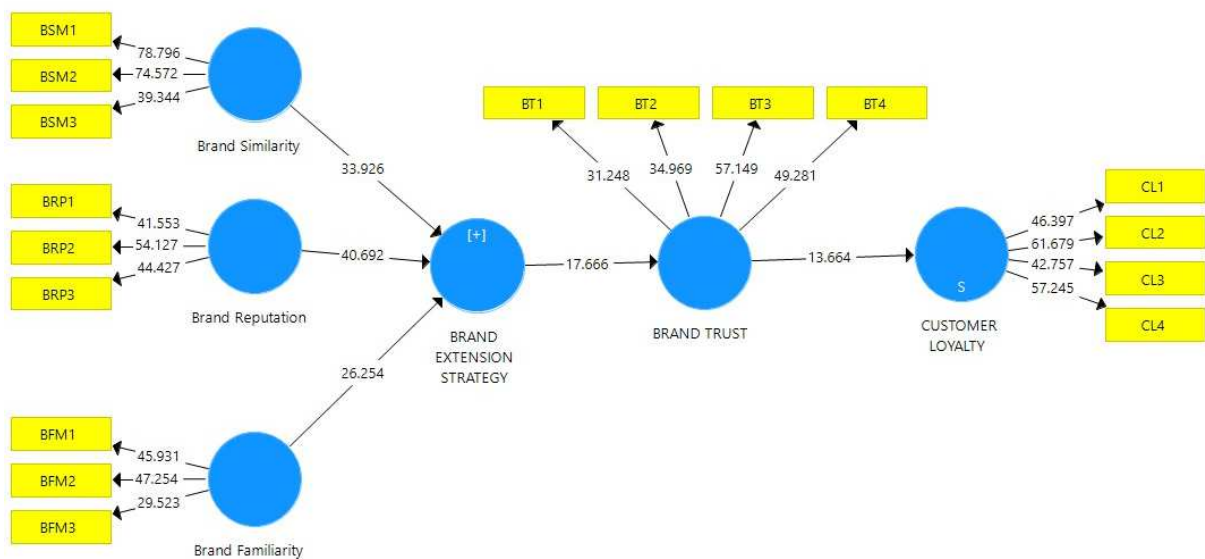
Table 4 reports the effect sizes of the direct channels. All paths that were described had a substantial impact size ( $F^2 \geq 0.35$ ), as determined by Cohen (1988), based on the magnitude of the effects (see Figures 2 and 3).

The study was aimed at examining the relationship between brand extension strategy and customer loyalty, together with the influence of trust on this rela-

**Table 4.** Path analysis result

Source: Field survey (2023).

Relationship	Std. beta	Std. error	t-value	p-value	$F^2$	$R^2$	Decision
<i>H1a</i> : BFM → BES	0.376	0.014	26.254	0.000***	0.521	0.343	Accepted
<i>H1b</i> : BRP → BES	0.392	0.010	40.692	0.000***	0.521	0.343	Accepted
<i>H1c</i> : BSM → BES	0.397	0.012	33.926	0.000***	0.521	0.343	Accepted
<i>H2</i> : BES → BT	0.659	0.037	17.666	0.000***	0.767	0.434	Accepted
<i>H3</i> : BT → CL	0.585	0.043	13.664	0.000***	0.521	0.343	Accepted
Indirect effects							
<i>H4</i> : BES → BT → CL	0.385	0.041	9.360	0.000***	Full mediation		Accepted



**Figure 2.** Path analysis

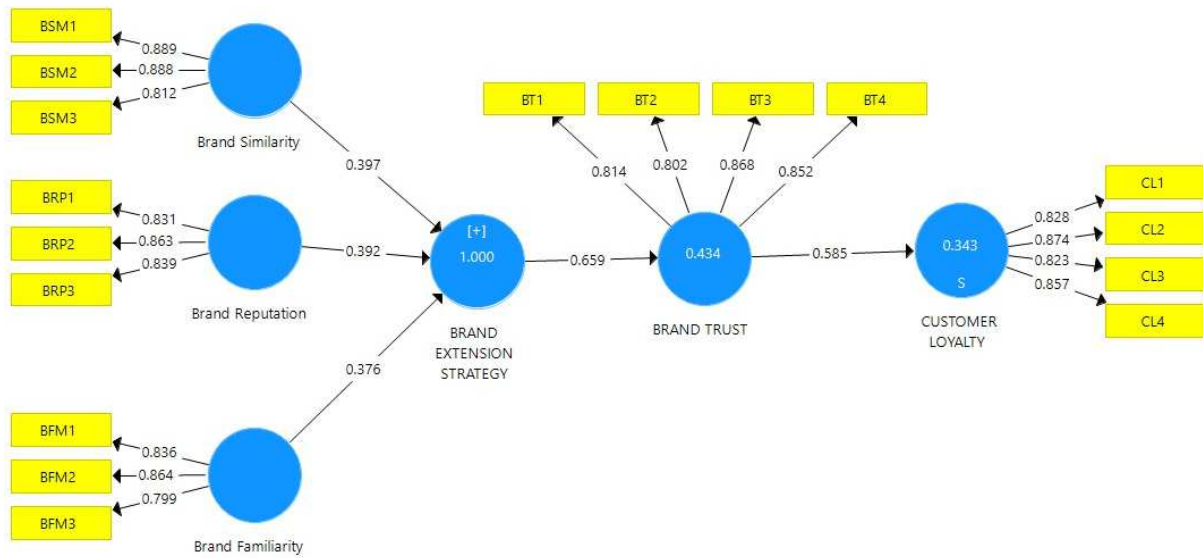


Figure 3. T-statistic

tionship, in the FMCG sector of Lagos State, Nigeria. The study involved 293 staff members and investigated four research hypotheses. The hypotheses expressed the relationships between brand extension strategy and customer loyalty, business extension strategy and brand trust, brand trust and customer loyalty and brand trust as a mediator in these relationships. SmartPLS software using PLS-SEM was used to test the hypotheses.

The results confirmed *H1*, that brand familiarity as a dimension of brand extension strategy is evidence-significant. The results showed that familiarity, reputation, and similarity all exhibited a positive and statistically significant correlation. Thus, customers are more likely to trust a brand when the extension has a strong likeness to the parent brand, they have a favorable view of it, and they experience a strong sense of familiarity with the brand.

While the expansion of a brand’s name into other areas – such as familiarity, reputation, and similarity – often yields positive results, it is not immune to competition. Furthermore, there is a chance that an extension may cause people to associate unfavorable attributes of the core brand with the extension (Matarid et al., 2014). A clear connection between the brand and the extension could serve as a foundation for determining whether the extension is a satisfactory option.

This study fills a research gap by providing empirical evidence that brand extension has a

positive impact on brand trust. Additionally, it sheds light on the impact of brand extension strategies among FMCG enterprises in serving customers, which is an area that has been understudied. In line with previous studies, the present study found a positive correlation between brand extension strategy and brand trust (Matosas-López, 2024; Maziriri, 2024). The result is that both consumers’ trust in the brand and their inclination to buy the extension product are affected. However, customers’ trust in and inclination to buy the extension product are unaffected by a low-trust brand’s well-fit or non-fit offerings. Furthermore, customers who trust non-fit extension products more than those who trust fit extension products are more likely to trust and buy the extension product again.

In summary, the results of this research suggest that the interplay of brand trust and customer loyalty fully explains the effectiveness of brand expansion strategies. *H3* predicted an indirect and positive relationship between consumers’ trust in a brand and their loyalty to that brand (see Akbar & Parvez, 2009; Hem et al., 2014; Loureiro et al., 2012; Tammubua, 2021). The results of the present study showed that brand trust plays a mediating role in the relationship between brand extension strategy and customer loyalty. This suggests that the ability to build trust in a specific brand encourages customers to promote it, despite any form of expansion strategy.

## CONCLUSION

This study seeks to establish a comprehensive theoretical framework that clearly defines the brand extension strategy within the FMCG industry and incorporates the mediating influence of brand trust on the relationship between brand extension strategy and customer loyalty. The results depicts that brand trust significantly mediates the relationship between brand expansion strategy and consumer loyalty. The results add to the body of knowledge in the domain of brand extension through the study of how familiarity, likeness, and reputation affect loyalty. In a competitive corporate environment, the results may be useful for marketing managers in the FMCG and related sector in tracking key performance indicators when involve in brand extension launching. Brand extension strategies should be avoided when the new product does not match what customers associate with the parent brand. FMCG managers should prioritize brand influence, trust, and image to build brand loyalty. Commercial for well-known and lesser-known brands may have different intentions due to knowledge; in creating and building customer relationships, marketing managers should employ loyalty programs and a complaint feedback mechanism.

## AUTHOR CONTRIBUTIONS

Conceptualization: Banji Rildwan Olaleye, Ntseliseng Khumalo.  
 Investigation: Josph Nembo Lekunze, Ntseliseng Khumalo.  
 Methodology: Banji Rildwan Olaleye.  
 Formal analysis: Banji Rildwan Olaleye.  
 Software & data curation: Josph Nembo Lekunze, Ntseliseng Khumalo.  
 Supervision: Tsediso Joseph Sekhampu, Josph Nembo Lekunze.  
 Validation: Ntseliseng Khumalo.  
 Writing of original draft: Banji Rildwan Olaleye.  
 Writing review & editing: Josph Nembo Lekunze, Ntseliseng Khumalo.  
 Resources: Tsediso Joseph Sekhampu.  
 Funding acquisition: Tsediso Joseph Sekhampu.

## FUNDING INFORMATION

North-West University, Potchefstroom, South Africa.

## DATA AVAILABILITY

The data are available from the corresponding author, B.R.O., upon reasonable request.

## ETHICAL POLICY

The study was authorized by the Ethical Review Committee of the Department of Business Administration at Federal University Oye-Ekiti (reference number 2023/REC/BAM/0119), and all institutional ethics policies on research involving human subjects were adhered to, including respondents providing informed consent.

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## APPENDIX A

Table A1. Measurement model

Source: Author's computation (2023).

Latent variables	Convergent validity		Internal consistency				Discriminant validity	
	Indicators	Loadings ( $\lambda$ )	CA	rho_A	CR	AVE	Fornell-Larcker criterion	Cross-loadings
BRAND EXTENSION STRATEGY	(BES)		0.887	0.889	0.909	0.527	0.926	YES
	Brand familiarity		0.781	0.791	0.872	0.695	0.833	
	BFM1	0.836***						
	BFM2	0.864***						
	Brand reputation		0.799	0.799	0.882	0.713	0.845	
	BRP1	0.831***						
	BRP2	0.863***						
	Brand similarity		0.829	0.829	0.898	0.746	0.864	
	BSM1	0.889***						
	BSM2	0.888***						
BSM3	0.812***							
BRAND TRUST	BT1	0.814***	0.855	0.864	0.902	0.696	0.834	YES
	BT2	0.802***						
	BT3	0.868***						
	BT4	0.852***						
CUSTOMER LOYALTY	CL1	0.828***	0.867	0.867	0.910	0.716	0.846	YES
	CL2	0.874***						
	CL3	0.823***						
	CL4	0.857***						
	CL5	–						

Notes: \*– deleted due to poor loadings.