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Channel Extension Signalling Effects

*How consumer-perceived signals of effort behind
an added channel affect the entire online retail brand*

Keywords: Online retail sales channel extension, Consumer-perceived signals of
advertising effort, Complementary capabilities of channel extensions

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Abstract:

Over the last decade, multichannel retail strategies, in which new channels are added to existing channel mix offering to implicitly increase consumer value and keep competitiveness on the market, has grown rapidly. Although creation of a multichannel offering seems to hold many benefits for retailers, the full effects on their customers, and by extension the brand, are largely unknown. Drawing on marketing signalling literature and by deploying a channel extension as a marketing element, this thesis investigates the signalling power a channel extension has for the retail brand with a scenario-based experiment in a Swedish online fashion retail setting. The study shows that consumer-perceived effort in a channel extension signals brand ability to serve consumer demands, which implicitly impact brand attitude and purchase intention. By demonstrating the signalling power the execution of a channel extension has for the retail brand, and replicating recent findings of marketing signalling literature, this thesis extend current understanding on how channel extension, through a consumer point of view, impact the online retail brand.

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1. Introduction

This chapter outlines the background to the research area of the thesis in 1.1, and then follows the stated purpose and research question in 1.2 and 1.3. Next we briefly present the academic contribution in 1.4, definitions of terms used in the thesis in 1.5 and delimitations of the study in 1.6. The last section, 1.7, presents the outline for the thesis.

1.1 Background

The retail landscape has changed dramatically in the last decade. The fast paced penetration of connected devices such as smartphones and tablets have changed consumer expectations on retailers, and also changed consumer movement over physical and digital channels in search and buying process (Enders and Jelassi, 2000). In order to counter the new consumer shopping behaviour due the digitalisation, many retailers have adopted multichannel strategies in order to reap new benefits. In many cases, the decision of whether a new channel should be added to existing channel mix has been the focal point (Verhoef, 2015). Literature on channel extension effects on performance suggests that expanding the channel mix leads to positive effects on the retailer in terms of positive consumer responses such as increased satisfaction, more positive perception of value offering and favourable behavioural intentions (Herhausen et al., 2015; Verhoef, 2015). Yet, there is a significant lack of research on how, and why, channel extensions impact the retail brand. This is particularly interesting as practitioners report about the low profitability associated with channel extension concepts (Death of the Pure Online Retail, 2016.01.12). In this thesis we take a broader perspective on the impact of channel extension concepts by investigating whether consumer responses to the communication about an extension concept depend not only on the basis of *what* explicitly is communicated but also *how* it is communicated.

Drawing on marketing signalling literature, we know that employment of various marketing elements send signals about the brand that guide consumers in their evaluation of product choice, for example, a warranty signals endurance and a high price signals quality (Dawar, 1991; Kirmani and Rao, 2000). Many studies on marketing signals show that if consumers perceive an advertisement to have required a high level of effort they interpret this as a signal that the brand is more confident in the advertised product, as they implicitly assume that the brand would not otherwise have spent so much resources on

the advertisement (Kirmani and Wright, 1989; Kirmani, 1990; Ambler and Hollier, 2004). Recent research in creative advertising effects shows that same mechanism of perceived effort can be obtained through the perception of the creative execution of the advertisement. In addition, the literature suggests that not only the production of the advertisement but also in which channel it occurs can signal effort and this implicitly impact brand perception, brand attitude and behavioural intentions (Dahlén et al., 2008; Dahlén and Rosengren, 2012; Dahlén et al., 2014). Our belief is that we can employ the exact same mechanism by viewing a channel extension concept as an advertisement. Thereby, we expect a high perceived level of effort in the channel expansion to spill over on the perceived confidence of the retailer in the entire channel offering, thereby increasing consumers' positive attitude and behavioural intention to it.

Additionally, we hypothesise that consumer responses matter depending on the functional benefits of the added channel. This built on the logic that reaching out to consumers over different types of channels may have a positive impact on the retailer's performance as the channels can have complementary characteristics. For example, retail stores provide excellent opportunities for pre-purchase trial, instant gratification and personalised attention, while Internet sites provide expanded accessibility, product information and price comparisons (Grewal et al., 2004; Herhausen et al., 2015). The research of Dahlén and Lange (2006) shows that the effects of news about a brand in crisis will spill over on other brands in the same consumer-perceived category, negative if the associative overlap is large (assimilation effect) and positive if the associative overlap is small or non-existing (contrast effect). The argument draws on categorisation and priming theories suggesting that the competing brands coming to mind affect consumer evaluations of a product's characteristics (Dahlén and Lange, 2006; Herr, 1989). We believe that the categorisation mechanism in terms of the functional benefits of an added channel (physical channel) in relation to the retailer's existing channels (digital channel mix) may impact consumer evaluation of the channel and that these attitudes will spill over on the entire channel mix, or in other words the retail brand. Therefore, we suggest that a physical channel extension will have a more positive effect on consumer attitudes and behaviour intentions, than a digital channel extension, towards an online retail brand.

1.2 Main purpose

The main purpose of this thesis is to investigate the signalling effect a channel extension has on brand perceptions. More specifically, to capture how consumer-perceived signals of effort in the extension impact brand attitude and purchase intention towards the online retail brand, and test whether type of channel matters for these attitudes and behavioural intentions.

1.3 Research question

Serving this purpose, the following research question has been posed:

How does (1) consumer-perceived effort, and (2) type of channel in a channel extension, impact brand attitude and purchase intention towards the online retail brand?

1.4 Contribution

This thesis includes some points of contribution for both marketing signalling literature as well as for multichannel retailing literature. First, we set out to extend the current understanding on how channel extension is linked to the retail brand. This is done by merging the literature on how a channel extension impacts the retail brand (e.g. Avery et al., 2012; Baxendale et al., 2013) with the research on marketing signalling effects (Kirmani and Rao, 2000; Dahlén et al., 2008; Rosengren and Dahlén 2012). In doing so, we not only contribute with a novel perspective to the multichannel retail literature, but also replicate recent findings with regards to the signalling effects of consumer-perceived effort in a novel setting.

By investigating how execution of a channel extension impacts the online retail brand, we place the experiment setting from the online retail brand's point of perspective. This is a relatively novel angle in relation to existing studies of how channel extensions impact the retailer. Previous consideration to multichannel retail has to the largest part been driven by the growth of importance of the digital channel. Therefore, the research has been directed to how that affects firms and customers using traditional available channels, such as stores and catalogues (Avery et al., 2012).

Also, we choose to address the impact on the retail brand from marketing performance instead of sales performance measures. Previous research on multichannel impact on the retail brand has mainly focused on the contribution of a specific channel on economic performance metrics, such as sales and channel visits (Verhoef et al., 2015; Avery, 2012; Herhausen et al., 2015). By looking at how a channel extension moves attitudes and behavioural intentions in the mind of consumers, we believe we can expand the knowledge of how channel extensions benefit the retailer.

Finally, this thesis ties in with recent literature suggesting that consumer expectations, attitudes and behaviour intentions to multichannel offerings are continually changing due to disruptive digital innovations (Ender and Jelassi, 2000; Häubl and Trifts, 2000). We provide empirical evidence that multichannel retail research must be frequently updated and take the consumer shopping behaviour context better into account.

1.5 Definitions

Below we present three central concepts and how they are defined and used in this thesis.

1.5.1 Channel extension

In today's retail landscape there are many examples of channel extensions in terms of customer touch points, including physical and digital concepts for sales and marketing purposes, such as pop-up stores, social media channels and apps. This thesis deals with extension of sales channels and therefore the term *channel extension* will refer to adding an actual permanent store, digital or physical, unless otherwise stated.

1.5.2 Consumer-perceived signals

When a consumer processes any kind of brand-relevant information, they extract signals from the piece of communication that shape their perception of the information. These signals can be ones that the sender intended to communicate such as “buy this product signals purchase intention”, however, they can also be signals that the consumer infers with regards to their reference points to the information such as “excessive spending on ad signals brand confidence”.

This thesis deals with perceived signals of the execution, and not the message itself, of a brand-relevant information item (channel extension) and therefore the term consumer-perceived signals will refer to the unintended signals that the execution of the information item (channel extension) sends, unless otherwise stated.

1.5.3 Complementary capabilities

In retail, the physical and the digital sales channels offer different benefits for the consumer. While the physical channel is characterised by capabilities such as enabling feeling the merchandise and get acknowledged by salespersons, the digital channel offer capabilities such as enabling price comparisons, extended product information and 24h access. These capabilities fulfil different shopping goals and hence, are complementary. This thesis deals with complementary capabilities in terms of these channel characteristics and therefore the term complementary capabilities will refer to those mentioned above, unless otherwise stated.

1.6 Delimitations

In order to carry out this study within the restricted frame of resources of a master thesis, the area of research have been narrowed down as follows.

As stated above, the study only regards actual sales channels. This means any other types of channels where retailers and consumers may interact, such as social media platforms, are not considered within this thesis.

Most research so far on channel extensions has considered retailers with an existing physical offering extending to the digital channel, although changes in retail channel mix strategies are relevant to all types of firms. This thesis has the opposite orientation, looking only at online retailers without any permanent physical stores. Retailers with only physical sales channels or with multiple sales channels are not considered within the scope of this thesis.

Regarding choice of study object we have limited the study to a single retailer, Nelly.com, hereafter referred to as Nelly. Nelly is a Swedish online retail company within fashion and beauty with a significant market share in Sweden. The study was conducted on Swedish consumers and used the Swedish website. Naturally, this approach of using a

single retailer creates some restrictions on the generalisability of the results, which will be further discussed in chapter 5, Discussion and Implications.

1.7 Thesis outline

This thesis is composed of eight main sections: Introduction, Theory, Method, Results, Discussion and Implications, Conclusions, Limitations, and Future research. In order to give a brief overview we will now summarise briefly the purpose of each section.

The introduction aims to introduce the reader to the subjects of retail sales channel extensions and advertising signalling effects. The problem formulation and research questions will be defined in the context of the channel extension research and the reader is placed in the scope for the conducted study.

The theory section aims to make the reader up to date with current research and literature in marketing signals and multichannel retail. Based on this conceptual background and the specific research context of the thesis, the hypotheses for the study are also generated and presented in this segment.

In the method section the operationalisation of the study built on the theoretical framework will be explained. Also provided is a detailed description of how the experiment was conducted, including pre-studies, as well as motivations for methodological choices. The object of study, online fashion retailer Nelly, and the sample frame in the experiment are also presented.

The results section presents the analysis of the quantitative results from the experiment. The analysis will be further elaborated on in the discussion and implications section, including generalisation of the results and speculations from us as researchers. In the conclusion we present the key findings and takeaways from this thesis. The limitations section presents the shortcomings of the study and the future research section suggests topics and theoretical perspectives where our results could be further replicated and elaborated on.

2. Theory

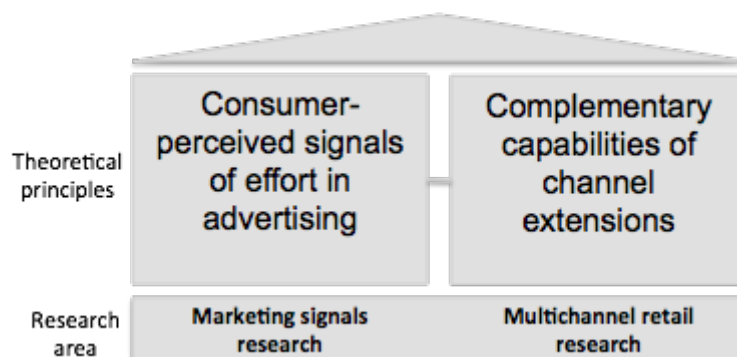
In the following section we present an overview of the theoretical platform in section 2.1. We describe consumer-perceived signals of effort in section 2.2 and complementary capabilities of channel extension 2.3. In section 2.4 we generate the foundation for our hypotheses.

2.1 Overview of research area

The research platform of this thesis is founded on two blocks of theoretical principles. The first block explains the consumer-perceived signals of effort in advertising (Dahlén et al., 2008; Dahlén and Rosengren 2012; Dahlén et al., 2014) in the literature of marketing signals research (Kirmani and Wright, 1989; Kirmani, 1990; Kirmani and Rao, 2000). This block describes the positive signalling effect that perceived effort in a channel extension might have on brand attitude and purchase intention towards the online retail brand. The second block explains the complementary capabilities of a channel extension (Avery et al., 2012; Baxendale et al., 2015; Wallace, 2004) in the literature of multichannel retail research (Verhoef, 2015). This block sets the logic behind channel extension from the view of the retailer and explains the principle of complementary capabilities.

By defining this theoretical foundation, we not only contribute with a new perspective on the channel extension's value for the retail brand, but also replicate recent findings with regards to the signalling effect of perceived effort in a novel setting.

Figure 2.1: Theoretical platform of the thesis



2.2 Consumer-perceived signals of effort in advertising

The theoretical principles of consumer-perceived signals of effort will following be defined, explained and nuanced by empirics which build our common basis of knowledge on which we will define our hypotheses.

2.2.1 Definition of consumer-perceived effort in advertising

Advertisers may feel inclined to spend money where it can show direct effects on sales or consumers' understanding of the communication, however research shows that the execution of the communication also matters, and not only the content itself. This insight is founded in the marketing signals literature, in which Kirmani and Wright (1989) are founders of the theorem that consumers use their perception of the advertisement as a cue of how the brand performs in other areas. The starting point is that if the advertisement is perceived as more expensive, consumers infer that the brand is more confident in the advertised product. The research has extended to relate perceived expense to perceived effort in terms of referring to any expenditure of scarce resources such as money, time, personnel, thought or attention (Kirmani, 1990; Kirmani and Rao, 2000). Put together, perceived expense through perceived effort, has a positive signalling effect on consumers' perception about the quality of the advertised product, which implicitly affect consumers perceptions and attitudes towards not only the product but also the brand behind it. As the effect can be simplified as a linear relationship, one more unit perceived effort leads to one more unit of perceived quality, Kirmani and Wright also discuss boundary factories to the theorem. Three types of boundary factories were salient in their experiments: Desperation in terms of spending excessively which means the brand is desperate to get people to buy; no pain in terms of the brand is spending a lot but it is at low risk; and immunity in terms of exaggerated communicated product benefits, but that does not hurt the company since it is not interested in repeat sales (Kirmani and Wright, 1989; Kirmani, 1990; Kirmani and Rao, 2000). Marketing signals research is neither excluded to only include explicit messages, such as public relations statements and promotions. In reverse, many other marketing element of the brand can send signals, such as price that can signal quality and warranties can signal durability (Dawar, 1991; Kirmani and Rao, 2000).

2.2.2 How consumer-perceived effort can be created by the brand

Literature on the signalling effect of perceived expenses states that consumers estimate advertisement expense from available information within the advertisement and from external sources (Kirmani and Wright 1989; Kirmani 1990; Kirmani and Rao, 2000). Consumers can learn about the media and production elements by either directly observing the advertisement or indirectly learn about the advertisement through articles and press releases that mention production elements. Both principles can be found among practitioners today. For example, advertisers can buy over dimensional space for an advertisement in newspapers, or buy distribution space in newspapers in which they create their own leaflet with advertisement inbound with editorials (Kirmani, 1990). Another example is the Swedish online IT retailer Dustin AB that published a press release before opening of Dustin Concept Store, cuing elements such as an expensive rent by mentioning the address in a business district in central of Stockholm and generous labour costs by mentioning a high service level in the store (Idag Öppnar Dustin Concept Store, 2015.10.22). Consumers' knowledge about the media and production elements may evoke a perception about the advertisement's expense, alternatively news stories may explicitly state or speculate about the level of expense. Research concludes that consumers have these perceived expense associations accessible in mind when they are processing new brand information (Kirmani, 1990; Kirmani and Rao, 2000). Similar to the example of Dustin, our belief is that we can employ perceived effort's positive effect on the brand, by viewing a channel extension as a marketing element with potential signalling power.

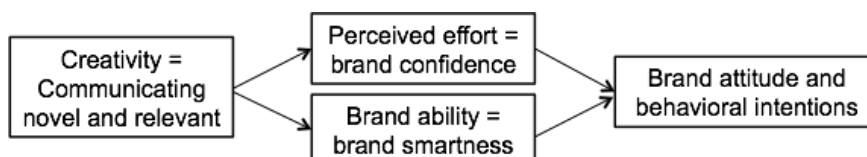
As the literature suggests, consumers today are advertising literate to the extent that they, more or less conscious, form impressions of how expensive the message is and draw conclusions of whether this amount of expenses was exceptionally great (Kirmani, 1990; Kirmani and Rao, 2000). However, it is important to distinguish perceived expensiveness from actual expensiveness. A study by Scipione (1997) shows that consumers consistently overestimate the amount of advertising expenditure. While these conclusions made by the consumers may be more or less correct, they still influence brand evaluations (Kirmani, 1990; Kirmani and Rao, 2000). This finding emphasises the opportunity for a brand to position itself in the mind of consumers, by also putting effort in execution, and not only explicit message.

2.2.3 Link between consumer-perceived effort and brand attitude and behavioural intentions

Ambler and Hollier (2004) built on these findings by exploring how perceived high costs behind an advertisement, which do not add to the functionality of the advertisement (in terms of the consumers understanding of it), may affect brand quality and brand credibility. Drawing on the “handicap principle” in biology - like animals can signal biological fitness, Ambler and Hollier suggest that brands’ communication to potential customers use the same mechanism. While animals communicate health and strength with physical attributes, a brand can communicate superiority, or “brand fitness”, over competitors with extravagant advertising to entice customers. Their results showed that the positive signalling effect in perceived extraordinary expense in advertising is driven by competitive differentiation and especially the lack of functional differentiation. Their findings suggests that signalling the brand’s strength is of particular importance for a brand with products very similar to its closest competitor (such as Coca Cola and Pepsi).

Dahlén et al. (2008) extended the marketing signalling literature by investigating the signalling effect creative advertising has on the brand. He showed that perceived creative advertisements signal more effort, as creative advertisements demand more resources to produce than no-frills sales driven advertisement. He also concluded that this mechanism has direct positive effects on perceived brand interest, perceived brand quality and purchase intention. This conceptual development of the stimuli “creativity” as a signal for both “perceived effort” and “brand ability” has thereafter influenced the research area of marketing signalling, as a large part of empirical studies use perceived creativity instead of perceived expense and effort as a factor for positive brand attitude and behavioural intentions.

Figure 2.2: Creativity as a stimulus of perceived effort and brand ability



In line with Ambler and Hollier (2004), Dahlén et al. (2008) manipulated a fictional advertisement for the same brand in a dichotomous creativity manipulation in order to

ensure that only the level of creativity and not the functionality in regards to what was communicated would differ. He developed the measurement of brand ability by taking Ambler and Holliers concept of “brand fitness” in relation to the concept of corporate ability, which refers to the firm’s ability to improve quality of existing products and launch new innovative products (Luo and Bhattacharya, 2006). Calling his measurement brand ability, he defined it with three variables: The brand is smart, the brand develops valuable products and the brand is a good problem-solver. In relation to Dahlén et al. (2008), Luo and Bhattacharya (2006) link corporate social responsibility (CSR) initiatives instead of “creativity” to perceived effort and corporate ability. Their findings showed that corporate ability has positive effect on both consumer perceptions and financial value of the firm, and they argue that signalling corporate ability may even be the most powerful source of competitive advantage in the crowded, product homogeneity marketplace.

Dahlén et al. (2008) emphasise the importance of consumers’ perception and experience of the brand in front of their recall and perception of the advertisement itself, since consumers are not able to recall all the advertising they process through the day (e.g. Heath and Narin, 2005; Weilbacher, 2003). Heath and Narin (2005) support this argument by concluding that affective response in advertising is of particular interest for brands that want to be long term successful in their advertisement by obtaining a long-lasting position in the minds of consumers. Weilbacher (2003) extend the argumentation to conclude that brands should view advertising as an on-going accumulation of signals that shapes consumers’ associations and knowledge about the brand. In addition, a widely cited article by Hall (2002) suggests that consumers perceptions about a brand is not stagnant over time and powerful advertising actually immediately can move forward the brand’s position in the minds of consumers.

2.2.4 Perspectives of consumer-perceived effort in retail and on channels

While Dahlén et al. (2008) and above presented studies have been focusing on the focal (manufacture and product) brand, Modig and Rosengren (2014) suggest that there may be more stakeholders that could benefit from conducting creative (high effort) advertising. In their study (2014) they investigate how creative advertisement benefits both perceived product quality and perceived brand attitude and purchase intention towards a

convenience retailer (7-eleven) and a grocery retailer (Target). Their results show that perceived effort indeed has a positive signalling effect on attitudes and behavioural intentions towards the retail brand. They also emphasise the importance of using advertising perspectives in retail research, particularly because the literature has been focused on promotion rather than advertising and on price rather than execution (Ailawadi et al., 2009).

With similar theoretical foundation, Dahlén et al. (2008) and Rosengren and Dahlén (2012) have also related perceived effort's signalling effect by studying how creative media choices signal brand ability, which has a positive impact on brand perceptions and behavioural intentions. The results were in line with previous findings. Outcomes in creative advertising are not limited to execution of ads or commercials, they could just as well be creative media placements, such as advertising in creative channels.

2.3 Complementary capabilities of a channel extension

The theoretical principles of complementary capabilities of a channel extension will following be defined, explained and nuanced by empirics which build our common basis of knowledge on which we will define our hypotheses.

2.3.1 The logic for employing channel extensions and creating a multichannel offering

Verhoef et al (2015) summarise the research up to date on multichannel retail into three main topics: Impact of channels on performance, customer behaviour across channels and the cross-channel retail mix. They emphasise that the new digital channels and customer touch points which have been on the rise in the past decade have led to major changes in customer behaviour. This in turn has driven retailers to change their execution of the retail mix and even their business models. (Verhoef et al., 2015) Many pure online retailers see the value of having a physical presence in the form of a regular store or outlet. There is a sentiment among many retailers that a multichannel presence can create synergies. Physical stores increase visibility of the brand and serve as billboards, while the digital store provides greater accessibility for consumers as well as information about and overview of the product range (Avery et al., 2012; Herhausen 2015).

2.3.2 Customer benefits of a multichannel approach

A lot of research has also focused on the customer benefits of a multichannel strategy, and how they relate to brand loyalty. One article highlighting the customer benefits is Wallace et al. (2004), which argues that a multichannel presence increases customer satisfaction, this because of the increased functional benefits of the company's offering. A company's offering is regarded as a combination of a core product offering and a portfolio of service outputs, which occur before, during and after purchase. They include accessibility factors such as hours of operation and product specific factors such as product selection and information on product attributes. Customers' complex needs are more likely to be met by a greater mix of service outputs, which are available in multiple channels, and therefore the satisfaction increases with the multichannel approach. (Wallace et al., 2004) When employing a multichannel strategy the retailer also creates more potential touch points between customer and brand, which include for example in-store experiences, advertising, social media communication, earned media and word of mouth. Baxendale et al. (2015) also report a higher customer satisfaction with a higher frequency in customer-brand touch points. Increased satisfaction, in turn, leads to increased brand and retailer loyalty. (Wallace et al., 2004)

Herhausen et al. (2015) showed that customers prefer multichannel retailers over pure online players. Their study explored the connection between service quality perceptions and customer outcomes for both the specific channel and the retailer. A multichannel offering significantly enhances customers' search intentions, purchase intentions and willingness to pay. A multiple channel retailer also generates additional sales from customers who would have purchased products from other digital stores. Hence they claim multiple channels lead to synergies rather than cannibalisation, which are further explained in section 2.3.3 on Avery et al. (2012).

There have also been concerns about negative outcomes from a multichannel offering. Wallace et al. (2004) explain that the customers' information search costs decrease and the price transparency increases. These mechanisms would lead to lower search costs and greater motivation for switching retailer, which would bring about a decrease in customer loyalty. However, Wallace et al. (2004) argue that this effect is cancelled out by the positive effect of satisfaction with service outputs and the net effect would still be an increase in customer loyalty.

2.3.3 Definition of complementary capabilities of a channel extension

The above mentioned benefits of the multichannel strategy are intuitive, although there was no significant empirical evidence of these suggested synergies when Avery et al. (2012) studied the effects of adding a physical sales channel for online retailers. Their study was conducted on a single retailer but they found some initial evidence of cross channel synergy, as the presence of a physical store increases demand in the digital shop as well. This because the physical store attracts new customers at a faster rate than the digital, and encourages them to continue shopping in both channels over time. The analysis of Avery et al. focuses on the complementary capabilities of a channel extension, which is the channels' enabling characteristics allowing customers to accomplish shopping goals, such as having an enjoyable shopping experience, have access to the store and product assortment and minimising tangible and intangible transaction costs.

When evaluating an added channel's capabilities they look at two dimensions. The first is whether the new capabilities in the added channel substitute for or complement the capabilities of pre-existing channels. This dimension determines whether the new channel will cannibalise on the pre-existing, or if it will generate incremental demand. If the capabilities of the new channel are very similar or better in relation to those of the pre-existing channels, it leads to cannibalisation of the pre-existing channels. Customers simply switch to the new channel and more or less abandon the pre-existing. This has been the case for the catalogue channel for many companies introducing a digital store. There are few benefits to the catalogue that the digital store does not offer, and other elements are greatly improved which means that once the customer has learned to use the digital channel they tend to not return to catalogue. However, if the capabilities offered are complementary to the existing channels it can attract new customers as well as make existing customers purchase more. Physical stores have not been abandoned since the introduction of digital stores, since they offer many benefits that the digital store cannot. This way, the physical and digital channels cater to different needs of the consumer and complement each other.

The second dimension is whether the given capability is quickly apparent to the consumer or if it must be learned from experience. This will determine the timeframe in which a retailer can observe the effect. Capabilities that are quickly apparent to consumers should change their behaviour in the short term and affect sales fairly soon.

Some capabilities are learned through experience or accrued over time before they begin to affect shopping behaviour, and thereby lead to more long-term effects in sales.

Thereby, these two dimensions of capabilities are the ground for the mechanisms that will determine the success of a channel extension - cannibalisation or increased demand, and effects seen in the short or long term.

2.4 Hypotheses generation

In light of the theoretical blocks explained above we identify two manipulations with potential positive effect on two dependent dimensions, brand attitude and purchase intention, which we want to investigate in this study.

The first manipulation is related to the consumer-perceived effort placed in the channel extension concept. We hypothesise that a channel extension in which consumers perceive that the retailer places a high level of effort will have a positive effect on brand attitude and purchase intention (see H1a, b). Additionally, we suggest that perceiving greater effort in an extension concept will lead to perceiving greater ability of the brand, which will enhance both brand attitude and purchase intention (see H2a, b).

The second manipulation is related to the complementary capabilities of the channel extension. We hypothesise that an extension adding complementary capabilities (physical channel) to the existing channel mix (digital channel offering) will have a more positive effect on brand attitude and purchase intention (see H3a, b). In line with this reasoning, we also believe that a physical channel extension concept moderates the relation between perceived effort and brand attitude and purchase intention towards the online retail brand (H4).

2.4.1 Why high perceived effort would have a positive effect on brand attitude and purchase intention

Consumers build knowledge about brands when they process brand-relevant information such as reading an advertisement, visiting a store or consuming a product. These brand-consumer touch points generate a large set of associations that shape consumers' perceptions and attitudes towards the brand. A brand evaluation is not stagnant over time, to the contrary it is a dynamic process over time where consumers use all attitude-

relevant information available to update their perceptions (Weilbacher, 2003; Reed et al., 2002; Dahlén et al., 2008). If a channel extension is understood and accepted as part of the brand, the perception of the channel extension will add up to the pre-existing knowledge about the brand. This may in turn affect consumers' attitudes and intentions towards the brand (Dahlén and Lange, 2006; Herr, 1989).

Our hypothesis is that consumers who perceive a high amount of effort behind a channel extension will not only evaluate the channel extension more positively, but also more importantly evaluate the retail brand as creator of the venture more positively. It is well established in the advertising research literature that attitude and behavioural intention are two highly correlated factors (Baldinger and Robinson, 1996). Many studies show that consumers' affective response in terms of their attitude towards a brand impacts their behavioural intentions of spending and repeat purchasing (Neslin et al., 2014). While measuring actual purchase behaviour requires expensive point-of-sales data, the consumer behaviour research literature suggests that measuring behavioural intention is a good substitute (Cronin et al., 2000). Purchase intentions can, in a more cost efficient way, capture purchase behaviour by self-evaluation questions and choice task questions. Therefore, in addition to a positive effect on brand attitude we also expect to see a positive effect on purchase intention.

*H1: Perceived high effort in a channel extension leads to greater positive effects on
(a) brand attitude and (b) purchase intention, than perceived low effort.*

2.4.2 How brand ability could have a mediator effect on perceived effort

To expand a channel offering with one additional channel requires investment, in terms of both time and money, in order to establish the specific skills and knowledge necessary. This can be inferred as increased ability of the brand to serve customers better than it has been able to do historically. In our case, we believe that a channel extension conducted with a high level of effort could work as a signal of brand ability as well in terms of specific knowledge and know-how related to launching and running a new business unit. Therefore we hypothesise that, how, perceived high effort impact attitude and behavioural intention, is mediated by brand ability.

2.4.3 Why a physical extension concept would have a positive effect on brand attitude and purchase intention

The rationale builds on the principle that consumers should recognise, and value, the complementary capabilities a physical channel adds to the online retailer's channel mix offering, in order to fulfil their shopping goals (Avery et al., 2012; Wallance et al., 2004; Baxendale et al., 2015). We therefore expect a physical channel extension to have greater positive effect on brand attitude and purchase intention, in relation to a digital extension.

*H3: A physical channel extension leads to greater positive effects on
(a) brand attitude and (b) purchase intention, than a digital extension.*

2.4.4 How a physical extension could have a moderator effect on perceived effort

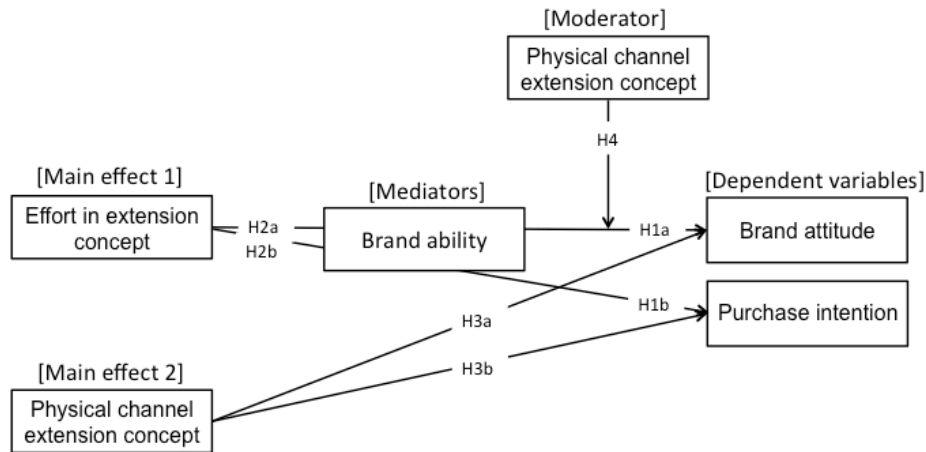
In addition, we believe the impact perceived high effort behind a channel extension has on the retail brand can be strengthened if the new extension is a physical channel. This is based on the notion that the physical channel extension adds complementary capabilities that are recognised and valued by consumers, and that these capabilities would increase perceived quality. The increased perceived quality would in turn increase the sender's credibility in the eyes of the consumer.

H4: Effects of perceived high effort on brand attitude and purchase intention are moderated by a physical channel extension.

2.4.5 Summary of hypotheses

Figure 2.3 below shows the theoretical basis of the thesis and how the hypotheses relate to our main concepts.

Figure 2.3: Theoretical model of the thesis



3. Method

In this chapter we introduce the research area in section 3.1 and research approach in section 3.2, built on the theoretical framework previously presented. We describe our study object and sample frame in section 3.3 and 3.4. Next we present experiment design including manipulations, measures and pre-test in section 3.5 and the main experiment in 3.6. In 3.7 follows our method of analysis and the chapter ends with a discussion of reliability and validity in section 3.8.

3.1 Selection of research area

Our research question is mainly concerned with how the channel extension impacts the performance of the retail brand. More specific, we ask how the perceived effort behind the extension concept (high or low) and type of channel (physical or digital) impact consumer attitude and behavioural intentions towards the brand. We use methods and tools in the marketing signals literature in order to meet the purpose of the study. Methods used in this area are characterised by an experiment design, development of an advertisement signalling stimuli (e.g. production element or choice of medium), a quantitative data collection approach and use of statistical analysis tools (e.g. Dahlén et al., 2008; Modig and Rosengren, 2014; Dahlén et al., 2014). Our choice of method can be related to previous research in both marketing signals and in multichannel retail.

In the marketing signalling literature there are many studies in which different aspects of the advertisement have been manipulated – such as perceived expense, perceived

creativity in production, or perceived creativity in choice of medium – in order to explain the outcome on the brand through consumer responses (Dahlén et al., 2008; Rosengren and Dahlén, 2012; Modig and Rosengren, 2014). In our case, we believe a channel extension may act as a marketing signal and have the same signalling effect on consumer perception, attitude and intentions towards the retail brand.

In relation to previous studies on the impact channel extensions has on the retail brand, the impact is measured through economic performance metrics, for example sales and channel visits (Avery et al., 2012; Baxendale et al., 2015; Grewal, 2004), we use consumer response metrics such as attitude and behavioural intentions. We believe that these may give further explanation on how channel extensions impact the retail brand through consumers' perception, attitude and intentions towards the retail brand.

3.2 Selection of approach: Deductive and quantitative

We consider this thesis to have a deductive approach since research questions and hypotheses are based on existing channel extension and marketing signals literature and we test it through observations (Bryman and Bell, 2011). The measured variables are created according to established consumer attitude and intention measures, and the generalisability of the four manipulation scenarios is conducted according to existing scenario-based research methods (Dahlén et al., 2008). Moreover, as we want to make an argument about a specific rather untouched phenomenon in terms of channel extension signalling effect, we can by using a deductive method confirm or reject the relation between the manipulation input variable and the attitude and intentions output variables (Bryman and Bell, 2011).

We use a quantitative method in our data collection with standardised measures and analyses procedures. This enabled us to test our hypotheses through a reliable, statistical and objective perspective (Bryman and Bell, 2011). In addition, previous research shows that a deductive method is often implemented with a quantitative method, as the facts are based in quantitative analyses it facilitates generalisation of findings (Bryman and Bell, 2011).

We use the online fashion retail brand Nelly's webshop as a setting to gather our data for the study. As we want to have control over how the channel extension is perceived, our study has a closed approach with predetermined questions and manipulations constructed

in line with previous theory. The manipulations are tested over comparable treatment groups, which all have a large enough set of respondents with randomised distribution (Jacobsen, 2002).

3.3 Setting for the experiment: Online fashion retail brand Nelly

We use the online fashion retail brand Nelly to serve as a setting in our experiment. There are two reasons for our choice of retailer. First, we want to make our scenarios as relevant and trustworthy as possible and avoid potential idiosyncratic effects from product, audience or other market characteristics. To that end, it is suitable to use an existing well-known brand (Dahlén et al., 2008). Nelly is a Swedish company with a significant online presence and high brand awareness. It is the largest digital retailer in the Nordic countries for fashion and beauty and is present on eleven international markets. Second, we want to test the complementary capability of the added channel (digital actor launch physical channel extension) and avoid risks of replication of existing channel extension, we thereby chose a digital retailer that has not yet established a profound presence over physical channels today. Previously Nelly has launched a number of pop up stores in different cities in Sweden (På Ny Sommarturne Med Pop Up Stores, 2014.07.02), however these do not signal the long-term commitment that opening a permanent channel does. We consider Nelly's digital offering to be extensive. The webshop carries female and male apparel, shoes, beauty and accessories from 700 brands, including a private-label line in clothing, shoes and beauty product categories. (Nelly.com, 2016)

In order to operationalize the channel extension we created fictitious scenarios where the Nelly brand is to extend their offering in existing and associative product categories. This enable consumers to be exposed to the new offering in the channel extension but still be able to differentiate their opinions about the channel extension from their opinions about the brand itself. To test which product category that has the most associative fit with the brand, we conducted a pre-test, which is described in further detail in section 3.5.2 Concept test.

3.4 Sample frame and respondents

Our sample frame is university students at Stockholm School of Economics. It is a convenience sample but we consider this group to be fairly representative of the

customers at Nelly and therefore the result could be somewhat generalised on Swedish online fashion retail consumers. According to the central limit theorem, each one of our four manipulation groups should consist of at least 30 respondents in order to create a normal distribution and enable comparison of variation between groups (Söderberg, 2005). Therefore, each one of our four different variations of the scenario has a sample size of at least 30 respondents, which implies 120 respondents in total. We use a non-probability sample, by using a list of enrolled students in a randomised set of chosen courses.

3.5 Experiment design and pre-tests

The experiment is carried out as a scenario based Internet questionnaire. We use an experimental design with four treatment groups, 2 (perceived high effort/ perceived low effort) x 2 (digital/ physical) and the webshop at Nelly.com as the setting for testing our hypotheses. Within the scenario, each respondent is exposed to one out of four different versions of a channel extension launch, a method used by Dahlén et al. (2008).

In line with previous studies in consumer-perceived signals of creative advertising we want to assure that only the perceived effort behind the venture and the type of channel differ between the presented scenario texts, not the functionality of what is communicated (Dahlén et al., 2014; Dahlén et al., 2008; Ambler and Hollier, 2004). The functionality of what is communicated can be evaluated from two questions, first, “is the extension concept perceived as trustworthy so participants in the treatment groups can process the content in the scenario text instead of processing the unlikelihood of the message?” and second “are the four different scenario texts perceived as different in terms of perceived effort and channel type?”. In order to test these two functionalities we create two types of pre-tests, described in 3.5.2 and 3.5.3.

3.5.1 Technical issue with experiment design

As this study aims to investigate whether the type of channel, digital or physical, in the channel extension matters for the consumers’ evaluation, attitude and behavioural intentions towards the online based retailer’s brand, it faces a technical issue. How to make consumers understand a digital channel extension at an actor that already has a web-based offering? This is the reason why in the operationalization of the channel extension we will present it as a brand extension as well. During the last ten years,

several managerial examples of this type of extension have emerged in the existing retail landscape. One example is the physical grocery actor ICA that has expanded its physical channel offering to pedestrian locations, offering the convenience assortment under the brand ICA ToGo.

We believe that in order for consumers to build a perception and evaluate the channel extension they need to accept the concept for the channel extension. The methodological explanation to this can be found by turning to the similarity theory in advertising research literature. Similarity theory shows that spill-over of consumer attitude is most likely to occur among brands that are perceived as similar, and least likely to occur among brands that are perceived as different (Dahlén and Lange, 2006; Herr, 1989). This is because consumers inference new brand information in context to other brands, for example, a car can be perceived as expensive if it is presented together with other expensive cars. This effect is moderated by the association overlap between the car and the group of cars, if the car is assimilated rather than contrasted to the expensive cars it is most likely that consumers generalise the information between brands in the same group (Herr, 1989). We expect that similar mechanism can be applied when information about a channel extension enable consumers to evaluate the channel extension concept with competing brands. In order to assure that the extension concept is assimilated with Nelly and thereby enable consumer's attitude and intentions to spill-over on the brand, a pre-study with four alternative extension concepts was conducted, that following will be presented.

3.5.2 Pre-test 1 – Concept test

The concept test was carried out before the main study to make sure the channel extension we proposed would be perceived as plausible and trustworthy for consumers. Four possible extension concepts were tested – NLY Shoes, NLY Sport, NLY Beauty and NLY Lingerie. We created short news alert messages describing each of the new extensions in a similar way, as well as a number of questions asking how plausible and appropriate it would be for Nelly to launch this extension (Appendix C). Respondents were also asked to rate how strongly they associated the product category with Nelly. The final question asked the respondent to rate how suitable the extension would be to launch in a physical and a digital channel, respectively. The four surveys were distributed over Facebook to five respondents each, in total 20 respondents. Since this study was only to determine the fit of the concept to the brand it can be argued according to marketing

research practice to not have a full representable sample (<30 observations). The results of the surveys indicated that consumers perceived the concept NLY Shoes as the most likely to be launched as an extension by Nelly. The NLY Lingerie concept was considered the least likely. NLY Shoes was also considered similarly appropriate to be launched both in a physical and digital channel – the physical channel received a score of 4.0 out of 7, and the digital a 4.6 out of 7. The NLY Beauty and NLY Sport concepts had big differences in these numbers that would make them inappropriate to use in our main study. From these results we concluded that the NLY Shoes concept would be the most suitable concept to use for the main study.

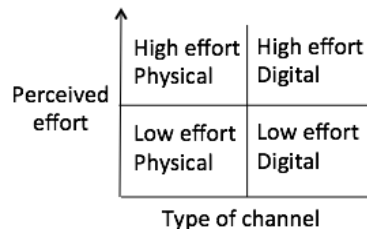
3.5.3 Pre-test 2 – Manipulation check

Next, we developed a pre-study to test our manipulations. We created a news alert message from Nelly announcing the launch of a new store for shoes, offering products from their own brand NLY Shoes and from the 350 brands they carry in the original webshop. The message was manipulated in four different versions, two of which described a physical store and two a webshop. One of each was intended to signal a low effort put into the venture by Nelly, and one of each intended to signal a high effort. Each respondent received a survey with one of these messages followed by two sets of statements where they were asked to indicate to what degree they agreed with the statement. The first set of statements measured their attitude to the channel extension and the second set the perceived effort of the venture by Nelly. The last section was a manipulation check question about the content of the message, to make sure the respondent had read and understood the concept presented. These surveys were distributed in physical form to people in the shopping centre Mall of Scandinavia. In total there were 20 respondents in this pre-study, five for each of the four messages. The results clearly indicated that for the physical store concepts, the message that was intended to signal high effort also received the highest score on perceived effort while the message intended to signal low effort received the lowest score on perceived effort. The channel attitude score was also higher for the high effort message compared to the low effort message. The results for the digital store concepts were more ambiguous. The perceived effort scores were similar and even showed a slightly higher perceived effort score for the intended low effort message. The same result was seen in the channel attitude score. Although the results could not clearly indicate that the manipulations worked as we had hoped, we decided to proceed with some minor changes.

3.5.4 Manipulation overview

The manipulation messages were then included in the scenario for the main study. Figure 3.1 shows an overview of the manipulations.

Figure 3.1: Overview of the 2x2 manipulations



Two of the manipulation messages were constructed as very short and straightforward, intended to communicate to respondents that the retailer had put less effort into the execution of the channel extension. The other two messages were longer and more descriptive. They offered more details about the store, the products and the staff and were also intended to sound more inspiring and inviting than the first two messages, which intended to create the perception that a high effort was put into the execution of the channel extension. For each level of effort there was one message declaring the opening of a new physical store concept in the shopping centre Mall of Scandinavia, Stockholm, and one announcing a new digital store concept external to Nelly's existing webshop. The messages were constructed to be as similar as possible in low effort and high effort respectively, except for the necessary differences due to the nature of the physical and the digital stores.

Below are English translations of the two messages informing about the opening of a physical store:

Low effort message:

NLY Shoes

This spring, Nelly will be launching NLY Shoes as a brand new store concept in Mall of Scandinavia, Stockholm. In the new store you will find inspiration, style tips and fashionable shoes for men and women for all occasions. The product range will consist of some of our most popular brands and of course also our own products.

Welcome!

High effort message:

EXCITING NEWS – Nelly is launching a brand new store concept in Mall of Scandinavia

Nelly is happy to announce the launch this spring of NLY Shoes as a brand new store concept in Mall of Scandinavia, Stockholm. We are moving our shoe department into a physical store to provide you as a customer even better service and inspiration.

In the new store NLY Shoes you will find everything you need to boost your outfit and bring your shoe collection to new heights. We will offer inspiration, style tips and fashionable shoes for men and women for all occasions. Every day we will offer news from our 350 brands, and of course our own product will also be included in the range. In the new store we are really focusing on giving great service with our Sales Advisors who will be able to give you personalised tips and advice on everything from style and trends to shoe care. This store is the first step in the development of our offering, just to give you as a customer the best possible shopping experience.

Welcome to the new shoe-shopping destination in Stockholm, NLY Shoes!

3.6 Experiment procedure

After completing our pre-studies the main study was conducted between March 9th and March 14th. We collected primary data through a self-administered questionnaire created with the online survey tool Qualtrics. The setting for data collection was a classroom for the students' respective lectures and the maximum number of participants in each experiment session was 60. At the beginning of each session, we asked the students to open their student email inbox, to which we had in beforehand sent an email with a link to the online questionnaire. Thereafter, we told the students that they were going to participate in a study about the fashion retailer Nelly in which they would begin with accessing and browsing in the webshop in order to stimulate a digital shopping session. We then told the students to click on the link to start the questionnaire, for overviews of its contents see figure 3.2. The answers were recorded anonymously and both the survey and the scenarios were in Swedish. The different parts of the questionnaire – the scenario, manipulations and measures – will now be described in detail in the sections 3.6.1, 3.6.2 and 3.6.3. An English translation of the manipulations can be found in Appendix A and the full questionnaire including the message screen in Appendix B.

Figure 3.2: Overview of experiment procedure main study

| Step 1: Scenario | Step 2: Manipulations | Step 3: Survey |
|--|---|---|
| Respondents are asked to imagine themselves to be in a shopping mode and browse through Nelly's webshop. | When completed browsing, a message box about a to-be-launched store is presented. | After reading the message box, a questionnaire about attitude and intentions to Nelly is asked to be fulfilled. |

3.6.1 Scenarios

The questionnaire started by describing a scenario for the respondents to imagine. Then, the participants were asked to access the website of Nelly in order to stimulate a shopping browsing session. The scenario was presented as follows:

“Imagine the following: It’s Wednesday night and you’ve come home from a long day of lectures in school. You have no plans tonight, you are just taking it easy at home. You sit down with your computer and start browsing the web. After a while you find yourself at Nelly.com to see if they have anything nice.

Now follow the link below to Nelly’s website to see what products they offer right now. Navigate as you would if it were a regular visit to the site and choose a product you like. Enter the product code for this item in the field below.”

The respondents were prompted to enter the product code into a field in the survey when finished with the shopping browsing task, before continuing with the questionnaire. The purpose of this exercise was to expose the respondents to the retailer and webshop and put them in shopping mode before they were exposed to the manipulation, a method used by Childers et al. (2001).

3.6.2 Manipulations and manipulation checks

After entering the product code and continuing to the next page, a screenshot of the Nelly.com homepage with a message box was shown in the questionnaire. The respondents were asked to read the message, imagining it appeared when they visited the website.

“Now imagine you are still at Nelly.com’s website when the following message appears on the screen. You read the message:“

This message box contained information about Nelly’s channel extension – the manipulation in the study. Each respondent was only exposed to one out of the four versions of the message, digitally randomised. The respondents were unaware that other variations of the message existed.

3.6.2.1 Manipulation and manipulation check of high or low communicated effort in channel extension

We tested whether consumers perceived a higher or lower effort behind the channel extension with the different message versions with the question “To what extent do you agree with each of the following statements about the new store venture?”, which had the four corresponding statements: “Nelly spends a lot of time on this venture”, “Nelly puts a lot of thought on this venture”, “Nelly makes a lavish venture” and “Nelly spends a lot of money on this venture”. We then computed the indexed factor “perceived effort” from the four manipulation check questions. We then tested the mean difference of perceived effort over the two treatment groups of high and low effort version of the channel extension message.

3.6.2.2 Manipulation check of physical or digital channel extension

As we wanted to assure that our treatment groups read and perceived that they were exposed to a physical or digital extension we created a manipulation check question corresponding to this. We asked “which of the following alternatives best describe the information in the message from Nelly.com?“ with the answer alternatives “Nelly is launching a new sports concept”, “Nelly is launching a new online shop for shoes”, and “Nelly is launching a new physical shop for shoes”. We could thereafter compare if the respondents exposed to a digital extension also had selected an online shop in the manipulation check question.

3.6.3 Questionnaire and measures

Following the scenario and the manipulation were the survey questions. The measurements used and the questions designed to assess them are presented below.

3.6.3.1. Perceived effort

The measurement for perceived effort in the channel extension is constructed from Dahlén et al. (2008) and Kirmani (1990). The following question: “To what extent do you agree with each of the following statements about the new store venture?” measures this with the four corresponding statements: “Nelly spends a lot of time on this venture”, “Nelly puts a lot of thought on this venture”, “Nelly makes a lavish venture” and “Nelly spent a lot of money on this venture”. The answers were graded on a seven-point likert scale (1 = do not agree/7 = agree completely).

3.6.3.2. Brand ability

We define brand ability according to Dahlén et al. (2008) three items on a seven-point likert scale (1 = do not agree/7 = agree completely): “Nelly is smart”, “Nelly is good at solving consumers’ problems” and “Nelly is likely to develop valuable products in the future”.

3.6.3.3. Brand attitude

Brand attitude is measured by asking “How well do you think that following adjectives describe Nelly?” and listing three statements on a seven-point likert scale (1 = do not agree/7 = agree completely): “I perceive Nelly as good”, “I perceive Nelly as positive” and “I perceive Nelly as satisfactory”. This approach is derived from Dahlén et al. (2008)

3.6.3.4. Purchase intention

Purchase intention towards Nelly’s webshop is measured by asking the respondent to rate their agreement with the following statements: “I am interested in Nelly today”, “I would like to visit Nelly”, “I would like to try some of the product range at Nelly” and “I would like to purchase from Nelly”, on a seven-point likert scale (1 = do not agree/7 = agree completely), extracted from Cronin et al. (2000).

In addition to measuring the respondent’s self-evaluated purchase intention with the above stated questions, we include a choice task question. Neither the self-evaluation question nor this behavioural measure correspond perfectly to actual purchase intention, but it was used to increase validation of the study. The task was presented as follows: “Choose one or more products you like”. This was added according to product selection decision research methodology (Häubl and Trifts, 2000). In this question, the respondent was exposed to pictures of products from Nelly’s webshop (price and detailed

information excluded). In order to make the evaluation manageable for consumers we decide to present 10 product item pictures. The products were a random selection from the webshop: A watch, heels, a dress, a blouse, a handbag for women, a bikini, a pair of shoes for men, a sweater for men, a shirt for men, a bag for men and boxer shorts.

3.7 Method of analysis: Tools and tests

In this section we present the tools and tests used for analysis of the data collection, based on statistical analysis methodology suitable for quantitative scenario-based experiments.

3.7.1 Statistical program SPSS as tool for analysis

To analyse our data we worked in the statistical program SPSS by IBM with licence from our university Stockholm School of Economics. We began with preparing the data in the program Microsoft Excel. First, we coded the data from the randomised function of manipulations in the questionnaire into four groups and ensured one respondent on each horizontal line in the Excel sheet and systematically labelled the questions. When the data was labelled we continue our preparation work in SPSS. We computed scale factors from each variable question. We tested the significance of our computed factors with Cronbach's Alpha that measure total variance of the variables explained by the computed factor.

3.7.2 Mean differences on dependent variables to test direct effects

We continued with analyses of the data. To test the main effect (1) high-perceived effort in channel extension impact on brand attitude and purchase intention, we measure the mean differences over high and low perceived effort, using Independent Sample T-test. We accepted an one-tailed, in relation to a two-tailed, test of significance in our analysis of the data. As the use of one or the other is a point of unresolved disagreement among researchers, we support our decision in our understanding of the three criteria for using one-tailed test that have been guidepost for previous researchers, developed by Kimmel (1957). The first criteria suggests that if effects in the unpredicted direction, whilst possible would fill no meaning for the research, a one-tailed test could be used. The second criteria suggests that if effects in the unpredicted direction would not point out a different behaviour then if no effects in the direction were recorded, an one-tailed test could be used. The third criteria suggest that if effects in the unpredicted direction are not

supported by theory, a one-tailed test can be used. We continued with the same analysis tool and procedure for measuring the main effect (2) over the two treatment groups of physical or digital channel extension.

3.7.3 Mediation and moderation analyses to test indirect effects

In order to test whether brand ability has a mediation effect on high-perceived effort's relation to brand attitude and purchase intention, we applied a mediation analysis including a bootstrapping procedure developed by Professor Andrew F. Hayes at the Ohio State University Department of Psychology. This is an SPSS compatible statistical tool which we have downloaded free of charge from his website <http://afhayes.com>. A similar tool has been used by Dahlén et al. (2008; 2009; 2014). We conducted a bootstrap test for reliability with recommended 5000 bootstrap samples and a 95 percent confidence interval according to Hayes (2013). We tested the significance level by following the recommended procedure by Hayes (2013) in which the confidence interval of the independent variable (in our case physical extension) labelled LLCI and the moderator (in our case perceived effort) labelled ULCI should not overlap the value zero, hence no significant difference. In a similar way, we used Hayes (2013) tool for moderation analysis of the physical channel's impact on the relation between high-perceived effort and brand attitude and purchase intention.

3.8 Reliability and validity of the study

In this section we discuss issues and action taken in order to increase the level of objectivity and generalisability in our study.

3.8.1 Reliability

As this study measures a *subjective value* in terms of “perceived” effort in a channel we can expect the answers to be moderated by consumer expectations on a channel extension, thus “repeatability” and “consistency” of our results over all consumers worldwide should be counted conservative. Drawing on assimilation and categorisation theory we know that consumers by associations build knowledge about brands and furthermore generalise this information to similar brands that are perceived as being in the same category (Dahlén and Lange, 2006; Herr, 1989). Therefore, we believe that expectations on a new physical sales channel by an online fashion retailer are constructed

by consumers' previous experiences of physical sales channels in the fashion industry. Additionally, we think it is most likely that these expectations can be shaped by previous experiences of internet shopping and familiarity of fashion channel extension concepts such as pop-up stores and brand showrooms.

Another aspect of reliability in this study is the linear regression analysis method. By using this method of analysis we assume that the marginal effect of adding one more unit of perceived effort in the channel extension has the same effect on brand attitude and purchase intention, independent of the level of perceived effort. In reality this may not be true. Kirmani and Wrights (1989) results showed that perceived advertising expense has a positive relationship with perceived quality of advertised product, unless an undermine occurs. They identified three types of undermines, first, desperation in terms of excessive spending because they are too desperate to sell. Second, no pain in terms of large amount of spending because of the very low risk associated with budgeted advertisement.

Third, immunity in terms of overstating product benefits because revenue logic of attracting new customers but not caring about repeat purchases. If an undermine occurs and consumers perceive advertising as overstatedly expensive, they may perceive the advertising as manipulative. To conclude, the marginal effect on positive consumer responses to advertising spending may be lower for ludicrous high levels of communicated effort with the advertisement. We believe that a message about a channel extension also can be perceived as overstated. In order to respond to this potential issue, we keep the scenario as only text-based and informative, leaving out cost figures, reference points and visuals.

Additionally we use a number of other action points in order to increase reliability of this study, hence ensuring that the results will be reliable and stable over time and enable replications with similar results (Bryman and Bell, 2015; Jacobsen, 2002; Söderlund, 2005). One action is to use well-established measures that previous research has shown capture the intended dimensions we want to study. Another action is to implement a large range, seven point likert scales, in the measures that contribute to higher reliability in creation of scales (Söderlund, 2005).

3.8.2 Internal validity

As researchers, we can increase the internal validity, hence increase the likelihood that we are measuring what we intend to measure in our experiment, by implementing some means. First, we can use established research measures, use multiple questions to explain the same variance and use scales that are opposite against each other (Söderlund, 2005).

Another aspect of internal validity is the ability to explain the relation between independent and dependent variables when the data is a single point in time instead of time series data (Jacobsen, 2002). Because of this, replication of empirical results is important. By arranging the experiment in a controlled setting in a classroom where we can assure that our treatment groups are exposed to our stimulus without distraction and offer them opportunity to ask questions if they have any, we can increase the internal validity.

3.8.3 External validity

While internal validity focuses on the level of truth associated within the frame of our study context, external validity places focus on the level of truth of our results when transferred from our sample to larger populations and generalised to other areas. We increase external validity by only accepting a high level of significance, between one and five percent in our statistical analyses (Söderlund, 2005). Additionally, we select our sample to become as representative for the larger population “online shoppers” as possible (Bryman and Bell, 2015). As our study has an experiment design, the research context is controlled but created by us as researchers. The internal validity is therefore relatively higher on the expense of external validity, in which the latter one increases with the level of perceived “real life situation” in the experiment. In order to face this issue, we wanted to place our respondents in an “online shopping mode”, a method extracted from Childers et al. (2001) This was done by directing the respondents to Nelly’s website and ask them to look around at the current offerings, and then note down a product code when they feel satisfied and ready to continue with the questionnaire. This action is however moderated by the respondents’ involvement in answering the questionnaire. As we are using lecture time for the data collection, we requested the first 15 minutes of the class instead of the 15 last minutes of the class, in order to minimise the risk of “rush-through-answers”. This is very important since this issue is viewed as the

most critical methodological issue in online-based questionnaires by many marketing researchers (Bryman and Bell, 2015).

4. Results

In this chapter, we present descriptive and illustrative tables and statistical analyses over our empirical data. The chapter starts with presentation of the results of data collection including manipulation check and scale formations in sections 4.1. Results of direct effect between perceived effort and dependent variables are presented in 4.2 following the mediator effect by brand ability and store image in 4.3. Results of direct effect between channel and dependent variables are presented in 4.4 and the channel's moderator effect in 4.5. A summary of results is presented in 4.6.

4.1 Descriptive presentation of data

In this section we present an overview of the raw data in descriptive tables.

4.1.1. Results of data collection

In total, 133 questionnaires were completed out of 157 started. The respondents were on average 22 years old and women were in majority in all four treatment groups (see table 4.1).

Table 4.1: Results of data collection

| Scenario | No. of respondents | Average age | Share of women | Share of men |
|------------------------|--------------------|-------------|----------------|--------------|
| Physical – low effort | 34 | 22 | 65% | 35% |
| Digital – low effort | 36 | 22 | 75% | 25% |
| Physical – high effort | 32 | 22 | 68% | 32% |
| Digital – high effort | 31 | 22 | 71% | 29% |
| | 133 | 22 | 70% | 30% |

4.1.2 Manipulation check of high or low effort in extension concept

By comparing mean differences on the created index “perceived effort” over the two treatment groups of high and low manipulated effort in the experiment, the result was not in line with our expectations. This because the indications from our pre-test number two,

manipulation check, suggested that the high effort manipulation was rated higher on perceived effort than the low effort manipulation. On a scale from one to seven the respondents ranged in their mean perceived effort from 4.55 to 4.69 with no significant difference between the two treatment groups. Therefore, we need to discard our first manipulation in the following result section (see table 4.2).

*Table 4.2: Results of manipulation check – mean comparisons of perceived effort**

| | Mean perceived effort | N | P < |
|-----------------------|-----------------------|----|------|
| High effort extension | 4.69 (1.14) | 56 | n.s. |
| Low effort extension | 4.55 (1.13) | 61 | |

*Standard deviations are in parentheses

In order to compare the data over high and low perceived effort, we computed a grouping variable from our seven-point scaled index of perceived effort in three almost equal sized groups, nearly 33 percent, and named them low effort, average effort and high effort, based on the distribution of the sample over the index factor (see table 4.3). In the following results section, the data will be presented with regards to this grouping variable.

Table 4.3: Perceived effort as a grouping variable, substituting manipulated effort

| Groups | Range in perceived effort | N | Percentage of sample |
|----------------|---------------------------|-----|----------------------|
| Low effort | 1.0 – 4.0 | 38 | 32.5 |
| Average effort | 4.1 – 5.0 | 41 | 35 |
| High effort | 5.1 – 7.0 | 38 | 32.5 |
| | | 117 | 100 |

4.1.3 Manipulation check of physical or digital extension concept

The two treatment groups exposed to the digital expansion manipulation did to a higher degree perceive that it was a digital channel expansion, 91 percent, in relation to the physical channel expansion where only 87 percent did understand that it was a physical channel expansion. In the following result section we have filtered the data from the respondents that specified the wrong channel in the manipulation check question. Therefore our sample set shrinks from 133 to 117 respondents (see table 4.4).

Table 4.4: Results of manipulation check – physical and digital extension

| | N _{tot} | Share perceived physical | N | Share perceived digital | N |
|--------------------|------------------|--------------------------|----|-------------------------|----|
| Physical extension | 66 | 87% | 56 | 13% | 10 |
| Digital extension | 67 | 9% | 6 | 91% | 61 |
| | 133 | | 56 | | 61 |

4.1.4 Creation of scale factors from variables

In order to measure the dependent dimensions we created scales from our question batteries. The results of the reliability test Cronbach's alpha showed that the questions are suitable to combine into factors with an explained level of variance from 0.8 to 0.9 of total variance 1.0 in our computed scale factors (see table 4.5).

Table 4.5: Creation of scales

| Cronbach alpha | Factor | No. of questions |
|----------------|------------------------------------|------------------|
| 0.925 | Perceived effort channel extension | 4 |
| 0.804 | Brand ability | 3 |
| 0.928 | Brand attitude | 3 |
| 0.959 | Purchase intention | 4 |

4.2 The perceived effort's direct positive effect

To test whether high perceived effort behind the channel extension has a positive effect on brand ability, brand attitude and purchase intentions, we used our computed "perceived effort grouping variable" in an analysis of mean difference (Independent Sample T-test). The results revealed significant main effects for high-perceived effort on all dependent variables (see table 4.6). The greatest effect was shown in consumers' self-evaluated purchase intention ($M_{\text{high effort}}=5.06$, $M_{\text{low effort}}=3.80$, mean difference 1.26 scale steps). We can therefore support H1(a, b).

H1: Perceived high effort in a channel extension leads to greater positive effects on (a) brand attitude and (b) purchase intention, than perceived low effort.

Table 4.6: Results of main effect 1, mean comparisons*

| Variable | Low effort (n=38) | High effort (n=38) | Mean difference | P < |
|--------------------|-------------------|--------------------|-----------------|------|
| Brand ability | 4.18 (1.12) | 5.34 (1.02) | 1.14 | 0.00 |
| Brand attitude | 4.35 (1.32) | 5.31 (1.28) | 0.96 | 0.00 |
| Purchase intention | 3.80 (1.86) | 5.06 (1.58) | 1.26 | 0.00 |



*Standard deviations are in parentheses

4.3 The mediator role of brand ability

To test our suggested mediation of brand ability on perceived effort we ran a mediation analysis according to the procedure developed by Hayes (2013) (Model 4, 5,000 bootstrap samples and 95 per cent level of confidence). The results show that even with inclusion of brand ability as a mediator, the direct effect of perceived effort on brand attitude and purchase intention is significant (see table 4.7). The results also support that brand ability is a significant mediator for how perceived effort impact brand attitude with a total indirect effect of (0.513, LLCI: 0.3149; ULCI: 0.7481) and purchase intention (0.515, LLCI: 0.2920; ULCI: 0.8028). We can therefore support H2.

H2: Effects on brand attitude and purchase intention are mediated by brand ability.

Table 4.7: Results of brand ability mediator analysis

| Brand attitude | Purchase intention |
|--|---|
|  <pre> graph LR PE[Perceived effort] -- 0.579** --> BA[Brand ability] PE -- 0.513** --> BrA[Brand attitude] BA -- 0.886** --> BrA </pre> |  <pre> graph LR PE[Perceived effort] -- 0.579** --> BA[Brand ability] PE -- 0.515** --> PI[Purchase intention] BA -- 0.890** --> PI </pre> |
| Total effect on brand attitude $R^2 = 0.54$ | Total effect on purchase intention $R^2 = 0.34$ |
| 95% confidence interval of the indirect effect perceived effort: (0.3149; 0.7481) | 95% confidence interval of the indirect effect perceived effort: (0.2920; 0.8028) |

4.4 The digital extension's direct positive effect on purchase intention

Moving on to test our main effect of the physical channel extension's impact on brand attitude and purchase intention, we ran an analysis of mean difference (Independent

Sample T-test). The results show that the physical channel does not have positive effects on brand attitude and purchase intention, in relation to the digital channel extension (see table 4.8). As a matter of fact, the digital extension generated a greater mean on these factors in comparison to the physical extension. Additionally, when we look at the results of our choice task question in which the respondents could select one or more products they liked, the results are in line with this finding. The group of respondents exposed to a digital channel extension selected a higher number of items than the group that was exposed to a physical channel extension. Therefore, we cannot support H3.

H3: A physical channel extension leads to greater positive effects on (a) brand attitude and (b) purchase intention, than a digital extension.

*Table 4.8: Results of main effect 2, mean comparisons**

| Variable | Physical (n=56) | Digital (n=61) | Mean difference | P < |
|------------------------------|-----------------|----------------|-----------------|------|
| Brand attitude | 4.76 (1.23) | 4.95 (1.28) | -0.19 | n.s. |
| Purchase intention Nelly.com | 4.33 (1.64) | 4.72 (1.72) | -0.39 | 0.10 |
| Number of selected products | 1.84 (1.12) | 2.13 (1.25) | -0.29 | 0.10 |

*Standard deviations are in parentheses

4.5 The digital channel's moderating effect

To test whether the physical channel may strengthen the positive effect that perceived effort has on brand attitude and purchase intention, we applied a moderation analysis including a bootstrapping procedure developed by Hayes (2013) (Model 1, 5,000 bootstrapping samples, 95 per cent confidence level). The results show no significant moderation effects. However, a mean comparison indicate that not the physical, but the digital channel could be a moderator factor. In a high-perceived effort context, the digital channel extension had a greater mean on particularly purchase intention ($M_{\text{digital}}=5.70$, $M_{\text{physical}}=4.65$, mean difference 1.05 scale steps) (see table 4.9). With no significant results, we need to reject H4.

H4: Effects of perceived high effort on brand attitude and purchase intention are moderated by a physical channel extension.

Table 4.9: Results of interaction analysis, mean comparisons*

| | Low perceived effort | | | High perceived effort | | |
|--------------------|----------------------|-------------------|------|-----------------------|-------------------|------|
| | Physical extension | Digital extension | P < | Physical extension | Digital extension | P < |
| Brand attitude | 4.47 (1.14) | 4.25 (1.47) | n.s. | 5.10 (1.39) | 5.50 (1.12) | n.s. |
| Purchase intention | 3.76 (1.62) | 3.80 (1.86) | n.s. | 4.65 (1.63) | 5.70 (1.30) | n.s. |

*Standard deviations are in parentheses

4.6 Summary of results

The results in this study show that perception of high effort behind a channel extension indeed has a positive signalling effect on brand attitude and purchase intentions. High perceived effort in a channel extension signals the brand's smartness, innovativeness and ability to solve consumers' problems (brand ability), which leads to more favourable attitudes towards the brand, and additionally, trigger purchase intentions. Additionally, the results suggest that employing a channel extension in a physical channel does not generate more positive brand attitudes and behavioural intentions for the online fashion retail brand.

Figure 4.10: Summary of significant links in theoretical model

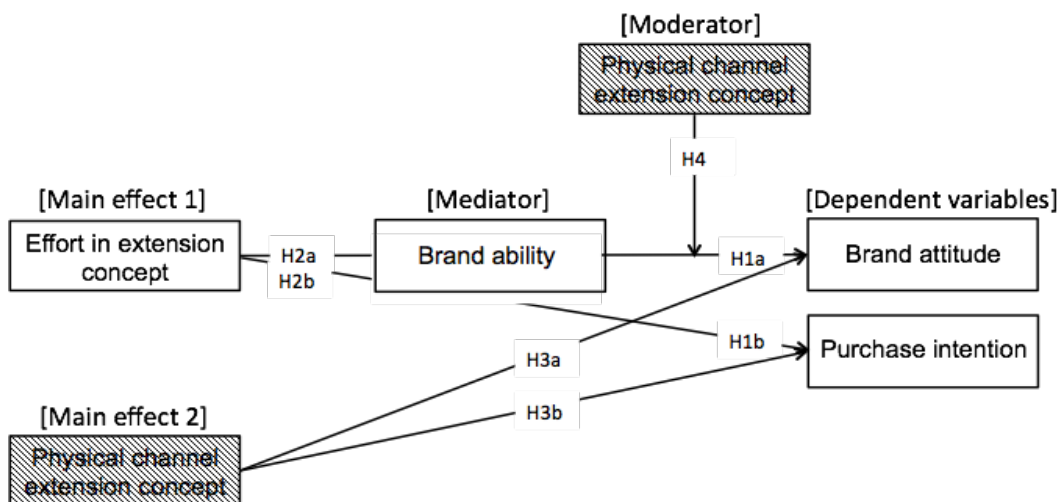


Table 4.11: Summary of tested hypotheses

| | | |
|----|--|---------------|
| H1 | <i>Perceived high effort in a channel extension leads to greater positive effects on (a) brand attitude and (b) purchase intention, than perceived low effort.</i> | Supported |
| H2 | <i>Effects on brand attitude and purchase intention are mediated by brand ability.</i> | Supported |
| H3 | <i>A physical channel extension leads to greater positive effects on (a) brand attitude and (b) purchase intention, than a digital extension.</i> | Not supported |
| H4 | <i>Effects of perceived high effort on brand attitude and purchase intention are moderated by a physical channel extension.</i> | Not supported |

5. Discussion and implications

In this section we discuss our general findings in relation to previous research and present implications these findings have for practitioners. The discussion is thematically structured and each section includes both perspectives. First, we discuss perceived effort's signalling effect on the retail brand in section 5.1. Next, we discuss the mediator effect of brand ability in section 5.2 and finally, we discuss the role of the type of channel in the extension in 5.3.

5.1 General findings of perceived effort's signalling effects on the online fashion retail brand

Previous research on marketing signalling has to a large extent been focused on how the perception of an extraordinary amount of money placed behind a communication item effects consumer responses (Kirmani and Wright, 1989; Kirmani, 1990; Kirmani and Rao, 2000). This has been achieved by planting expensive cues in the communication, cues that have a positive effect not only on consumer perceptions and evaluations of the communication item but also towards the brand behind it. The results in this study show that similar positive effects in consumer responses can be achieved by cuing effort instead of expense in the communication item. This is particularly interesting when comparing the level of investment needed to communicate excessive expense versus to communicate excessive effort. Effort as a broader measurement than expense includes parameters such as perceived time and thought placed in the communication, which is not necessarily the same as actual expenses. Hence, it may be more cost effective to strive for

communicating effort rather than expense. This could be an interesting point in the intersection between marketing signals and advertising effectiveness research.

In line with recent studies of the signalling power that perception of the advertisement has on brand attitude and purchase intentions (Dahlén et al., 2008; Modig and Rosengren, 2014; Dahlén et al., 2014), our results support that there exists an opportunity for marketing managers, by focusing on the execution itself, rather than focusing on the actual content in the communication item, to shape positive consumer responses. This mechanism is also true for a channel extension as a signalling cue in an online fashion retail setting. As such, this study adds further perspective on how a multichannel offering could be employed (Verhoef et al., 2015; Avery et al., 2012; Herhausen et al., 2013) and gives perspectives on research about quality cues in retail (Modig and Rosengren, 2012). While there exist rather few studies on the signalling effects that execution of advertisements has on the retail, in relation to the product brand, the study by Modig and Rosengren (2014) is a unique example. By nuancing our results against theirs we can conclude that our manipulated factor “perceived effort” is actually generating greater difference in comparison to their factor “creativity” on brand attitude ($M_{\text{difference high and low effort}}=0.96$, $M_{\text{difference high and low creativity}}=0.52$) and purchase intention ($M_{\text{difference high and low effort}}=1.26$, $M_{\text{difference high and low creativity}}=0.70$). A possible explanation might be that high and low effort is easier to capture than high or low creativity, as it may be easier for respondents to answer “the retailer spends a lot of time/thought/money in the channel extension, 1 = do not agree to 7 = agree completely” rather than “this advertisement is creative 1 = not at all 7 = very much) because of the more tangible nature of the words *time*, *thought* and *money* in comparison to the word *creativity*. This suggests that retail brands may have more to gain from communicating effort rather than creativity.

To be noticed, the comparison faces limitations as the experiment setting in Modig and Rosengren (2014) is the physical convenience store brand 7-Eleven, compared to our online retail fashion brand Nelly. While elaborating on the relative importance of communicating with high effort for different types of retailers and consumer segments, it is interesting to look at Säfwenberg’s (2014) findings. Säfwenberg found that people who are interested in the latest trends (Fashion Shoppers) or are price sensitive (Price Hunters) have higher expectations on the channel offering mix. This is particularly true for the utilitarian retailer, compared to the hedonic retailer, explained by the logic that consumers are in a cognitive mind-set while visiting the utilitarian retailer. Looking at the

online retailer's market place, one can probably find a large amount of Fashion Shoppers and Price Hunters that use the benefits of easy comparison of price and value from different offerings that the digital channel allows for. With the growing penetration of e-commerce shopping, perceived effort in the online retailer's communication is not only important but may also increase in importance as it has the potential to differentiate the perception of the retailers offering from competition.

5.2 Perception about the brand's ability as a mediator effect

Our mediation analysis supports that perceived effort's positive effects on brand attitude and purchase intention are mediated by perceived brand ability. These results clearly support our reasoning that a high perceived effort in a channel extension in first hand impact the perception of the brand's ability to meet consumers' demands and launch new innovative products, and that these perceptions are transferred to consumers' brand evaluations and behavioural intentions. With this logic, we actually bypass consumers' quality perception of the channel extension as a mediator of their evaluations and behavioural intentions towards the brand. We rely on Hall's (2002) suggested prioritisation of measuring brand evaluations over perceptions of the advertisement. This can be related to Dahlén et al. (2008). They also bypassed intermediate effects such as an advertisement's recall and liking, when they investigated the signalling effects of advertising creativity on brand perceptions.

In the advertising effectiveness literature, researchers agree about the fact that the clutter effect makes it increasingly hard to position and differentiate brands (Heath and Narin, 2005; Dahlén, et al., 2008; Rosengren et al., 2013). It is suggested that it is more effective to change the approach from quantity to quality of the communication. This logic also makes sense in today's retail landscape which may seem crowded with news about pop-up concepts, temporary partnerships and other types of newly introduced touch points and channels. This conclusion emphasises the relevance for the CMO of the retail brand to communicate how a channel extension would add value to the existing channel offering. By communicating extraordinary effort in the channel extension the brand signals confidence in the added channel, which consumers implicitly will translate to the brand's performance not only in the new channel but also in the entire channel mix offering. As consumers evaluate both the added benefits and the perceived risks associated with using a new channel (Herhausen, 2015), for example delivery and

payment solutions, the retail brand may for example decrease the perceived risk by signalling confidence. This confidence may potentially cue perceptions of security elements to consumers, such as excellent logistics service and a secure payment solution.

How to be perceived as a brand with high ability to solve consumer problems and launch innovative products on the market, has gotten extensive attention in recent marketing signalling research. This is particularly interesting in the light of the high amount of CSR initiatives employed by practitioners to gain trust and credibility with consumers (Luo and Bhattacharya, 2006). Our results stretch this finding by showing that this highly valued measurement can be attained through the execution of a message about a to-be-launched channel extension, which in relation to CSR initiatives that are often placed outside the core business operations (Luo and Bhattacharya, 2006), is actually a direct action on a business development decision in the top-management team. As credibility is a key word in the area of corporate and brand ability in order for consumers to believe in the message, this suggests that the effort cues planted should be relevant and consistent with the brand's values and goals. Reported benefits of signalling brand ability is not only external in terms of brand attitude, purchase intentions and customer satisfaction, but also internal such as employee satisfaction (Luo and Bhattacharya, 2006). This suggests for the market signalling research that there may be more mediators to further explain how the execution of communication impact attitude and behavioural intentions. Also, by extension, how it impacts sustainable competitive advantages and brand equity (Luo and Bhattacharya, 2006).

5.3 The physical channel extension versus the digital channel extension

Our results did not support the physical channel extension having greater positive effects on brand attitude and purchase intention towards the online fashion retailer. In reverse, the current numbers indicate that the digital channel extension has a greater positive effect on purchase intention ($M_{\text{digital extension}} = 4.72$, $M_{\text{physical extension}} = 4.33$, $p < 0.10$). In addition, the group of respondents exposed to a digital extension did make an active choice in selecting more products on average from the webshop, with a significant mean difference from the group that was exposed to a physical channel extension ($M_{\text{digital extension}} = 2.13$, $M_{\text{physical extension}} = 1.84$, $p < 0.10$). The outcome that the digital extension has a positive effect on behavioural intentions, but not on brand attitude, is particularly

interesting in the light of the well-established link between attitude and behavioural intentions (Baldinger and Robinson, 1996). One potential explanation for this can be found in the priming theory's application on consumer shopping behaviour. Häubl and Kettle (2011) found in their study that a simple action as signing one's name has the power to influence consumption-related behaviour in a predictable manner. By placing consumers in an setting that activates some particular aspect of the consumer's self-identity, they will shape their behaviour to be congruent with that aspect.

We can argue that we had placed consumers in an online shopping setting which activated their self-image as online shoppers, which in turn primed their answers in the questionnaire. From this perspective, it also makes sense that the consumers exposed to the digital channel extension would also find it easier to select more product items compared to the consumers exposed to the physical extension. Another potential explanation can be found in the assimilation and categorisation theories. Findings in the study of Dahlén and Lange (2006) showed that a negative perception of a brand message spill over on the perception of similar brands negatively and actually gain dissimilar brands. It may be that consumers evaluated a digital concept as being more logic and congruent with the digital sphere Nelly exist in today, in comparison with a physical concept that could be inferred as too far away from the current business.

This finding is particularly interesting in the light of the reported unprofitable endeavour that a channel extension venture can be for the retailer (Death of Pure Online Retail, 2016.01.12). If a physical channel extension is neither generating long-term gains in terms of greater brand attitude and purchase intention for the online fashion retailer, nor is a temporary economical bearing operation, is it worth walking the extra mile? As a physical channel extension for logistical reasons is obviously more costly than a digital channel extension for the online retailer, our findings imply that the marketing manager at the online fashion retailer likely does not need to spend excessive amounts of money just for the sake of facing consumers over a various set of channels. Instead of spending money on premium location rents, personnel and distribution channel solution, our results suggest that the same effect on consumer responses may be obtained from a less costly alternative in the digital channel, in which scale benefits are a fact for the online retailer.

6. Conclusions

The basis for this thesis was that many empirical studies in multichannel retail suggest that there exists a link between adding a channel and receiving beneficial consumer responses for retail companies. Our belief was that this link could be further explained from the point of how the consumer-perceived signals and the channel type in a channel extension add up to the evaluation of the entire channel offering, and how they impact the attitude and behavioural intentions towards the brand. We did this with the following research question:

How does (1) consumer-perceived effort and (2) type of channel in a channel extension, impact brand attitude and purchase intention towards the online retail brand?

The results show that a perceived high effort behind a channel extension signals brand ability, which in turn has positive effects on brand attitude and boosts purchase intentions towards the entire channel mix. The results also show that it is not necessarily a channel extension in a new type of channel that is triggering the positive effects, on the contrary it is suggested that a channel extension in the same type of channel could be just as effective – an online pure player launching a new digital channel. Thus, our main conclusion is that the perceived effort behind a channel extension is a powerful cue that shapes consumer evaluations, and that the outcome does not only affect the extension but changes the attitude and purchase intentions towards the entire channel mix and online retail brand.

7. Limitations

The study conducted naturally had some limitations in its design and execution. The rationale for doing a scenario-based questionnaire is to provide the study high internal validity. However, the scenario is fictitious and the respondent is not exposed to the actual situation, only imagining it. This lowers the external validity of the study (Bryman and Bell, 2011). If it had been possible to conduct this experiment in a real setting, consumers may have perceived the messages from Nelly differently than in this fabricated setting. In addition, consumer responses in terms of attitude and behavioural

intentions may be influenced by a various set of factors and change over time. Our study investigated the influences on attitude and behavioural intentions following a stimulus, hence it is restricted to a single point in time, which is another limitation in the external validity of the study. To measure actual behaviour as opposed to behavioural intentions could enhance the validity of the study. However, tracking consumer behaviour and gather POS data would require more resources than was available in the scope of a master thesis. Neither was it possible within our resources to include more than one retailer and one extension concept in the experiment, which also limits the generalisability of the results.

Another area of limitations for the study is the population of respondents. A convenience sample of students at Stockholm School of Economics was chosen to participate in the study. There are some issues with this approach. First of all the group of respondents was very homogenous. The students were not only around the same age but it is also reasonable to believe that they also had similar backgrounds and interests. The fact that they were also business students means that they most likely have a deeper than average knowledge about multichannel retail and channel extensions. This knowledge could mean that they analyse and respond to the situation in the scenario different from other people. For the same reason, it is also possible that some respondents figured out the purpose of the study while taking it, which would also influence their answers. To minimise this risk, we used mainly bachelor students in their first or second year for our experiment. Additionally, it is possible that we could have got a more nuanced result if we used a larger sample of respondents. The minimum requirement from a statistical point of view is to have at least 30 observations in each treatment group in order to reach a normal distribution, the actual number of respondents in this study was not a lot higher. The questionnaire also seemed to take longer than the respondents realised in beforehand, and some were a little confused as to how to navigate and answer, which also caused people to start the questionnaire but then close it before finishing. To minimise this risk we were present in the classrooms during the whole survey process. We were able to assist respondents with any questions or issues and to make sure there was enough time to answer it fully without rushing. There were a couple of concerns we solved at the spot, but we cannot be certain that everyone having trouble would point it out to us.

Finally, we can withdraw limitations in the study approach. The perceived effort could have been conveyed more clearly. For example we would have highlighted other factors

related to the development of the concept, such as time and resources put into the development process. The cues about level of effort could also have been interpreted simply as service management by the respondents and therefore not serve their purpose in the consumer evaluations of effort. We also assumed that perceptions of the type of channel would be formed based on an implicit understanding among the participants that complementary capabilities in the channel extension would improve the value of the channel extension, hence lead to more positive evaluations. However, we did not explicitly control for the extent to which such an understanding was at hand among the participants, and this represents a limitation in our approach. Further research in line with research of how channel extension impact retailers' performance should therefore deal with input in a more explicit way.

8. Future research

In this thesis, we asked ourselves if the perceived effort in a channel extension has a signalling effect on consumer perceptions, attitudes and behavioural intentions towards the entire online fashion retail brand. Since our results showed that this is indeed the case, it would be of interest to replicate the study on a physical retailer's channel extension. Additionally, it would be interesting to investigate if the perceived effort behind channel extensions may be more or less important for different retail product categories, such as hedonic or utilitarian, as well as for different types of products within the same retail category, such as cosmetics or jewellery. In line with this reasoning, it could be interesting as well to see if it is more or less important for a retailer to deliver a multichannel offering for different consumer segments.

We also investigated whether the type of channel matters for consumer evaluations of the perceived effort behind the channel extension. As the results were not in line with our hypothesis that the physical channel would strengthen the relation between perceived high effort and positive consumer outcomes, it could be of interest to replicate the study with some elements changed. For example it could be conducted on another type of retailer or product, on a fictional channel extension with a more extensive stimulus development, or on an already launched channel extension by a retailer as opposed to a fictional one. Our belief was that the complementary capabilities of the channel are

important for the perceived value of the channel extension, hence add up to the evaluation of the entire channel mix and retail brand which is important to bear in mind.

There might also exist some negative aspects of multichannel offering from the consumer-perceived signals point of view. Some consumers might not appreciate, or even care, about a new concept if the existing channel offering is satisfying their current demands. Additionally, in line with Kirmani and Wright's (1989) argument about the inverted u-curve relationship between perceived costs and evaluation of new brand information, consumers might reject channel extension concepts that they perceive to be overstated or a simple attempt to gain attention and new customers. For future research, it would be of interest to investigate to what extent the communication of invested effort in a channel extension is positive for the retail brand, or in other words when the communicated effort passes the threshold and signals desperation.

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10. Appendices

10.1 Appendix A Scenario Messages

The four variations of the manipulation messages in the survey.

[Low effort, physical store]

NLY Shoes

This spring, Nelly will be launching NLY Shoes as a brand new store concept in Mall of Scandinavia, Stockholm. In the new store you will find inspiration, style tips and fashionable shoes for men and women for all occasions. The product range will consist of some of our most popular brands and of course also our own products.

Welcome!

[Low effort, digital store]

NLYShoes.com

This spring, Nelly will be launching NLYShoes.com as a brand new online store concept outside of Nelly.com. In the new web shop you will find inspiration, style tips and fashionable shoes for men and women for all occasions. The product range will consist of some of our most popular brands and of course also our own products.

Welcome!

[High effort, physical store]

EXCITING NEWS - Nelly is launching a brand new store concept
in Mall of Scandinavia

Nelly is happy to announce the launch this spring of NLY Shoes as a brand new store concept in Mall of Scandinavia, Stockholm. We are moving our shoe department into a physical store to provide you as a customer even better service and inspiration.

In the new store NLY Shoes you will find everything you need to boost your outfit and bring your shoe collection to new heights. We will offer inspiration, style tips and fashionable shoes for men and women for all occasions. Every day we will offer news from our 350 brands, and of course our own product will also be included in the range. In the new store we are really focusing on giving great service with our Sales Advisors who will be able to give you personalised tips and advise on everything from style and trends to shoe care. This store is the first step in the development of our offering, just to give you as a customer the best possible shopping experience.

Welcome to the new shoe-shopping destination in Stockholm, NLY Shoes!

[High effort, digital store]

EXCITING NEWS - Nelly is launching a brand new online store concept

Nelly is happy to announce the launch this spring of NLYShoes.com as a brand new online store concept outside of Nelly.com. We are moving our shoe department to its own web-based platform to provide you as a customer even better service and inspiration.

In the new digital store NLYShoes.com you will find everything you need to boost your outfit and bring your shoe collection to new heights. We will offer inspiration, style tips and fashionable shoes for men and women for all occasions. Every day we will offer news from our 350 brands, and of course our own product will also be included in the range. In the new digital store we are really focusing on giving great service with our Sales Advisors who will be able to give you personalised tips and advise on everything from style and trends to shoe care. This digital store is the first step in the development of our offering, just to give you as a customer the best possible shopping experience.

Welcome to the new shoe-shopping destination online, NLYShoes.com!

10.2 Appendix B Questionnaire

The full questionnaire including the scenario with the different manipulations. Comments within brackets [] have been added for clarifications and were not part of the original questionnaire.

Imagine the following: It's Wednesday night and you've come home from a long day of lectures in school. You have no plans tonight, you are just taking it easy at home. You sit down with your computer and start browsing the web. After a while you find yourself at Nelly.com to see if they have anything nice.

Now follow the link below to Nelly's website to see what products they offer right now. Navigate as you would if it were a regular visit to the site and choose a product you like. Enter the product code for this item in the field below.

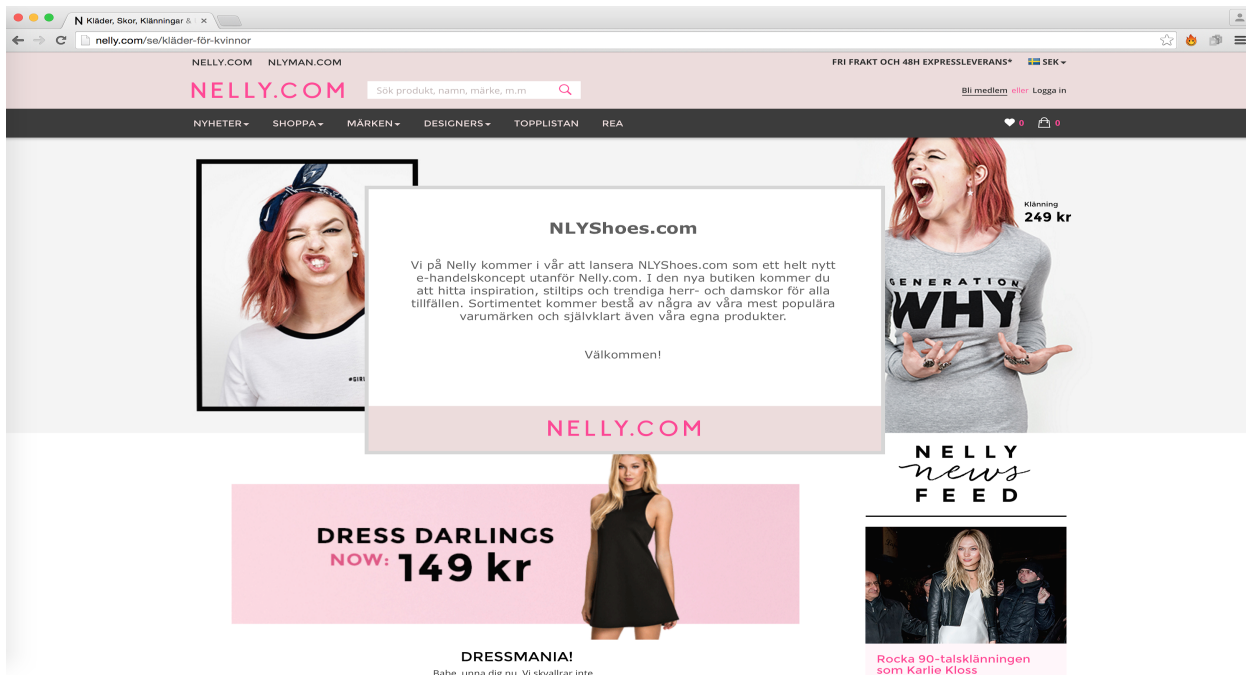
<http://nelly.com/se/> (Ctrl + click to open link in a new tab)

[Q1] Product code: [Text entry field]

[Page break]

Now imagine you are still at Nelly.com's website when the following message appears on the screen. You read the message.

[Each survey included a screenshot with any of the four variations of the message, shown here is the low effort digital store version]



Now follows a few questions about Nelly as a company.

[Q2] To what extent do you agree with each of the following statements about your perception of Nelly?

[Likert scale 1-7, Do not agree at all-Agree completely]

Nelly is a smart company

Nelly is good at solving consumer problems

It is likely that Nelly will develop high value products in the future

[Q3] I think Nelly is:

[Likert scale 1-7]

Bad - Good

Negative - Positive

Not appealing – Appealing

[Q4] To what extent do you agree with each of the following statements?

[Likert scale 1-7, Do not agree at all-Agree completely]

I am interested in Nelly.com

I would like to visit the digital store Nelly.com

I would like to try some of the products at Nelly.com

I would like to purchase products from Nelly.com

[Page break]

[Q5] Choose one or more products you like:

☐ ☐☐ ☐



[Page break]

[Q6] To what extent do you agree with each of the following statements about the new store venture?

[Likert scale 1-7, Do not agree at all-Agree completely]

Nelly spends a lot of time on this venture

Nelly puts a lot of thought on this venture

Nelly makes a lavish venture

Nelly spends a lot of money on this venture

[Q7] Which of the following alternatives best describe the information in the message from Nelly?

[Multiple-choice answer]

Nelly is launching a new sports concept

Nelly is launching a new online shop for shoes

Nelly is launching a new physical shop for shoes

[Q8] Do you want to add something to your answers?

[Text entry field]

[Q9] Were you familiar with Nelly.com before?

[Multiple-choice answer]

Yes

No

[Q10] Your age

[Text entry field]

[Q11] Your gender

[Multiple-choice answer]

Female

Male

I do not want to answer

[Q12] Please note that this survey is not in collaboration with Nelly. The store concept presented is fictitious and will not be launched by Nelly.

[Single choice answer]

I understood the information

10.3 Appendix C Pre-test 1 Concept Test

The concept test survey was one of the pre-studies conducted. The four concepts tested were Shoes (seen below), Beauty, Sport and Lingerie, which were described in the introduction to the survey. Comments within brackets [] have been added for clarifications and were not part of the original survey.

In the spring of 2016, online retailer Nelly will be launching a new separate store – Nelly Shoes. At Nelly Shoes the customer will find a large assortment of shoes for both women and men. Nelly Shoes will be run independently from Nelly’s existing online offering.

[Q1] How likely is it that Nelly will launch this concept?

[Likert scale 1-7]

Not likely – Very likely

[Q2] How appropriate is it that Nelly will launch this concept?

[Likert scale 1-7]

Not appropriate – Very appropriate

[Q3] How plausible is it that Nelly will launch this concept?

[Likert scale 1-7]

Not plausible – Very plausible

[Q4] How suitable is it that Nelly will launch this concept?

[Likert scale 1-7]

Not suitable – Very suitable

[Q5] How strongly do you associate this department to Nelly today?

[Likert scale 1-7]

Not at all – Very strongly

[Q6] How suitable would it be to launch this new concept as a physical store?

[Likert scale 1-7]

Not suitable – Very suitable

[Q7] How suitable would it be to launch this new concept as a digital store?

[Likert scale 1-7]

Not suitable – Very suitable