



# Brand Extension The Benefits and Pitfalls

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*Brand extension can either be taking product to market faster or diluting the parent brand ...*

## **BRAND: A PART OF MARKETING MIX**

Classical 4Ps (Marketing Mix: Product, Price, Promotion, Place) is in continuous use by marketing practitioners and academicians to design an integrated marketing plan. Along with STP (Segmentation, Targeting and Positioning), marketing mix plays a major role for designing marketing roadmap starting from early stage of new product development until maintaining market share. Regardless what content inside the product, how much it is priced, how intensive the promotion takes, and how large the coverage of distribution, a clear identity to distinguish the product to other products that have existed in

the market is crucial. In marketing study, such identity labeled to a product is called brand. A brand is created to foster long term chained connections between company and customers. As more alternative of products available in market, customers take bigger trust on brand they can rely on, to products that offering values closely meet their needs.

Brand is a powerful tool for marketing strategy. Luxurious brands like Gucci and Prada are negatively affected on counterfeits sold by illegal vendors in developing countries. Consumers who buy the products know dissimilarity of quality.

They, however, still make buying decisions as driven by power of brand. The typical consumers won't make purchases when no brand is attached to the counterfeited products.

A series of programs to promote products relying on brand images is called branding. Branding is crucial to increase perceived consumer value. Successful branding programs lead to brand loyalty and consequently transfer the loyalty to brand extension. Similar with humans, brand has an image as accumulations of some attributes. Physical product quality, the most tangible and easiest to detect, belongs to the collection of attributes. In the long run, however, the product quality is perceived separately from brand image. Some argues that brand image is more important than physical product quality. In executing brand extension, high profile and well known brand image is more applicable than one with low image.

### **BRAND EXTENSION AND LINE EXTENSION**

Brand extension is a part of brand management to diversify and leveraging the existing brand by entering into new product category by new product development. Positive images and strengths of existing brand / parent brand are leveraged to bring another success story for new product. Brand extension is increasingly used by companies as a part of strategy for product developments. It is viewed as one of means to attain integrated brand architecture. The use of

same brand on existing product (parent brand) for a new product in different category (extension brand) increases rate of new acceptance and purchase intention to consumer. The strategy maintains efficiencies on advertising and promotion expenditures yet still can create new market segment. Company is not in position to allocate marketing expenses at the same level as spent by the parent brand, yet may gain similar level of success. A strong reputation of parent brand can minimize risk of new product launch by taking advantages on consumers' knowledge and experiences of the established brand.

In comparison, line extension strategy is sometimes mixed up with brand extension. While taking completely different approach, line extension offers new products, under the same brand name, in the same product category. Line extension can also by extending same product and same brand with different product features (e.g. introducing new flavors and selling different sizes of packaging). From risk management perspective, brand extension poses more risk than line extension. Poorly executed extension of brand to new product categories can jeopardize current image of parent brand. In less degree of risk encountered, line extension deals only with the product itself with slight connections to the brand.

Entire processes of new product developments take significant hours and efforts to bring about a success. Particularly for some type of products having short-term product life cycle, a marketing strategy that leads to a shortcut of achievement is a preference for a marketing program. Instead of working up from a zero point, one would start from an established ground-base. From marketing view, brand extension strategy is a solid base and perceived for a main choice to continue the legacy of a successful parent brand. Also, it optimizes economic scale of company's intellectual property. However, brand extension strategy is not a risk-free and does not fully secure the results. It poses some risks since the brand associations of the parent brand must be appropriately transferred and linked to the new product. The failure of associating brand to new product can negatively affect not only to the new product, but also does affect the parent brand. The image and financial figures of parent brand may be endangered due to the failure of strategy implementation.

### **BRAND EXTENSION IN FMCG AND PHARMACEUTICAL**

For FMCG (Fast moving consumer goods) companies, the use of brand extension is increasing for last few years. Very high cost required to launch a new product becomes a major factor for company to rethink and locate different marketing approaches. Marketers find that using the same brand (of course, the

established and reputable one) in the company's portfolio to be used by new product in different category can be the answer to financial efficiencies. As this approach becomes popular and widely leveraged by more companies, supplemental risks occur as brand concentration is focused to big brands only. Too many products under a brand portfolio can also endanger overall brand image.

Two FMCG companies P&G (Procter & Gamble) and Unilever are concentrating on big brands that generate sales of more than \$1 billion. P&G recently launched two new products using brand extension: new biodegradable wipes named Kandoo, launched under Pampers parent brand, and a new product for washing cars under Mr. Clean parent brand.

Different nature and marketing practices, pharmaceutical companies tend not to implement the brand extension. Some products were in trial but resulted in little success. In branding strategy, pharmacists show a significant role. They provide main stream on how label a product name. Pharmacists fear that extending brand to different active ingredients increase chances of dispensing mistake. For instance, Panadol is the brand of generic paracetamol. Adding one or more active ingredients yet maintaining same brand of Panadol would be difficult for marketing and safety reasons. Unique approaches experienced by pharmaceutical

sectors and can be seen as a brand extension is by using two different brands for the exactly same product and for treating two different treatments. The generic name of Bupropion hydrochloride is manufactured and marketed by GSK (GlaxoSmithKline) as a brand name Wellbutrin for treating depression and as Zyban for smoking cessation.

### **BIG NAMES WITH SUCCESSFUL BRAND EXTENSION**

Not many companies can be compared to Virgin group in doing A-Z of brand extension. Virgin Group flies high with brand extension. By simply attaching name of "Virgin" in every product they market, Virgin rolls out so diverse categories. Virgin decisions to take this approach are tightly tied to the founder and CEO of the group, Richard Branson. With one single brand (Virgin), Branson and team have introduced and promoted so diverse product categories, from cola drink to wedding service and further to budget airline. A few were not running as planned, yet not so few can contribute cash inflows to the company. Founded in 1970s as a mail order record company, Virgin has now more than 200 individual companies with total \$5 billion in turnover. Recipe spread by Branson on taking his company grown so rapidly is by a simple answer: brand extension. It is the strategy to bring new products and services in market faster than ever. For Virgin, one mistake of product can dilute entire brand portfolio.

Before deciding to launch a new product with completely different from parent brand, Yamaha had developed sound reputation in manufacturing musical instruments. Perception to Yamaha musical instruments referred to engineering quality and precision. The two value creation were successfully transferred to new product and as the result, Yamaha is now one of the world's largest manufacturer of motor cycles under Yamaha Motor Company.

A very bold brand extension was taken by Caterpillar. Its move from a brand solely used for manufacturing on specialist construction and mining equipment into footwear market was highly perceived as a big mistake. However, the trial has been a big success. Available in over 150 countries, unit sales exceeded 5 million in 2001, making Cat Footwear one of the largest youth non athletic footwear brands in the world. The perception tried to transfer from the parent brand to footwear clearly demonstrate the strengths and outdoor equipment. A line in Caterpillar's website points out that "At Caterpillar, we build the machines that help our customers build a better world. The boots and shoes we build are made with the same commitment".

Nike is an example on how a brand is extended to enter some different product categories and still sustains to business competitions. With its 2004

revenues of \$12.3 billion, Nike was ranked 173 on US Fortune 500 and ranked 374 on Forbes magazine's Global 2000 for total market equity. History of company began in 1962 when a University of Oregon accounting student who also a runner for the campus, Phil Knight, started to import Onitsuka Tiger sport shoes from Japan. He envisioned conquering domination of German manufacturers which controlled U.S. athletic footwear market at that moment by marketing low price and high-tech athletic shoes. With \$500 investment of each, the young Phil formed a partnership with Bill Bowerman, the track coach at the same university, to operate a newly formed business under name Blue Ribbon Sports. The very initial marketing operation was marked by selling shoes from the back of a van at a high school track. Within 10 years of business operations, company was gaining growing market share that soon affect to the modifications of corporate name and brand logo. Nike, adopted after the Greek goddess of victor, was chosen replace previous name and a graduate student named Carolyn Davidson designed the "swoosh" logo. Design of new symbol costs \$35. In 1972, Nike approached some marathoners at Olympic trials to wear the shoes. Soon the marketing program worked well and Nike began an advertising debut promoting to public that some marathoners wore Nike's shoes. To optimize it continuous market expansion, Nike went public and took the company to IPO (Initial Public Offering). Targeting diverse markets from men

and women to children, Nike also targets different sport categories. Product categories of running, basketball, volleyball, golf, soccer, baseball and recreational media are some of total categories set by management. In 2000, Nike introduced a series of electronic gadgets. Ahead of time, Nike was already running in diverse product categories of athletic shoes, watches and apparel. The brand extension transferred by Nike mostly fit perceptions and image of parent brand into consumers' mind.

#### **PERCEPTION OF PARENT BRAND**

The perception of parent brand transferred inside consumer mind strongly influence acceptance of product extension associated with the brand. Images transferred to consumer minds are perceived and received positively if both, product transfer ability and company transfer ability, address value levels of parent brand. Product transfer ability indicates how features of products in parent brand portfolio are transferable to new product extension. Meanwhile, company transfer ability denotes company environments (i.e. people, facilities and skills) in making the product extension. For instance, assume Nike plans to extend its brand name by introducing a new product extension in personal computer category. Consumers mind may be directed to how effectively company's existing resources is transferable to making personal computer.

Perception inside consumer mind plays an important role. As more alternatives available before purchase decision is made, consumer without consciously reconciling their experiences with other products of the same brand. The product, whose parent brand has been established and is triggered with immediate perception and associations, is likely to have better chance for final selection rather choosing completely unfamiliar brand.

For instance, Volvo is perceived with luxury and safety, while McDonald is associated with fast service and standardization. This original and grand perception of parent brand is critical and need to be transferred correctly to new products. Bic, stationery manufacturer based in French, took failed step when extending its brand. Originally as a pen maker, Bic embraced successful brand extension into shaving equipment and cigarette lighters. The success of prior two products stimulated Bic to enter another entirely different product category by launching perfume. Sony, which is associated with strong quality of audio and visual devices, makes smooth transfer of the perceptions when introducing a new category of personal computer with label Vaio.

### **VALUE CREATION OF PRODUCT EXTENSION**

Level of value creation delivered by product extension is a major influential to sustain long term result to the strategy. Creating values are

applied either through physical product or emotional experiences; or at higher level can be both. In deciding which values put into the product, company should consider from multi perspectives of customers. At retailers point, products offering value benefits of maximizing shelf space are likely to offer positive financial returns to retailers. Challenging point of value created to retailers deal with offering broad variety of products with constrained space they have.

Brand management is responsible to manage entire processes of brand life cycle, from creation, development to elimination of the brand. Consumer goods multinational company, Unilever, has recently taken a restructuring on the brand portfolio. By reducing 1,600 to 400 brands, Unilever streamlines its brand varieties in order to be ahead of global competition. The more number of products managed in a company brand portfolio increases level of risk faced due to unsuccessful programs of product extension. In greater impact, it can jeopardize a business unit or company existence. Correlation of 2 functions, span of control and number of products in a brand, provides a framework to devise a brand extension strategy. More products handled by a brand manager decrease the span of control. It brings a linear correlation with brand risks. To lower risk, brand manager is likely to extend brand portfolio with a moderate

number of extension, which also reduce span of control issues.

### **DOWNSIDE: BRAND DILUTION**

Brand dilution occurs when consumers lose the original grasp of brand perception on their minds and no longer associate the brand with a specific product. For instance, Cadbury may experience brand dilution by losing its strong identity of chocolate and candy bar by running a number of different categories like mashed potatoes, powdered milk and soups. Too broad varieties of product categories run under same brand can frustrate consumers in thinking which variations of products that actually fit to their perceptions. Even though today's consumers are selective in their buying habits and expect innovation, the reality of brand extension success is still low. This is because most of new product extensions are not unique and do not satisfy consumer needs.

There are some factors that lead to brand dilution. Among those include perception in consumer minds comparing between parent brand and product extension, level of familiarity with parent brand, fit level transferred from parent brand to extension and consumer's perception to new product. Level of brand loyalty shown by a customer can switch to radical degree for brand extension case. When loyalty and level of familiarity with parent brand is high, new product extension failure may greatly diminish trust level to entire brand portfolio. In turn, low

familiarity to brand affects low dilution when product failure occurs in new extension.

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