# Some Aspects Regarding Brand Extension

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# SOME ASPECTS REGARDING BRAND EXTENSION

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*Brand extensions have been developing for the last decade as one of the most important growth strategy. This paper tries to point out some of the basic issues and outline the main advantages and disadvantages involved, as well as the key elements when evaluating brand extension opportunities and effects.*

The strategy of introducing new products as brand extensions has become widespread and the phenomenon has been given much attention among marketing researchers. Referring to using an established brand name for new products, this strategy has been used extensively by businesses since the 1980s and it is popular because it avoids the high cost associated with introducing new brands. More than 15 years of research on brand extension have yielded important findings about factors that influence brand extensions and how do these factors work.

Launching new products can be an attractive growth strategy but implies a series of risks. Some specialists estimate that 30-35% of all new products fail while others are even more pessimistic, citing that only two out of ten new launches succeed[1]. Due to factors such as high advertising costs and the increasing competition for shelf space, it has become more difficult to succeed with new products. An increasingly successful mean to reduce risk when launching new products is to follow a brand extension strategy. This is followed in as many as eight out of ten new product launches[2]. Given the importance of brand extensions, a better understanding of this topic is needed.

Although existing products can be used to further penetrate existing or new market segments, new product introductions are often

[1]Leif E. Hem, Leslie Chernatony, Nina M. Iversen , *Factors Influencing Successful Brand Extensions,* "Journal of Marketing Management", Vol. 19 Issue 7/8, Sep. 2003, pg.782

[2] Leif E. Hem, Leslie Chernatony, Nina M. Iversen, op.cit., pg.783

vital to long-run success of a firm. When a firm introduces a new product, there are three strategic options to take into consideration: developing a new individual brand for the new product, applying one of the firm's existent brands (which will be termed as *parent brand*) to the new product, or combining an existent brand (the parent brand) with a new one for the new product (*sub brand*).

Kevin Lane Keller considers that brand extension is when "a firm uses an established brand name to introduce a new product"[3]. It's the case of the last two approaches of launching a new product presented above. Thus, the parent brand associated with multiple products through brand extensions will generate a *family brand*.

Peter Farquhar considers that brand extension can be classified into two general categories[4]: *line extensions* (when the parent brand is used to brand a new product that targets a new market segment within a product category currently served by the parent brand), and *category extensions* (when the parent brand enters a different product category from that currently served by the parent brand). At the middle of the 1990's for example, in the United States, most new products were brand extensions (82%), particularly line extensions (63%) but also category extensions (18%)[5].

David A. Aaker though limits brand extension to "the use of a brand name established in one product class to enter another product class"[6].

When considering brand extensions, Edward Tauber identifies seven general ways of introducing brand extension[7]: same product in a different form; products that contain the brand's distinctive taste or component; companion (complementary) products for the brand; products relevant to customer franchise of the brand; products that capitalize on the firm's perceived expertise; products that reflect the brand's distinctive benefit, attribute, or feature; products that capitalize on the distinctive image or prestige of the brand.

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[3]Kevin Lane Keller, *Strategic Brand Management: Building, Measuring and Managing Brand Equity*, Prentice Hall, New Jersey, 1998, pg. 451

[4] Peter Farquhar, *Managing Brand Equity*, "Marketing Research", Sep.1989, pg.25

[5] Kevin Lane Keller, op quoted , pg.453

[6] David A. Aaker, *Managing Brand Equity*, The Free Press, NY, 1991, pg. 208

[7] Edward Tauber, *Brand Leverage: Study for Growth in a Cost-controlled World*, "Journal of Advertising Research", Vol. 28, No.4, Aug.–Sep.1988, pp. 28

**Advantages and Disadvantages of Brand Extensions**

David A. Aaker[8] identifies among the advantages of launching a new product through a brand extension the following: the strong associations of an established brand can help the communication task, as well as the positioning process, transferring the associations to the new product; the use of an existing brand already perceived as a high quality one is a good way to achieve the same quality perception for the new product; the established brand can provide the new product the awareness and familiarity to affect purchases even for low involvement products and reduces the costs compared to the awareness creation for a new brand; the existing brand reduces the perceived risk for a prospective buyer creating premises for trial purchase; brand extensions can enhance the core brand if the process is a successful one.

Keller[9] categorizes brand extension advantages into two classes: advantages that facilitate new product acceptance and advantages that provide feedback benefits to the parent brand. The first advantage class includes: reducing risk perceived by potential customers, increasing the probability of gaining distribution and trial, increasing efficiency of promotional expenditures, reducing costs of introductory and follow up marketing programs, avoiding costs of developing a new brand, allowing for packaging and labeling efficiencies, and permitting consumer variety seeking. The advantages that provide feedback benefits to the parent brand are: clarifying brand meaning, enhancing the parent brand image, bringing new customers into brand franchise, increasing market coverage, revitalizing the brand, and permitting subsequent extensions.

Aaker[10] outlines the main disadvantages when it comes to a brand extension as it follows: the existing name may not add value to the new product; when a brand name is added simply to provide credibility, recognition, and a quality association, there often is a substantial risk that even if the brand is initially successful, it will be vulnerable to competition; a brand extension strategy could stimulate negative attribute associations and sometimes there are some unanticipated subtleties to the name transfer; the existing brand can imply a very different product from what is being delivered and thus the name confuses; the extension may not fit the brand and so desired associations will not transfer but even worse will distract or even precipitate ridicule;

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[8] David A. Aaker, op.cit, pg.219-222

[9] Kevin Lane Keller, op quoted , pg.460-463

[10] David A. Aaker, op quoted , pg. 222-225

even when a brand is generally well regarded there will be some who will have had bad experiences with it, and thus, the extension will limit the market to those who are not unfavorably disposed to the brand; the brand name may be damaged by creating undesirable attribute associations, weakening existing brand associations, negatively affecting quality image and cannibalizing the brand franchise; the opportunity to create a new brand equity may be forgone.

Keller[11] also enumerates a number of potential disadvantages to brand extensions, which are very much alike to those earlier presented by Aaker: confusing or frustrating consumers, encountering retail resistance, failing and hurting parent brand image, or even succeeding but generating the same effect, succeeding but cannibalizing the sales of the parent brand, succeeding but diminishing identification with any one category, diluting brand meaning, and forgoing the chance to develop a new brand.

**Evaluating Brand Extension Opportunities**

Developing a brand extension systematically involves three steps: identifying brand associations, identifying products linked to those associations, and selecting the best candidates from that product list for concept testing and new product developing.

A brand extension will tend to be the optimal route when strong brand associations provide a point of differentiation and advantage for the extension, the extension helps the core brand by reinforcing the key associations, avoiding negative associations, and providing name recognition, and the category will not support the resources needed to establish a new name, or a new name will not provide a useful set of associations or a platform for future growth[12].

Academic research and industry experience have revealed a number of principles concerning the proper way to introduce brand extensions. Brand extension strategies must be carefully considered by systematically conducting the following five steps[13]:

1. Define actual and desired consumer knowledge about the brand through qualitative and quantitative measures of brand knowledge structures in detail; profiling actual and desired knowledge

[11] Kevin Lane Keller, op quoted , pg.463-468
[12] David A. Aaker, op quoted , pg. 233
[13] Kevin Lane Keler, op quoted , pg.485-495

structures helps to identify possible brand extensions and to guide decisions concerning their success.

2. Identify possible extension candidates considering parent brand associations – especially as they relate to brand positioning and core benefits – and product categories that might seem to fit with that brand image in the minds of consumers.
3. Evaluate extension candidate potential through forecasting the strength, favorability, and uniqueness of all associations to the brand extension and consumer researching to reveal their opinion about fitting the parent brand and their potential reaction to the extension.
4. Design marketing programs to launch extension by choosing brand elements to leverage, designing the optimal marketing program and leveraging secondary brand associations.
5. Evaluate extension success and effects on parent brand equity

**Factors Influencing the Success of Brand Extensions**

Focusing on reputation, perceived similarity and risk, and innovativeness of potential customers as the main factors influencing the acceptability of brand extensions, Hem, Chernatony and Iversen identified the following situations[14]:

- The higher the perceived reputations of the parent brand, the more favourable should be evaluations of the brand extensions
- Extensions into categories perceived as more similar to the category of the parent brand are more likely to be accepted compared to extensions into less similar product categories
- The higher the perceived risk associated with the extension category, the more positive will be evaluations of the brand extensions
- The higher consumers' innovativeness, the more positive will be the evaluations of extended brands

Reddy, Holak and Bhat[15], after a 20-year period data regarding 75 line extensions, found out that:

- line extensions of strong brands are more successful than extensions of weak brands

[14] Leif E. Hem , Leslie Chernatony, Nina M. Iversen, op quoted, pg.786-792

[15] Srinivas K.Reddy, Susan L.Holak, Sboth Bhat, *To Extend or Not to Extend: Success Determinants of Line Extensions*, “Journal of Marketing Research”, No.31, May 1994, pg.599-606

- line extensions of symbolic brands enjoy greater market success than those of less symbolic brands
- line extensions that receive strong advertising and promotional support are more successful than those extensions that receive meager support
- line extensions entering earlier into a product subcategory are more successful than extensions entering later, but only if they are extensions of strong brands
- firm size and marketing competencies also play a part in an extension's success
- earlier line extensions have helped in the market expansion of the parent brand
- incremental sales generated by line extensions may more than compensate for the loss in sales due top cannibalization.

Aaker and Keller found that two types of relationships between product classes were related to the acceptance of extensions[16]: transferability of skills and assets – the brand is perceived to have the necessary skills and assets needed to make the extension, and complementarity – the extension is used with the product class associated with the brand. Success may also be based on functional attributes related to brand performance, or on intangible attributes such as prestige, user type or symbol.

Kapferer considers that the variables influencing acceptance of brand extensions may be grouped as it follows[17]: perceived quality of the brand, perceived know how of the brand, perceived dissimilarity between the extension and brand's typical products, perceived difficulty of manufacturing the extension, perceived values and symbolic meaning of the brand and their capacity to segment the extension product category, fitting with the symbolic brand meaning, consumers' brand loyalty, and consumers' involvement in the extension product category.

Nevertheless, the consumers' extension evaluation may take two routes. If the brand is merely a functional one, they use a product-based evaluation and rely on products' perceived similarity. If the brand has symbolic connotations, they use a concept-based evaluation and evaluate whether the extension remains within the brand's legitimate territory.

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[16] David A. Aaker, Kevin Lane Keller, , *Consumer Evaluations of Brand Extensions*, "Journal of Marketing", Vol.54, January 1990, pg.27-41

[17] Jean Noel Kapferer, *Strategic Brand Management*, The Free Press, NY, 1992, pg.131-140

**The Romanian Situation Regarding Brand Extensions**

In the post-communist years of the Romanian economy development, little attention has been paid to the concept of brand equity in practice. Firms generally continue to market products and not brands, limiting the brand building process to simply registering a trade mark, but focusing afterwards on sales promotion and sales force, restricting the expenses of those activities which have the strongest positive effect on brand equity and create a clear differentiated and positioned image: consistent market research, strategic marketing planning, maintaining and sustaining constant and above average quality, operational activities of advertising, public relations and so related. The orientation is clearly on short term and, in best cases, on medium term, Romanian companies being yet unable to move beyond commodities to true branded products marketing. Some of the main causes that restrict Romanian firms' activities to superficially branded products and along with that the possibilities of adopting a successful brand extension strategy may be the following:

- Managers have little knowledge of brand associations, the strength of those associations and the difference among those dimensions across segments and through time and neither they are conscious of the importance of that knowledge. There are many cases, especially in small or medium sized companies' cases, when managers don't even have a clear image of the market segments in general or of the target markets in particular.
- There is also a huge lack of knowledge when considering the brand awareness level among target or any market segment. The top of mind recall of a specific brand and the reasons or ways that is changing through time are aspects that are rarely studied and even when they are, the appropriate consideration when decision making is not given.
- In many of the Romanian firms, there is neither systematic, reliable and valid measure of customer satisfaction and loyalty nor any diagnosis of why such measures may be changing. Customer satisfaction and loyalty surveys are not constant and there usually is no clear procedure of how such analysis should be conducted and used afterwards in decision making.
- Most of the commonly used indicators of the businesses aren't related to the brand tied long-term success and evaluation of the brand's marketing effort is superficial or lacking. Usually, the measures of performance associated with a brand and its managers

are of short term orientation (quarterly or yearly). Longer-term objectives that are meaningful are generally ignored. Further, many of the managers involved do not realistically expect to stay longer enough on the position to think strategically and are mostly appraised considering the short term indicators of their activity.

- In many cases, there is no person in the firm who is really charged with protecting the brand equity. Those nominally in charge of a brand, even if so called brand managers, tend to focus their attention on the sales force and sales quantitative targets and less on building strong brand awareness or loyalty. Moreover, they are evaluated on the basis of short term measures.
- There is no clearly defined mechanism to measure and evaluate the impact of elements of the marketing program upon the brand. The focus is on the sales figure, mostly short-termed, and less more on the long term development of brand equity dimensions such as: perceived quality, awareness, loyalty etc.
- Romanian firms usually do not have long term strategies for their brands. Questions about the brand environment five or ten years into the future are not answered and may have not even been addressed yet, even if the general economic environment of the country became relatively predictable during the last years.

**Conclusions**

Brand extensions and the knowledge about this phenomenon have been strongly enriched by years of research on the subject. Based on the findings previously reviewed, there is no doubt that a set of fundamental factors must be considered when establishing such a strategy and assessing the consumers' extension evaluations as well as their subsequent core brand evaluation. Although there is much knowledge about the antecedents and outcomes of brand extensions, much remains to be discovered particularly in the field of the outcomes of such a strategy. Even though brand extensions are becoming increasingly popular as more firms try to benefit from their established brands by expanding their range of products, present insights into the factors contributing to success and failure in brand extension are rather modest. An understanding of the factors contributing to success or failure in brand extensions can help reduce the risk in these important business decisions.

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