Marketing

# Brand Extension: A Strategy for Competitive Advantage

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## 1. Introduction

The success of a product depends upon its positioning which in turn is related to its brand name. A brand name may be defined as, a name, term, sign, symbol, or design, or a combination of these, that identifies the manufacturer or seller of a product or service (Kotler and Armstrong, 2002). Zikmund and d'Amico (1984) defined brand as any name, term, symbol sign, design, or unifying combination of all these that identifies and distinguishes one product from another competitive product.

There are several reasons why branding is important:

1. Robinson (1933) noticed that, certain articles which are almost alike may be sold at different qualities under various brands name and labels to induce rich and snobbish buyers to differentiate themselves from the poorer buyers. Thus, as recognized by Robinson, some customers buy that brand which provides functional benefits plus added values to them.
2. In the present turbulent economic environment brand integrates the marketing mix activities and thus becomes axes for marketing tactics and strategy.
3. In the present markets, where the life span of variants of products is very short, a strong brand is essential to retain consumer confidence and recognition.
4. The companies are relying more on sales promotions, and particularly value-based promotions. To counter this, the advertising industry has found the way in building brand franchise.
5. The companies are now adding brands to their balance sheet to increase their perceived values.
6. The acquisition of brands of one company by another company eventually results in mergers and acquisitions.
7. Companies normally use their existing successful brand names for brand extension and umbrella branding.

8. Corporate identities and brands come together with any offering.

There are many strategies related to brands such as brand creation, brand positioning, brand equity, brand image, brand personality and brand extension.

## 2. Brand Extension

Brand extension is a marketing strategy in which new products are introduced in relation to a successful brand. Various experts have defined brand extensions differently though, these definitions look quite similar. Kotler and Armstrong (2002) defined brand extension as using a successful brand name to launch new or modified products in a new category. Verma (2002) also defined brand extension as using an existing brand name to launch a product in a different category.

### 2.1 Need of Brand Extension

Firms use brand extensions to influence consumers' brand choices. Brand extension is a part of the marketing strategy to break the entry barriers between product categories through the carryover of a brand's reputation.

The other benefits of brand extension are:

1) In the opinion of Sengupta (1998), a successful brand is like a powerhouse which contains enough energy to illuminate distant territories. This accumulation of the consumer-pulling power can be used beyond the boundaries of the brand's traditional market.
2) The acquaintance of the consumers with a brand increases the chances of accepting a new product by them, under the same brand name. Thus, brand extension reduces the risk associated with launching a product under new brand in the market. In fact the brand equity of an established brand makes the introduction of a new entry inexpensive. (Pitta and Katsanis, 1995).
3) According to Moorthi (2003) customers use established brands as quality cues i.e. they use brand name as an indirect measure of quality.
4) The benefit of "spillover of advertising" works for those products which are affiliated with the brand. In case of brand extension where a new product launched under same the same brand gets benefit of the advertising done for a product already existing under that brand name. Thus, it can be said that brand extension need less advertising support in comparison with new brand launches. (Sullivan, 1992).
5) Brand extension increases the visibility of brand.
6) In times of intense competition, to cover every niche, the best strategy available to companies is to go for brand extension.
7) Brand extension is helpful in catering lower or premium market segment.
8) When a company extends its brand name to another category, competitors

react back; this creates a dynamic environment in market.

9) Brand extension helps the parent brand also in many ways; first it brings clarity in brand meaning, second brand extension can contribute to the parent brand's association by either adding or strengthening this association (Verma, 2002).

10) A brand diversified in different categories performs better than mono-product or mono-activity brands. While comparing between those brands which are focused and those which are diversified, Court et al (1999) reported in a study that focused brands like Dell and Levi's earn only 0.9% higher than industry average while diversified brands such as GE, Disney etc. earn 5% more than the industry average.

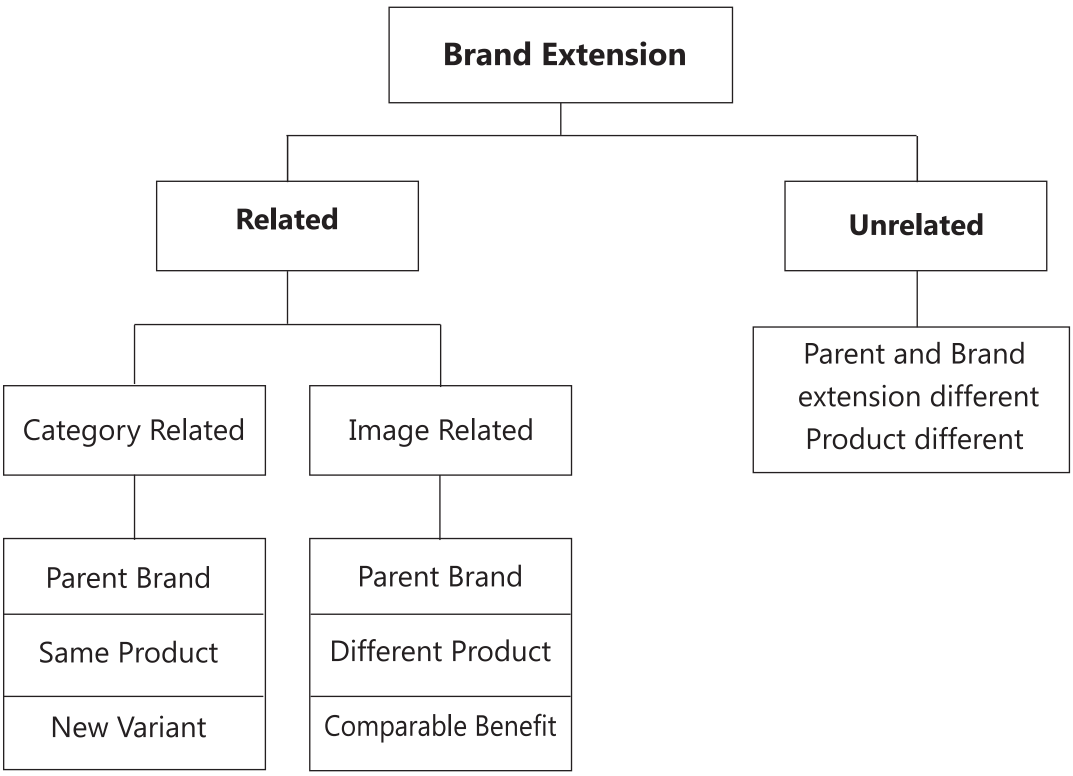
11) A well-established brand has a well-defined brand image. The advantage of brand extension is that it instantly communicates the salient image of the brand (Pitta and Katsanis, 1995)

12) In addition to brand associations, extension can convey quality associations.

## 2.2 Types of Brand Extension

There are basically two types of brand extension

1) Extension into related categories
2) Extension into unrelated categories



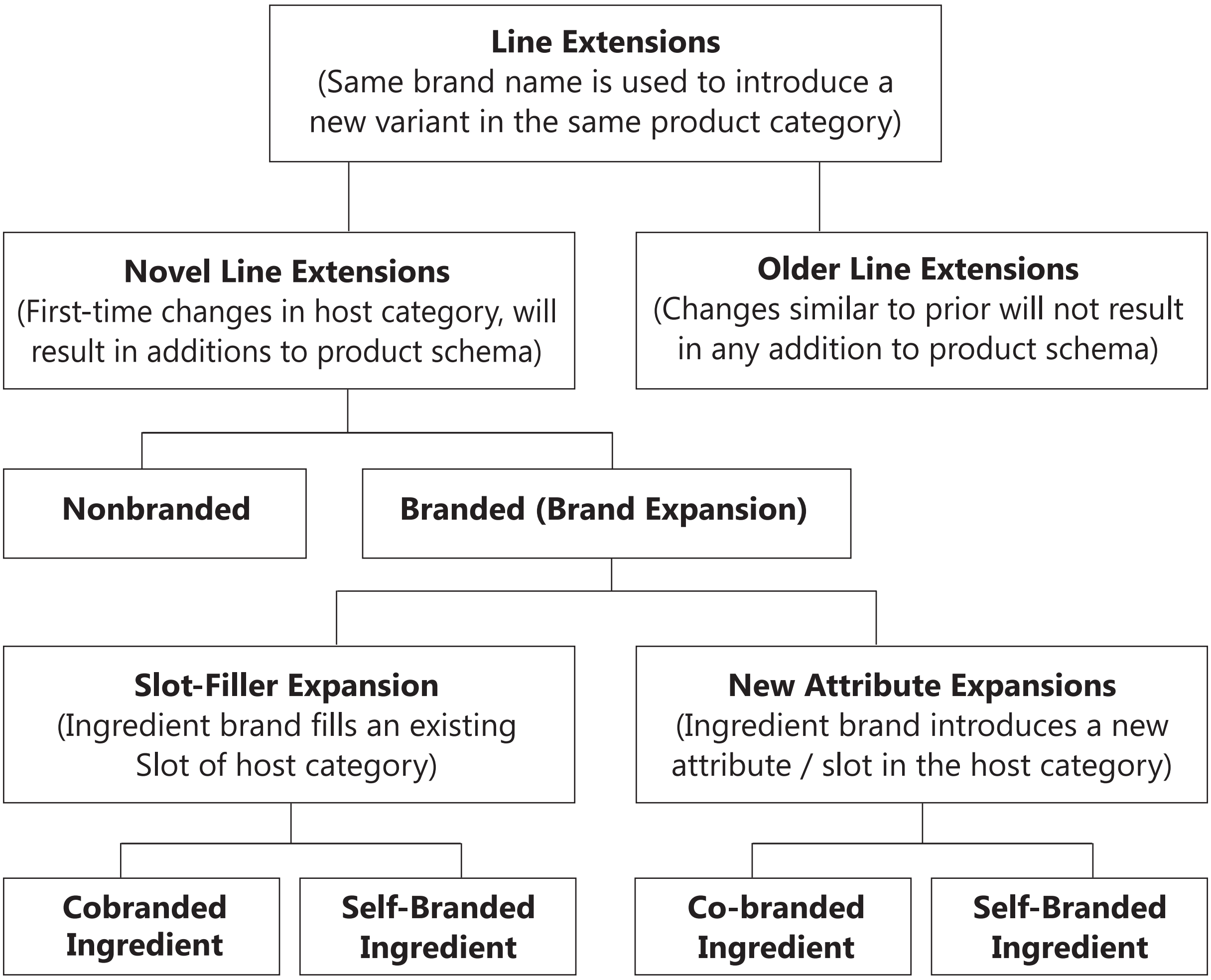

(Adapted from Moorthi, 2003)

### 2.3 Brand extension dimensions

Brand can be extended in many ways. Brand extension may be done either in the same product category or different product category. Thus, it can be either vertical or horizontal extension.

**A) Horizontal Extensions:** When an existing product's name is assigned to a new product in the same product class or to a product category altogether new to the company, it is called horizontal brand extension. According to Aaker and Keller (1990), based on their focus, there are two varieties of horizontal brand extensions viz.; line extensions and franchise extensions. In line extension a current brand name is used to enter a new market segment while in franchise extensions a current brand name is used to enter a product category new to the company (Tauber, 1981).

**B) Vertical extensions:** Vertical extension means introducing related brand in the same product category in either of two directions, i.e., upscale extension, where a new product with higher price and quality characteristics, than the original, is introduced; or downscale extension, where a new product with lower quality and price points, than the original, is introduced. For example, in automobiles, higher or lower versions of the same brand are introduced to attract different market segments.




**(**Desai and Keller, 2002)

Experts have different views on these classifications, Kopferer do not consider following in brand extension (1) a brand prescribed differently (2) different size (3) different tastes or flavours. According to him they are not brand extensions but are brand variants. According to Sengupta (1998) line extensions and brand extensions are different. According to him line extension means any addition in the existing product line of a company in a given category. On the other hand Ries and Trout (1996) had treated line extension and brand extension as same. Desai and Keller (2002) gave following classifications of line extension.

## 2.4 Effect of Brand extension on Brand Equity

Brand extensions can affect the brand and its equity in one of the four different ways:

- Certain brands exploit the brand capital.
- Certain extensions destroy the brands equity.
- Certain extensions have a neutral effect.
- Certain brand extensions help develop and nurture the meaning of the brand.

## 3. Literature Review

In spite of having prevalence and importance of brand extensions as a marketing strategy for launching new products (Tauber, 1988) very less is known about how consumers react to them. Consumers' reactions to brand extensions involve a categorization process in which the new product is examined on its suitability as a member to that category (perceived "fit") which already contains a product or a set of products and that has a brand name as its identifiable label. The beliefs and opinions associated with this brand category may carry to an extension when consumers perceive the extension fitting into that brand category. Aaker and Keller (1990) examined how consumers form their attitudes toward brand extensions. According to them consumers identified various bases of perceived fit between the original and extension product classes. These bases were (1) complementarity, or the degree up-to which these extensions and existing products share the same usage context, (2) substitutability, or the degree up-to which one product can replace the other for satisfying the same need, and (3) transferability, or the extent to which the manufacturing skill required for the extension overlaps with that which is already existing. Many other researchers had also examined how the "relatedness" (similarity) of the existing brand category and the brand extensions affect their evaluations and/or purchase intentions.

According to some researchers brand extension is a marketing strategy for introducing new products in relation to an established successful brand. A study was carried out to understand the factors which influence the consumer's perception of these products' fit with the remaining parent brand's product lines. The results also confirmed the assumption that consumers usually evaluate brand extensions in terms of product feature similarity and brand concept consistency, however the effects of these two factors vary according to the brand-name concept. Results also indicated that prestige brands have more impact on concept consistency than the functional brands. The results also disclosed that to identify brand extensions consumers consider the information about the product-level feature similarity between the new product and the existing products associated with the brand as well as the concept consistency between the brand concept and the extension. Few researchers invented the term "master brand" for the brand which dominates a particular product category. On the basis of this finding they were of the opinion that brand extension would not be a viable strategy for master brands to uplift other brands which are less strongly associated with the product category. Sharp (1993) suggested that the brand extension is fruitful only when it is clear that it could enhance the success of a new product launch along with the existing brand equity. Some researchers studied that the costs of introducing a brand into the market were very high and it could be overcome by leveraging the brand equity of an existing successful brand. Thus brand extension makes the introduction of a new entry less costly. Kim and Lavack (1996) advised that a vertical brand extension normally has a negative impact on the core brand by diluting the core brand image. They suggested that to reduce such dilution of the core brand image the extension should be distanced from the core brand. However, to benefit the new step-down brand extension (at the expense of the core brand), the extension should be very close to the core brand. Leong, et al. (1997) suggested that the effects of extending brands differing in their dominancy level was much complex than actually considered. The results indicated that a brand's association to its original product category got diluted if extension failed. Lane (1998) cautioned while using brand leverage strategy in brand extension. According to him the success of the leverage strategy depend on consumer appeal and brand familiarity. Three approaches were suggested while practicing brand extension: 1) consumer's familiarity and regard for the brand should be determined; 2) brand's expected leverage power should be assessed and, 3) alternatives must be considered.

Bhat et al. (1998) examined consumer reactions towards new products introduced under four different branding scenarios. The results suggested that when consumers find great degree of fit between the new product and the existing brand, brand extensions, sub-brands, and nested brands were equally preferred. But when consumers find little fit, the new brand name was preferred most, followed in the order of nested brands, sub-brands, and brand extensions. Speed (1998) opined that while deciding about launching a new product line into existing category managers should decide as to whether launch this as line extension or as second brand. The results of the study suggested that managers should exploit the available benefits to the new line, and must minimize the risk of cannibalization. Nijssen (1999) studied three market-related factors' impacting the success of line extension viz., the degree of competition in the market; retailer power; and the variety seeking behavior of consumers. The results revealed that line extensions had very little value addition over existing products, and cannibalization was related to a line extension's success. Only those line extensions, where new flavors and new packaging/sizes were involved proved successful while extensions that improved product quality were found unsuccessful. The variables such as level of competition; retailer power; and variety seeking behavior of consumer's had negative influence on the success of line extension.

Chen and Chen (2000) examine the negative impacts of brand extension failure upon the original brand by calibrating the difference of brand equity. Using data collected from college students in Taiwan, concludes that effects of brand dilution differ according to the type of equity source possessed by the original brand, but there is no difference in brand dilution effects from close and distant extension failures. Hem et al. (2001) carried out a study to understand how perceived similarity, brand reputation, perceived risk, and consumer innovativeness impact on evaluations of brand extensions on different types of products. They found perceived similarity as a crucial factor in the evaluation of services brand extensions, on the other hand the parent brand reputation was a crucial factor affecting the chances of a successful brand extension, for durable goods and services consumers' perceptions about the risk associated with new product categories emerged as an important factor. Innovative consumers favored evaluated services brand extensions. Taylor (2002) concluded that when the consumers perceive extension differing from the core brand then prices significantly effect extension evaluations. On the other side when the extension was perceived similar to the core brand, this same price information f ailed to produce a significant increase in extension evaluations.

In the study carried out by Bristol (2002) it was suggested that good fit was necessary for the success of extension, his results revealed that the impact of emergent attributes on consumer attitudes increases as the brand's fit with the extension decreases. Taylor and Bearden (2002) found that consumers have limited experience or knowledge to evaluate new products, in such circumstances product price acts as a cue to quality. If similar extension was considered, price as additional cue for quality, affected perceived extension evaluations less on the other side, when extension judged to be dissimilar or less related to the core brand, the associations of core brand had less relevance to the extension. Their study suggested that high-price information influenced the perceived quality evaluation of dissimilar extensions and not similar extensions. They also suggested that the strategy to introduce new product at high-price would be more effective in enhancing perceived quality evaluations for dissimilar extensions than the similar extensions. Martínez and Chernatony (2004) found in their research that brand extension dilutes the effect of brand's image. Whatever beliefs the consumers hold, the dilution effect was more on product brand image than on general brand image. Their results revealed that the consumer's perception towards the quality of the parent brand and their attitudes towards the extended product have a positive effect on general and product brand image after the extension.

Zhang and Sood (2002) conducted various experiments, both conceptually as well as empirically, to understand how children (in the age group 11-12) differ from adults in evaluating brand extensions. Their results showed that in comparison to adults' children evaluate brand extensions by relying more on surface cues and less on deep cues. Jiang et al. (2002) carried out a research in lodging industry to understand the brand-extension phenomenon. Thy tested that whether hotels could increase customer loyalty by introducing brand extensions. Their results revealed that customers do not switch brands when the length of brand extension is around three, because of the reason that if a brand had three extensions, it got more customer awareness and recognition. Below three extensions, the switching coat increases because of the limited choices to satisfy customer needs. Similarly beyond three extensions also the switching rate goes up. Chen and Liu (2004) found a positive influence of the parent brand on the trial of the extension. A successful trial helps the parent brand among the non-loyal users and the non-users of the parent brand. Zimmer and Bhat (2004) found that extension quality and fit do not dilute parent brand attitude. The main effect of brand dominance was that it enhanced parent brand attitude when the extension was a good fit. Sattler and Zatloukal mentioned that it is yet to be proved that up to what extent the numerous empirical results of studies dealing with the success of brand extension could be generalized. For this they undertook a meta analysis to identify factors for successful brand extension. For meta analysis they selected empirical studies explaining the success of brand extension, published in different journals between 1985-1996. Total thirty six studies were identified. They found eighteen factors of success which were clubbed in to seven groups:

1) Fit between core brand and brand extension product
2) Quality associations with the core brand
3) History of previous extensions of core brands
4) Characteristics of the product category to which the core brand is extended
5) Kind of information which is extended by the core brand
6) Characteristics of the firm which implement the brand extensions, and
7) Communication and the advertising of the brand extension

Martínez and Pina (2003) concluded that brand extension strategies might influence the brand image after the extension. While the variables such as the brand image before the extension, the perceived quality of the extension and the fit between the parent brand and the new product also affect the image. DelVecchio (2000) mentioned that besides fit, characteristics of the brand portfolio also play an important role in affecting consumer perception of brand reliability. In contrast to prior researches which suggested that brands got diluted by offering extensions, his results suggested that because of the large number of products associated with the brand it had positive consequences when consumers evaluate a new extension. Han (1998) mentioned three key factors which a company must consider while implementing a brand-extension strategy: (1) competitive brands in the extension categories; (2) the attributes of the extension brand; and (3) the perceived fit between the brand and the extension.

Ingredient branding, in which key attributes of one brand are incorporated into another brand as ingredients, has its own advantages and disadvantages. Ingredient branding enhances the differentiation of the host brand from competition by characterizing the ingredient attribute in the host brand. Park et al. (1996) examined ingredient branding in the context of composite brand extensions. Desai and Keller (2002) carried out research with two objectives; first, whether brand names given to the ingredients as part of a line extension influences consumer evaluation and second, could it be possible to leverage the ingredient product in the host brand to enhance latter's extendibility, The results revealed that for slot-filler expansion, a co-branded ingredient proved to be more useful initially, but a self-branded ingredient was found to be more useful for subsequent extensions.According to Ireland (1993) since product differentiation allows markets to be segmented based on varieties, less inter-variety competition takes place as differentiation increases. The result of increased differentiation is that new entrants may be deterred by the barrier of learning costs (Gabszewicz et al 1992)

## 4. Conclusion

Brand extension was considered differently by different experts. However, almost all of them were of the opinion that it is a very important marketing strategy tool. Band extension helps companies in many ways such as minimizing the risk of introducing a new product, reducing the cost of promotion and increasing the acceptability of the new product by consumers. But it can not be denied that there are few disadvantages of it also. Thus it should be used and implemented carefully.

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