

Strategic context of brand extension marketing essay

[Business](#), [Marketing](#)



Companies in the corporate world acknowledged already for a long time the strategic role of brand extension (Chen and Liu, 2003). Brand extensions, the use of well-known brand names to launch new products in a completely different product class, represent a large amount of the used branding strategies (Collins-Dodd and Louviere, 1999; Aaker and Keller, 1990). Throughout this section, the main advantages and drawback of brand extension will be presented, as these will lead to a better understanding of the possible effects of brand extensions. Brand extension is the use of established brand names to enter new product categories or classes (Keller and Aaker, 1992, p. 35). Brand extension is a strategy that many companies follow with the aim of getting benefitted from the brand knowledge achieved in the current markets (Aaker and Keller, 1990; Milberg et al., 1997). In addition, that drives to an easy acceptance of the new product in the market. Simply brand extension is addition of a new product to an established line of products sharing the same brand name. So new offering is already blessed with established brand name, and getting instant credibility without giving much expensive efforts. Launching new products give high rates of failure, to avoid this company's use the brand extension strategy as one of the most lucrative growth opportunities in the last decades (Martinez and Chernatony, 2003). In general eight out of every ten new launched products is an extension of an existing brand (Ourusoff, Ozanian, Brown and Starr, 1992). In this sense, a link can be made towards the work done by Aaker and Keller (1990) who argued that brand extensions can eventually lead to a competitive advantage. Moreover, according to Porter (1980) who is the pioneer of the five forces model allowing the assessment of the potential of a

market, also argues that brand extensions are an effective tool in the reduction of entry barriers of a new competitive market. Therefore, a company or brand name can be used to make instant credibility to a new product or service possible (Amis, Slack and Berrett, 1999). In addition, Tauber (1981) argues that brand extensions reduce the extent to which firms have to communicate their new product to customer in order to raise customers' awareness. Indeed, the extended product beneficiaries from the existing awareness of the parent brand, this in turn may be assumed to raise the ease with which consumers are willing to try the extended product and also reduces the risk associated with the use of a new product from unfamiliar brands (Tauber, 1981). As a whole it requires lower marketing and brand development costs (Smith and Park, 1992) , moreover strengthen the original brand image (Aaker, 1990; Park, Jaworski, and MacInnis, 1986) and increase parent brand choice (Balachander and Ghose, 2003; Swaminathan, Fox, and Reddy, 2001). Again, in case of brand extension new product is marketed under a well-known brand name, so automatically failure rates and marketing costs are reduced (Milewicz and Herbig, 1993; Keller, 2003). Huge investment is required when a company need to maintain large number of individual brands. In contrary, when APPLE brand of laptop is advertised it indirectly benefits other products, which share the same brand name. So automatically, the promotional cost will go down. The extensions enhance promotional efficiency because brand extensions need less advertising support in comparison with new brand launches. In terms of consumer, it is more comfortable to use a new product under a known brand. However brand extensions are not justified only for reducing cost of new launch and

promotion, Increasing brand equity, and consumer benefits. It also helps the brand to make broader the brand meaning. For example like J & J today is not about only baby shampoo but it is about baby care. Therefore, brand extension is bringing more clarity to the meaning of the brand and thus it reinforces the image of the brand. Extension can also strengthen the parent brand image. For an instance, Reebok watch may reinforce the image of Reebok known for professionalism in sports. So, In order to grow, endure, and achieve long-term success, companies must also attract new customers with new products. Brand extensions provide a way to take advantage of brand name recognition and image to enter new markets (Aaker and Keller, 1990, p. 27). In spite of all these advantages if there is any dilution effect on the parent brand image due to brand extension that will also be captured in feedback. Developing a new brand can be expensive, time consuming and obviously not always easily conducted nor well received. Moreover, it requires substantial investments not only in creating a new brand concept but also in advertising the new product on the market, as well as supporting it during its life cycle. Some marketers doubt that a brand extension is the universal way of revitalizing a brand. It is instead believed that many managers choose to use this strategy because it is fashionable, with the risk of companies embracing the use of a brand extension before consuming all the resources for growth of the parent brand (Kapferer 2001). A study conducted by Harley (1998) emphasizes on the belief that an extension is now an essential part in the life of a brand. It is further argued that brand extensions are a sign of growth, development of scope and market adaptability.

3. 6. 2. Competitive tools

Competitive tools – such as brands helps to achieve strategic features like reputation building, competitive advantage over their competitors, having right consumer base. All these factors contribute to build a successful brand extension strategy for further growth. A brand extension, if successfully executed and adopted by consumers, the company moves into a new category with stronger brand equity than earlier and facilitates consumer decision-making process by the established brand names (Alba and Hurchinson, 1987). This research work identifies the huge strategic importance of brand extensions as Companies use strategic planning for gaining competitive advantage in various states of considerable context like - brand orientation, Product Life Cycle, brand equity etc . So the huge importance of brand extension justifies , why it is, the most frequently used branding strategy in business reality (Völckner& Sattler 2006). 3. 6. 2. 1.

Brand orientationBrand orientation is closely related to the idea of innovation. Brand orientation may provide the foundation for branding strategy in pursuing a competitive advantage as to whether a brand is to be utilized and to whom it should be approached (Ex. target customer). Brand orientation is entirely dedicated towards building brand capabilities" (Bridson& Evans, 2003), and Preparing the organization to deliver the communicated brand promise which is crucial to strategy implementation (de Chernatony and Segal-Horn, 2003). Urde (1999) presents brand Orientation model that focuses on brands as strategic resources. " Brand Orientation is an approach in which the processes of the organization revolve around the creation, development, and protection of brand identity in an

ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands" (p. 117-118). This refers to how branding is used by the organization including as a means for identification, differentiation and guarantee of consistency for consumers and that is what brand extensions actually brings if implemented properly. 3.

6. 2. 2. Product life cycle Product life cycle refers to the phases, starting from the product's first launch into the market until its final withdrawal . There is substantial evidence in the market place that due to Intense competition product life cycles are shortening. To prolong the life cycle of a brand or product an organization needs to use skillful marketing strategies, like by entering new categories with the reputed brand, and can achieve success with greater ease in a far shorter space of time than new brands. In spite of this strategic importance, the literature prompts, there are limitations of information of PLC concept provided to guide marketing strategy (Wind & Claycamp, 1976, p. 8). Carrying brand extension strategy leads to reduction in product-introduction risk through the legacy of a reputed parent brand. At Growth stage, this is an appropriate timing to focus on increasing the market share. If the product has been introduced into an existing market then it is in a position to gain market share relatively easily. At the maturity stage, Successful products attract other competitor to start selling similar products. This is the time of maximum profitability, when profits can be used to continue to build the brand. This meant developing an appropriate time soothing extension strategy. At the saturation stage, most of the consumers already possess that product and a plenty of better and cheaper options become available into the market place. At this stage, successful extension

strategy could increase sales. When a company recognizes that a product has gone into decline or is not performing as well as it should, it has to decide what to do. The decision needs to be made within the context of the overall aims of the business. Reputed companies rarely withdraw the product from the market rather than they try to extend the life of the product through extension strategy. So effective extension strategies increase product life cycle and the profitable period of a product. A vast body of work has been concerned with modeling the diffusion of new products (Mahajan, Muller, & Bass, 1993). Comparing to this, diffusion of innovation is specifically adopted in a few PLC studies (Easingwood, 1988; Midgley, 1981). Whereas at the first stage of product life cycle the market leaders targets the innovators for gaining innovative consumer acceptance, as Innovators Induce adoption of new product at each stage of the diffusion process, ultimately leads to an overall market acceptance.

3. 6. 2. 3. Brand equity

Finally, Tauber (1981) argues that brand extensions can enhance the brand equity of the parent brand and the extended product may bring an increase in positive consumer perception about the overall company. The value of a brand to consumers is generally referred to as consumer based brand equity (Keller 1993). As enhancing and increasing brand equity is the aim of brand extension Sometimes brand Extensions become necessary and unavoidable. As a brand starts saturating the market, it needs to extend itself and find new target segments for the overall growth of the company and in return to grow profitability. This, not only because there is protection from a risky and probably unsuccessful brand new launch, but mainly for the Brand Equity benefits, which the parent Brand holds (Rangaswamy et al.,

1993; Shocker and Weitz, 1988). Brand equity is an important intangible asset that has psychological and financial value to the firm (Kotler et al, 2007). In order for a brand extension to be successful it should create some of its own brand equity into the new product category. Additionally, it is important for the extended product to generate additional equity for the parent brand (Keller 2003). Brand equity could broadly be categorized into two sides with different definitions depending from which aspect it is viewed. Firstly, financially pointing out the value of a brand to the firm and secondly, from a consumer perspective putting its focus on how consumers perceive the brand (Pappu et al 2005). According to Elliot et al (2007), when understanding brand equity as a concept, it must be viewed from a consumer perspective since that is what ultimately will result in increased brand success. It is hence argued that it is the sense of added value among consumers that will influence preferences for a particular brand. Thus financial brand equity is consequently the outcome of customer-based brand equity. Furthermore, to determine the state of health of a certain brand, customer-based brand equity is considered to be a key factor. Except for bringing advantages to the firm, it is also an essential measurement to use when improving and affecting a company's brand perception (Pappu et al 2005). Since researchers argue that the process of brand evaluation is best looked upon through a consumers', rather than a financial perspective, our investigation will be conducted by support of customer-based equity. When moving into a customer-based approach, it is necessary to deconstruct the brand, in order to identify the factors that determine brand equity in the minds of consumers. The literature on brand equity shows two major

focuses. Some authors have focused on the financial aspects others have focused on the consumer behavior effects specific to a particular brand. In brand extension research, brand equity is predominantly considered as consumer based brand equity (Keller 2003). Because of increasing competition introducing successful new brands may be more difficult now than in the recent past (Aaker 1991). The new strategic brand management concerned about creating and sustaining the brand equity. The paper is concerned with how brand extensions could be launched more efficiently so the already achieved equity should not be diluted and the newly launched should be accepted more easily . Successful brand extension translates the brand-consumer relationship into a stronger one. That is why , a fundamental goal of brand extension research has been to assess the attractiveness of a brand extension opportunity (Aaker and Keller 1990; Boush and Loken , 1991)3. 6. 2. 4. Price premiumConsistent with this expectation, research shows that brand extensions obtain greater introductory market share than do new brands and they do so with less marketing investment. Ideally, a company can obtain both market share and a price premium for its brand extensions. How much more you would pay for Tide fabric softener over Gust fabric softener that sells for \$3. 99? A Sony laptop computer instead of a \$500 model by Bluetone? Or a Nike tennis racket in favor of a \$99 racket by Graysyn? The additional amount that you will pay to get a brand extension by Tide, Sony, or Nike rather than buy an average (or in this case fictitious) brand reflects the price premium the brand extension can obtain. Marketers should realize the importance of an extension strategy in terms of strategic direction on the basis of brand orientation, place where this extension should

be introduced to increase a product life cycle , brand equity or maximizing profit through price premium.

3. 6. 3. Disadvantages of brand extension strategy:

Despite the many advantages gained by using brand extensions, they also have the potential of creating some problems for the firm, such as cannibalization, failure, partial failure and dilution even if the brand extension is successful (Pitta and Katsanis, 1995, p. 51). Unsuccessful brand extensions weaken the positive associations and could harm the brand equity and at the same time, it could weaken the value of the brand for future extensions (van Riel, Lemmink and Ouwersloot, 2001). Aaker (1990) told an extension either successful or unsuccessful may potentially dilute the equity of the core brand image which has been built up with the core brand name (Aaker, 1990). So the possible harm caused by brand extensions is not always caused by extension failure (Chen and Chen, 2000) or negative information (Ahluwalia and Gurhan, 2000) it may happen for various reasons. Another great threat is the fact that brand extensions can weaken consumer's beliefs about the extended brand (Martinez and de Chernatony, 2003) by creating new associations in the mind of the consumer (Sharp, 1993). Nonetheless, brand extensions cannot only be associated with positive effects as this strategy is also exposed to shortcomings. One of the main shortcomings that have largely been discussed by scholars these past decades is the concept of brand dilution. According to Loken and Roedder (1993), brand extensions have to be implemented with a great care as the failure rate is high and extension failure will more likely lead to brand

dilution. Brand dilution can simply be defined as the overuse of a strong brand image that results in the increase in the weaknesses of the company. Following this general definition, Loken and Roedder (1993) state that the introduction of a new product under the same name than the mother brand may alter the consumers' perceptions about the mother brand as well as their attitudes towards it. Moreover these authors argue that, an extension may deliver different messages and values from the ones previously established by the mother brand (Loken&Roedder, 1993). As a result of the change in consumers' perception, the brand equity of the mother brand maybe diminished. The study of Loken and Roedder (1993) is crucial in allowing the derivation of the factors that are most likely to enhance brand dilution. They found that the mechanics of brand dilution are perplexed and therefore generalization cannot systematically be made as they describe brand dilution as being situational specific (Loken&Roedder, 1993). They demonstrated in their studies that the beliefs deterioration risk associated with brand extensions is larger for extensions that can be classified as being typical, meaning conveying the same brand image than the mother brand. And conversely for extensions classified as being atypical, conveying different brand images, from the mother brand will exhibit a smaller risk of brand dilution (Loken&Roedder, 1993). The wrong extension could create damaging associations that may be expensive, or even impossible, to change (Ries and Trout 1981).

3. 7. Differentiation between the forward and the backward effect

According to literature, brand extensions may give rise to both a "forward" effect from the parent brand to the new product and a "feedback" and "backward" effect from the new product to the parent brand (Milberg et al., 1997; Balachander and Ghose, 2003). There is not only a direct effect emerging from conferring the value of the parent brand upon the brand extension. Brand extensions might also conversely lead to a potential feedback effect on the parent brand. In forward effect, how consumers mainly evaluate a brand extension is being judged. According to Klink and Smith (2001), understanding how consumers evaluate brand extensions is important in determining how an extension can be successfully implemented. In case of backward effect, two types of evaluation may occur. One is positive evaluation, which implies there is an enhancement of brand image after introducing the extension. On the other hand, there may be negative evaluation which implies dilution of parent brand image after introducing the extension. Brand enhancement generally implies positive evaluation of brand after extension too whereas brand Image Dilution refers "diminishing the favorable attribute beliefs consumers have learned to associate with the family brand name" (Loken and Roedder John, 1993, p. 79) or the tarnishing of the perception consumers have of the brand.

3. 8 Reciprocal effects of brand extension strategy on parent brand image

Some have argued that brand extensions, especially ill fitting ones, dilute parent brand positioning (e. g., Ries and Trout, 1981), whereas others have

suggested that, properly managed, extensions can reinforce positioning (e.g. Park, Jaworski, and MacInnis 1986). However, this strategy is not risk free, it could have negative effects on the image of the parent brand (Martinez and Pina, 2003). Literature suggests the failure rate of extensions is high, and can amount up to 83% (Tait, 2001). The study on dilution of brand image is more important because this can harm the established brand equity, lead to consumer behavioral changes towards the core brand. Srinivasan (1979) rightly called the brand equity as brand-specific effect, so the effect should not be diluted, as brand is the basis for all these factors. While there can be significant benefits in brand extension strategies, there can also be significant risks, resulting in a diluted or severely damaged brand image. Poor choices of brand extension may dilute and deteriorate the core brand and damage the brand equity. However, other studies have been done in order to show that a brand extension could also be seen as a risky strategy. Chen et al (2000) present several criticizing ideas towards brand extensions. Their findings reveal that the extended brand is perceived as cannibalizing, while reducing the total sales of the parent brand. Furthermore this study shows that an extension can create consumer confusion regarding the quality of the newly introduced products. In order to minimize potential negative effects of brand extensions on the current associations, it is necessary to understand the process of brand associations leveraging and feedback effects. To date, the literature has mainly focused either on brand extension evaluation or on spillover effects. The analysis of this process as a whole deserves higher attention as across the literature, there are conflicting

findings of the dilution of image or belief changes on the parent brand because of a brand extension.

3. 8. 1. Positive evidence of reciprocal effect

Conversely Keller and Aaker (1992) concluded that the core brand image is not affected by unsuccessful brand extensions, regardless of how the brand extensions are perceived as typical of the core brand. They note the fact that the core brand image is relatively unaffected by even multiple extension failures and that this is another demonstration of the strength of the core brand image when those failures are in different categories. It may be that unless the extension failure can be related in some very direct sense to the core brand, the core brand image is fairly immune to extension failure. Consistent with this judgment is the finding by both Sullivan (1988) and Roedder-John and Loken (1990) that negative feedback effects on the core brand occurred only when an unsuccessful extension was very similar to the core brand (e. g., a line extension in the same product category) (Aaker and Keller, 1992). Leong, Ang&Liau (1997) reported that the risk of dilution for master brands is high regardless of whether the extension is successful or not. However the outcome of the extension has a more variable impact for less dominant brands Roedder John, Loken and Joiner (1998) found that beliefs about the flagship product appear to be resistant to change and less vulnerable to dilution than beliefs about the parent brand in general.

3. 8. 2. Negative evidence of reciprocal effect

John and Loken (1990) argue that the parent brand's reputation could be damaged if the extended product fails, if the positioning of the extended

product is inconsistent with the positioning of the parent brand, or if too many products are extended from a given brand name. Well-established brand names can be hurt in the eyes of the consumer, by certain kinds of brand extensions. Extensions delivering attributes that are at odds with what consumers expect from the family brand can produce dilution of the specific beliefs associated with the family brand name (Lokken&Roedder John, 1993). Martinez Pna (2003) posit that extensions inconsistent with the brand image are likely to create new associations in buyers' minds or to confuse their current brand feelings and beliefs. The brand extension strategy might dilute the brand image after the extension. Distant extensions negatively affect the brand image. Also, the lower the perceived quality of the extension, the worse the brand image will be after the new product has been launched. A brand extension that seemingly and isolated is performing fine, might still transfer negative affect and associations to the parent brand (Thorbjornsen 2005). Brands that have not developed strong, cross-category performance or personality dimensions that cut more easily across categories risk diluting their core equities when they shift their propositions to enter new businesses (Court, Forsyth, Kelly & Loch 1999). Kumar (2006) found evidence to suggest that a successful extension can indirectly dilute a brand by reducing the perceptual separation between the parent and extension categories and by improving customer evaluation of a counter extension. The findings suggest that successful brand extensions serve to build "bridges" across product categories that lower the entry barriers for counter extensions. Extensions delivering attributes that are at odds with what consumers expect from the

family brand can produce dilution of the specific beliefs associated with the family brand name.