

Impact of brand extensions



Launching brand extensions are a bit like having kids – just because you can doesn't mean you should. But if the conditions are right, and everything is thoroughly prepared and thought through, then it can be terrifically rewarding” Rory Sutherland, Creative Director, Ogilvy One, as cited in (Miller & Muir, 2004). Initially, brand extensions began in the luxury goods industry, when the French haute couture fashion houses started diversifying to jewelry, watches, cosmetics and accessories. In 1921, French luxury fashion house Chanel launched its first perfume, “Chanel n°5” and it remains until now one of the best-selling perfume in the world, enhancing the luxury reputation of the brand.

In the last few years, many luxury fashion houses have launched new ventures in order to expand their recognizability outside their usual area of activities; i. e., clothing, cosmetics and accessories. This process initiated by evolving to new spaces such as hotels, bars, or restaurants where people can experience a special mood; often in strict relationship with the philosophy of the brand. With the success of many luxury brands entering the hospitality industry such as Bulgari, Versace, this research paper seeks to analyze Gucci's brand extension and advise the head of directors on the impacts of extending to the hospitality business. Founded in the 1920's, Gucci has become one of the world's leading luxury fashion brands. With a renowned reputation for design, quality and Italian traditional expertise, the brand offers a wide range of products (clothing, handbags, shoes, timepieces, jewelry and skis). Gucci covers all aspects of product launching, from designing, through manufacturing, and distribution. (Kering, 2013)

In the study of the arguments for and against, the researcher will examine brands that have intended this diversification earlier to get an indication of the impacts of undertaking such a project. The key strategy used to examine the outcomes of progressing the Gucci group into the hospitality industry is the Brand extension strategy (Aaker & Keller, 1990, pp. 27-41); that the researcher will enhance by applying the Categorization theory (Smith & Medin, 1981). Furthermore, previous examples of failure or success of brand diversification will be discussed as in essential to avoid pitfalls and has an influence on the decision. Among these examples, the “ Golden Arch Hotel”, case of McDonald’s extends to the hospitality industry.

In order to better conduct the research, the major first step is to clearly define the research aims and objectives. The Aim is what the paper wants to achieve depending on the business question, while the Objectives distinguish how the aim is going to be achieved (Manchester Metropolitan University, 2008). The next section will focus on both parts so as to build the structure and serve as a guiding line for the rest of this essay.

Aim & Objectives

Aim

This research project aims to analyze whether a luxury brand such as the Gucci group, should extend their products and services into the hotel industry in order to follow the path previously experienced by the Armani group in Dubai.

Objectives

To determine if the brand extension strategy successively fits the group; if it is compatible with the core brand and company goals, as diversification can enable a business to access new revenue streams.

What is Brand extension theory?

The conceptual model

Does it apply to the Gucci Group?

What are the costs of such a process?

What are the benefits and limitations?

What are the competitors? (SWOT Analysis)

To critically review if the Italian lifestyle and the prestige of Italian fashion industry constitute important elements of cultural heritage that can be productively employed in the fields of leisure and hospitality marketing.

Does the brand equity apply to the Hospitality Industry?

What variables influence consumers' perceptions about the acceptability of brand extensions?

How similarity and consumer innovativeness may affect the brand?

To analyze whether brand extension strategy is a proper tool to keep the brand up to date whilst the organization adapt to market changes.

Does extending to the hospitality industry risk making it lose its relevance and appeal?

Is the brand strong enough to guarantee successful brand extension? (Case study of McDonald's adventure in the hotel industry)

Will it improve overall brand image or damage brand identity?

Literature review

Brand Extension Strategy

The original definition of a brand, as cited by Aaker, is a distinguishing name and/or symbol (such as a logo, motto, package design or trademark)

intended to identify the goods or services of one seller, and to differentiate those goods or services from those of the competition (Aaker & Keller, 1990).

A brand extension is defined when a company uses an existing brand name to introduce a new product (Vukasovic, 2012), as well as, when an existing brand is combined with a new brand when introducing a new product (Keller, 2008). Consumer Behavior Seminar, regrouping a number of contributors, first introduced brand extension in 1987. They were trying to understand “how consumers extend prior associations about a company's brands to new products offered by the same firm” (Boush, et al., 1987). Nowadays, brand extensions might be one of the most researched and impacting areas of marketing (Elliott & Percy, 2007).

Brand extension is considered to be the most attractive marketing strategy; indeed, it enables to reduce the launching cost of introducing new products by compensating with the consumers' perception and awareness of the parent brand (Lassar, Mittal, & Sharma, 1995). Therefore, a successful brand

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extension will allow manufacturers to take advantage from this by gaining a higher expectation in the consumer's mind and hold more shelf space for their brands. It has also been determined that the least quality variation in product diversification is likely to gain more consumers than when the product lines are distinguishable (Lassar, Mittal, & Sharma, 1995). The implementation of this strategy will result in lower advertising costs for the extended brand as well as higher sales because of the knowledge experience of the brand.

Nonetheless, numerous researchers agreed that luxury brand extensions have been left behind. Even though the luxury brands were the first to initiate brand extensions by extending their haute couture brand to accessories, cosmetics, watches and jewelry, and though brand extensions are the essence of an organization model of the luxury haute couture brands (Ugla & Lashgari, 2012), yet the main researchers that were conducted were either relating about a non luxury brand or a venture between a luxury and a non-luxury brand, which has some particular limitations (Stankeviciute & Hoffmann, 2011).

Previous findings on the impact of brand extensions on the luxury parent brand will be introduced, followed by a focus on the categorization theory and a self-created conceptual model.

The Impact of Brand Extensions on the Luxury Parent Brand

It has been proven that luxury brands may be compromising their reputation while diversifying and targeting a wider market share. We record well-known

luxury brand Pierre Cardin who fall into “ every consumer’s reach” goods by using his notoriety in marketing a commercial quality of hundreds of products. This can be understood by high quality non-personal needs when customers wish to buy products, not available to a broader public (Dubois & Paternault, 1995).

In order to strengthen the core luxury brand image of the parent brand, luxury brand extensions are often attempted, thus, the relationship between consumers and the luxury brand must be strengthened. In a study in 1995, Elyette Roux intended to measure the impact of luxury brand extensions on the parent brand image through brand prestige, brand confidence and desirability (Roux, Consumer Evaluation of Luxury Brand Extensions, 1995). In order to do so, Roux predicted that she could use conceptual fit, transferability, and perceived quality of original brand as variables.

The results proved that brand confidence is only influenced by the conceptual fit approach. Thus, only luxury brand extensions that are in strict correlation to the build brand confidence and the parent luxury brand’s expertise will have a positive outcome on the parent brand. If extensions are uncertain, brand image dilution will happen due to brand confidence decrease.

Brand prestige is mainly anticipated by brand quality and conceptual fit. On a lower extend, transferability contributes in a significant way to brand prestige. Only acknowledged luxury brand extensions will enrich brand prestige, assuming the luxury brand possesses the ability to substitute its credentials and has quality reputation. Luxury brand extensions are facing

many challenges to extend target markets (Dubois & Paternault, 1995). The aim is to increase consumers' need for this specific brand. Brand perceived quality and conceptual fit are the main predictors for desirability.

The decrease of brand desirability will harm the luxury brand image.

People devoting to buy luxury brands for pretention motives, will remove their demand off these brands. Globally, the results proved that brand prestige; brand confidence and brand desirability are significantly linked with the nature of luxury brand extensions (Boush, et al., 1987).

In 1996, Roux went a step further, expanding the study on the impact of brand extensions on a luxury fashion brand's confidence, prestige and desirability balanced by the use of consumers' knowledge level. The hypothesis was not supported, it involved that more knowledgeable people would give the parent brand elements more extreme evaluations. This hypothesis approves that consumers are attracted to buy luxury fashion brands because of their emotional benefit and image influence. Furthermore, the study states that brand prestige; desirability and confidence, when used as purchase intention variables, have no relationship among each other. (Roux & Boush, The Role of Familiarity and Expertise in Luxury Brand Extension, 1996).

The Categorization Theory

Categorization enables a large variety of subordinate functions because classifying something as a category member grants people to bring their knowledge of the category to focus on the new entrant (Smith & Medin, 1981). The step in which any cylindrical object is determined as a flashlight

allows you to understand the Categorization theory. Therefore, people tend to predict its parts, trace its functions, and presume its behavior (Cheah & Phau, 2008). Once people have categorized some new entity, for example, they may be using suitable knowledge for prediction and acceptance. For example, you can easily assume that the cylindrical object set as a flashlight will have one battery at least, will have some kind of interrupter, and will basically produce a beam of light when the switch is pressed. People do not only categorize to accept new market entrants, they also use the new entities to modify and update their concepts. In a nutshell, categorization supports learning (Medin & Rips, 2005).

The Conceptual Model

This conceptual model was proposed by the researcher in order to better understand the impact of brand extensions on the parent brand equity of luxury brands. As brand extension affects the four outcomes, these interact in a certain way.

Figure : The impact of brand extension