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Considering a Brand Extension? The Case For Cautious Enthusiasm

by

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Introduction

It's inevitable that proud owners of successful brands eventually will get around to thinking about where else the power of their brands—their equity in the marketplace—can be leveraged. In fact, in modern times **extensions** of brands to categories beyond the original, "home" category has been the norm, with the large majority of new products, sometimes quoted as over 80%, carrying an existing brand name. This is understandable because, as discussed here, there certainly are a diverse number of reasons to consider extending a successful brand into other categories, and those reasons go well beyond the basic reward of an additional revenue stream.

But the dark side of brand extensions is their high **failure rate**—perhaps as high as in the 80% range as well. So the overall story of brand extensions is that many try, and most of the time they fail. A brand extension might not be successful in capturing market share and becoming profitable because it basically was not good idea in the first place (for any of a number of possible reasons), because of poor realization of what actually was a good idea, or a combination of both. And even if a brand extension might seem to be a success, at least in the short term, there may be longer-terms downsides for the brand and for the firm.

The purpose of this paper is not to delve deeply into specific reasons for failures and how to work to avoid them (that's for another time), but rather to step back and provide a balanced review of the **potential benefits** and the **potential unintended negative consequences** of brand extensions. Both have to be considered early on in the process and beyond so as to provide a solid basis for making important business decisions.

Terminology

First, because different terms have been used to describe brand extensions and related concepts, we need to start by setting out our own usage before proceeding further. The words used to describe different types of brand extensions vary, and even the term "brand extension" is not consistently used across the literature. In our scheme we use the term **brand extension** to describe the application of an existing brand to a product or service in a category *different* from that of the original, "home" category of the brand. How different the new category may be can vary, and the extent of the difference may be somewhat subjective. For example, the original Colgate and Crest toothpaste brands both have been extended into the closely related, "adjacent" categories of toothbrushes and mouthwash. But consider the use of the Colgate brand in the clearly distant category of frozen dinners, which briefly gave us *Colgate Kitchen Entrees*, and contrast that with the one-time extension of the Crest brand into the somewhat related (but is it really?) chewing gum category. The Crest chewing gum example is especially interesting to consider in terms of how close or distant the toothpaste and chewing gum categories are. On the one hand they both are consumed orally, with both marketed on the basis of having beneficial effects on oral health and/or breath freshening. On the other hand they seem to apply to two different types of usage occasions, and it seems safe to think of toothpaste as in general more "medicinal" than chewing gum. So how similar or different those two categories are seems to be in part subjective.

It should be noted that the failures of *Crest Chewing Gum* and especially *Colgate Kitchen Entrees* should not be seen as a sign that "stretching" the reach of a brand to further-out categories is in itself always doomed to failure—witness successful ambitious brand stretches such as *Virgin Airlines,* descended from the original flagship, *Virgin Records*. Sometimes a brand *can* be used successfully in a seemingly unrelated context. (But even with the success of Virgin Airlines, other Virgin brand extensions have had a mixed record, as failed attempts such as Virgin Cola, Virgin Brides, and others have demonstrated—so there are no sure things in this game.)

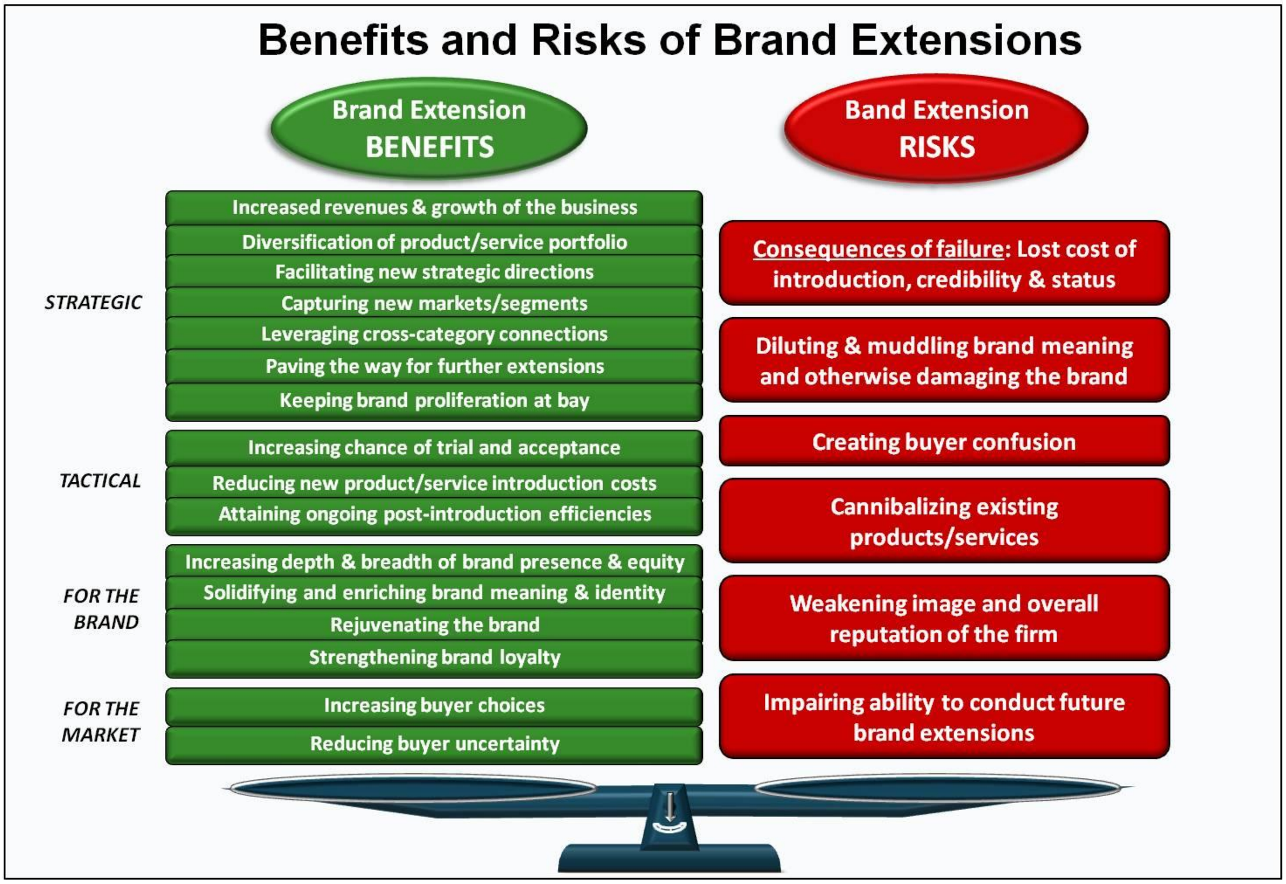
In common usage, brand extensions differ from **line** extensions, which are additional applications of a brand to new **variations** of the original product or service, within the same general category. For example, Colgate *Sensitive Whitening With Foam* toothpaste, one of a number of Colgate toothpaste varieties, expanded the brand's offerings while remaining in the flagship product's home category. The marketing and brand literature contains additional and alternative terms describing types of brand extensions and related concepts, such as *horizontal* and *vertical extensions*, *range extensions*, and more, but those distinctions are not required for the present discussion.

Brand Extensions Offer Potential Rewards But Also Risk Unwanted Consequences

As we will describe here, there are many powerful business reasons to launch a brand extension. Nevertheless, before brand owners go down that path they should carefully and realistically consider and anticipate potential downsides as well, so they can walk with eyes open and while doing all they can to minimize risks.

The balance of this paper, summarized in the figure below, presents some key things to consider on both the pro and con sides. First, reasons for and potential benefits of launching brand extensions are described. These are divided into the **strategic** and the **tactical**, to emphasize that brand extensions can serve as both kinds of business tools. Then the risks—potential negative consequences—are described. And as noted earlier, it's important to keep in mind that some of those negative consequences may accrue even if a new offering appears to be successful in terms of such criteria as near-term financials.

Also keep in mind that these considerations vary widely in how applicable any one may be to a specific business situation, depending upon the state of the brand, the categories involved, the competitive landscape, and more.



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Potential Benefits of Brand Extensions—Why Be Enthusiastic?

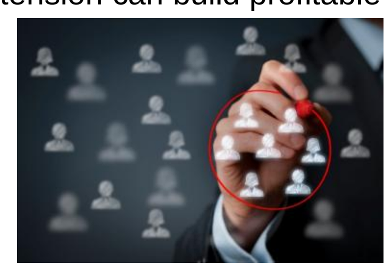
Potential Benefits to the Business—Strategic

1. *Increased revenues & growth of the business*. Of course this usually is the prime basic motivator for any new product or service introduction, as it should be for most (some would say all) business activities. In the case of applying an existing brand to a new product or service, the added expectation is that using an existing brand will make incremental revenue and growth even more likely than if an entirely new brand were to be created. This anticipated brand extension "boost" is discussed further in the *Tactical Benefits* section below.

2. *Diversification of the portfolio*. As with any other diversification, extending a brand into new categories not only provides a company with new sources of revenue, it also can diffuse risk by establishing the brand's and the firm's presence in a diversity of categories and markets and thereby reduce the degree of reliance on a more limited set of categories. For example, strong brands might be leveraged as part of a strategy of building a hedge against developments such as a decline in market demand in an existing served category. Some present-day examples come from the publishing business, which has been seeing very challenging times in the print arena for quite a while. Thus the advent of *Parents Magazine* toys, *Esquire* furniture, *Self* (Magazine)-branded fitness products and frozen foods, and *InStyle* footwear, to name just a few.

3. *Taking the firm into new strategic directions.* This might be done in order to substantially clarify or redefine the business(es) one really wants to be in or for other strategic-level reasons. For example, at the launch of the Armani luxury hotel and resort chain, a major extension of the Armani high couture clothing brand, Giorgio Armani explained that "This continues our ongoing strategy of building the Armani universe into a comprehensive lifestyle brand."

4. *Capturing new markets or customer segments.* A brand extension can build profitable relationships with segments you might never have had a chance of reaching in a brand's home category and thus widen your customer base. In some cases this might be a defensive action meant to preempt a competitor expected to enter the new category sometime in the future. One might tap into a younger or higher-income segment than



has been served in the past, or might take an even bigger leap. An example of the latter comes from the construction equipment giant Caterpillar, whose successful Cat/Caterpillar–branded footwear (actually manufactured by Wolverine) has an *entirely* different target— young consumers. Nevertheless, in its marketing the company explicitly invokes the connection between its shoes and its heavy equipment heritage, citing the importance of quality and durability in both of those very different categories. Cat footwear has been followed by a variety of licensed items, including watches, toys, and more, all bringing the brand further into consumer markets.

5. *Leveraging cross-category connections to provide mutual support among a company's products and services*. From the point of view of usage occasions, this applies to complementary extensions or so-called "companion products," where there is good reason for the existing product and the extended one to be used together on the same occasion (e.g., Duracell batteries and Duracell flashlights). Further, from the viewpoint of inter-compatibility, one might be able to leverage assumptions (pre-existing or stimulated and encouraged by the company) that same-branded products/services will work together better than will be the case when mixing brands. This is common in the automotive industry ("use genuine GM parts," etc.), in high technology, and in other areas as well.

6. *Paving the way for further extensions*. Sometimes successfully introducing an initial brand extension into a new category can provide a foothold that makes further  inroads into the new category more likely to succeed, for instance by establishing the brand's category "credentials" by adding to or modifying brand image and associations. Clorox successfully took the strong cleaning but laundry-specific associations of their original bleach and initially used that platform to introduce a disinfecting bathroom cleaner. By doing so they established a legitimate role for the brand away from the laundry room in the minds of consumers, and no doubt this provided a proof of concept within the company as well. From there Clorox then was able to launch further successful non-laundry extensions of the brand, including toilet cleaners, disinfecting wipes, and more.

7. *Keeping brand proliferation at bay*. Applying an existing brand to new products and services eliminates the need to carefully manage and track one more brand. In some companies and situations, over the course of time as more and more new brands are added, the organizational complexities and additional resources involved in

maintaining those multiple brands can mount to high levels. Of course each product and service carrying the same brand must be carefully monitored and managed as always, but at the strategic brand management level the burden *might* be somewhat reduced versus having multiple brands to manage. This is not to say that using an existing brand will always be the best path just because of this—as we say repeatedly in this paper, it is incumbent upon the company to do all the work needed to understand if a brand extension is the best option, in light of many factors, including the categories involved, the current status of the brand, the new category's competitive landscape, target market needs and buying motivations, and more.

Potential Benefits to the Business—Tactical

1. *Increasing the chance of trial and acceptance and the speed of distribution and share acquisition.* This typically is the basic expectation of the value of a brand extension—that it will draw from the power of an existing successful brand to lower business risk and increase the chances of success of a new product or service. And indeed research examining past new product introductions has demonstrated that new consumer products carrying an existing brand name have been much more likely to succeed than those with an entirely new brand name. This is, however, only possible through (1) knowing that your brand's presence, image, and associations are sufficiently strong and that there is a good fit between it and the new category, (2) having good reason to believe that the current market landscape of the new category, including the competitive situation and what is driving success and failure there, demonstrates that there is a place for your brand, and (3) conducting an effective new product/service introduction, including ensuring appropriate integrated marketing communications planning and execution to support the new product/service and properly leverage the brand it bears.

2. *Reducing the costs of product/service introductions*. Using an existing brand in a new category first of all means avoiding some outlays of time and money that normally would be spent on activities such as finding, researching, and coming to agreement on a completely new brand name, identity, and so on. Then, as the new product or service is launched, the high costs of starting from scratch with a new brand to build brand awareness and knowledge, much less consideration, preference, and loyalty, may be reduced considerably. (Of course, once again, time and money nevertheless *should* be spent on research and other activities that will support justifying, planning, and supporting any brand extensions.)

3. *Attaining ongoing, post-introduction operational and other efficiencies.* It is possible to achieve continuing economies of scale when a single brand is applied to multiple products or services in multiple categories, through packaging, labeling, and distribution efficiencies built around common branding.

Potential Benefits to the Brand Itself

1. *Increasing the depth and breadth of the brand's presence and enhancing its overall status and equity.* Successful brand extensions can increase overall awareness of and knowledge of the brand, enrich its meaning to the marketplace, and enhance its strength and power to command preference. The aforementioned application of the Caterpillar/Cat brand to consumer leisure products on a global scale (for example, Cat footwear is available in over 150 countries) seems to apply here. While the revenues coming from such uses of the Caterpillar brand certainly are dwarfed by those coming from heavy equipment and related industrial sales, widening the recognition of (and hopefully the respect for) the Caterpillar brand across multiple sectors and segments has the potential to give some boost within the critical industrial sphere. In the present instance this might be especially useful to Caterpillar in China and other emerging markets, where it is working hard to gain a secure place in construction and related industries.

2. *Solidifying and enriching the meaning of the brand to the marketplace and reinforcing its identity.* Carefully targeted brand extensions (as opposed to more or less opportunistic or even essentially "random" extensions) can make it clear to the marketplace and, from a reputation perspective, the world in general, what the brand and the company behind it stand for. This happens by establishing a strong, successful presence in those categories that reflect and help it fulfill its strategic ambitions. Managers who have come to a good understanding of what the brand really stands for and what it means to the marketplace are in the best position to do this. For instance, think of Honda automobiles, motorcycles, lawn motors, generators, marine engines, and jet aircraft in the context of Honda's vision of "The Power of Dreams," and its mission statement: "Maintaining a global viewpoint, we are dedicated to supplying products of the highest quality, yet at a reasonable price for worldwide customer satisfaction." Other examples of enriching the meaning of the brand come from the competing companies FedEx and UPS, both of which have

added branded services and products to their portfolios that go beyond delivery services, providing combinations of logistics consulting and software and other services that portray the overall FedEx and UPS brands as standing for not just delivering packages, but rather as delivering solutions.

3. *Rejuvenating the Brand.* As noted in the *Strategic Business Benefits* section above, brand extensions can be a response to current or anticipated declining performance and financials of existing branded products and services, either among one's own brand alone or the category in general. That response, while being a positive for the business in general, also can help the brand in particular. In an overall fading category, for example, where a receding tide is dropping the level of all boats, the equity of a strong brand might begin to be "wasted" and even put into jeopardy through association with that declining category. Therefore applying the brand to other categories while it still has some luster (and is not associated solely with a faded, declining, and perhaps discredited category) may rescue the brand. Zippo lighters deliberately adopted this strategy in the face of a declining smoker population in the US thought to contribute to decreased sales of the iconic Zippo lighter. The result has been the launch of products such as Zippo hand warmers, portable grills, outdoor tools, knives, and ballpoint pens. By doing so Zippo not only has tried to address financial concerns, but at the same time also has taken action to keep the venerable Zippo brand visible and fresh. This is one example of brand extensions used not only to keep the company financials up, but also to re-invigorate a brand that may have seen better days.

4. *Strengthening Brand Loyalty by creating multiple connections, bonds, and dependencies with customers through a presence in multiple categories*. Successful brands that have leveraged original, flagship products and services by taking them into a variety of categories that provide multiple connections with customers and multiply opportunities for bonding with their brands include electronics companies such as Apple, food manufacturers such as Kellogg's, entertainment companies such as Disney, and many others.

<u>Potential Benefits to the Marketplace</u>

1. *Increasing buyers' choices within your overall portfolio*—which of course also gives the marketplace more opportunities to have and deepen their relationship with you, as noted above.

2. *Reducing buyer uncertainty & risk.* A known and respected brand entering a new category brings with it ready-made associations, image, emotional connections, etc.

from its prior categories that provide potential customers in new categories and segments with cues and expectations that can aid them in their choice decisions. And of course part of the trick for the brand is to have those expectations work in its favor and not be a drag on success because of some incompatibility between those existing association, etc., and that is part of the due diligence needed when entering a new category that has been mentioned at other places in this paper.

Brand Extension Risks—Why Be Cautious?

1. *Withdrawal of the new product or service for any reason, leading to*:
    - *Lost cost of introduction* (from planning onward)
    - *Loss of brand credibility and status* (see below)

2. *Diluting or muddling the meaning of the brand or otherwise damaging it.* Rather than being a way of reaffirming and strengthening the core meaning of the brand in the eyes of the marketplace, a poorly chosen, ill-fitting brand extension may have the opposite effect, by introducing brand associations and image aspects incompatible for one reason or another with those that had earned the brand its success up to that time. Weakening of the brand can reduce its overall equity and even damage formerly strong brand loyalty in existing categories. Research has demonstrated that these effects indeed can occur. The problem might be, for example, that the new category seems incongruous with the brand's existing category spaces, that the new product or service has attributes seen as inconsistent with those historically associated with the brand, or that both of these may apply. The short-lived Harley-Davidson perfume is often mentioned as an example of this. Although it may be most likely that such problems will doom the new product or service's chances of success in the marketplace, it may be that damage to the brand might occur even when the brand extension itself initially may appear successful, at least from a short-term financial perspective.

3. *Creating buyer confusion*. Sometimes a brand extension that lacks "face validity" by not seeming logical to the market, or seems dissonant with other categories where the brand competes, leaves potential customers unsure of what it all means. A recent example is the almost simultaneous introduction to the consumer market of Heinz *Mustard* and French's *Ketchup*, brand role-reversals of a

sort which have been making many consumers do a double-take and scratch their heads. We can safely assume that Bic brand women's underwear and Gerber Singles dinner-in-a-jar for adults, which both had limited lives and are often cited as typical brand extension failures, caused similar confusion.

4. *Cannibalizing existing products/services.* It is possible to enter a new category that may compete with an existing product or service, even the flagship, by providing an alternative choice to products or services in the existing category. This perhaps is more likely to be a danger with line extensions rather than brand extensions into different categories, where conflict would be less likely. But if *Crest Chewing Gum* had survived it *might* have had the potential to steal some tooth-cleaning and breath-freshening usage occasions from the flagship toothpastes. More recently, an example of a brand extension that may eventually prove to demonstrate cross-category cannibalization (albeit across two related categories) are craft brewer Dogfish Head's new lines of vodka and gin, which at least on the surface appear to offer an alternative Dogfish Head brand drinking experience (spirits instead of beer) for some consumers.

5. *Weakening the image and overall reputation of the firm.* A failed brand extension is usually a very public event that can leave the firm open to disparagement and even ridicule, can be an embarrassment that may damage reputation by creating doubt as to the abilities of the company (described above), and may provide an opening for competitors. And high-profile brand extension failures, especially those that appear to make little logical sense, can be slow to fade from memory (and the Internet), especially if (as demonstrated in this paper) they live on as illustrative examples of brand extensions gone wrong.

6. *Impairing the ability to introduce successful brand extensions in the future* by creating doubt in the marketplace and within the firm. Sometimes the marketplace can be a tough, unforgiving place and may give you only so many shots at extending your brand into a particular category. So a failed try at moving a brand into a new space, even a failure caused by poor execution more than an inherent mismatch between the brand and the category, has the potential to "sour" the market and increase skepticism and resistance to future attempts at entry into that or even other categories. Thus even though the UK retailing giant Sainsbury's entry into the mobile phone service market was short lived apparently due to conflicts with the actual carrier of the service, Vodafone, and not because of a brand–category mismatch (witness the continued success of similar services from Sainsbury's rivals Tesco and Asda), it's logical to expect some consumer skepticism should Sainsbury's try to enter the mobile phone carrier market again. In the same way, confidence within the

ranks of the firm itself, at leadership levels and below, may be shaken by one or more failed attempts to extend the brand. In some types of businesses, such as CPA firms and those in high-tech areas, casting doubt on the ability to extend the brand and, by inference, even to innovate in general might be particularly damaging.

Conclusion

As those behind the many unsuccessful brand extension attempts might attest, no one in business has a faultless crystal ball. As we hope the points above make clear, while there are many potential benefits to the firm of applying brand extensions, a misstep can be multi-layered, cascading, and potentially catastrophic, in the worst case weakening or even destroying the strong brand position that led to the decision to extend the brand in the first place. So the demands are heavy on a company to do all required due diligence to ensure that a contemplated brand extension makes sense from brand, market, financial, and operations perspectives, and to ensure that the execution is faultless as well. Common brand-related pitfalls to look out for that can prevent this from being the case, and specific reasons why and how a brand extension can succeed—or fail—is the topic for another paper.

