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An Efficient Strategy of Capitalizing the Existing Brand Equity: The Brand Extensions

Abstract. This article is a presentation and adaptation of textual analysis. The nucleus of my thesis is of theoretical nature and, along with the analysis and explanation of the terms, the purpose of this paper is to explain and contribute to an understanding of how companies use brand extension as a creative way of capitalising on their existing brand equity.

Keywords: brand, consumption, equity, extensions

1. Theoretical considerations

22.238: This is the number you get when you type the word brand on the Amazon search box, Narrowing the search to brand extension a smaller number appears, just 70. And just when we thought that everything has been written on the subject on branding typing in the phrase" celebrity brand extensions" on Amazon reveals a staggering result of... 0 books, not a single one that deals with this subject.

If 200 or 300 years ago branding was something you did to a cow, a brand declared rights of property and ownership, and meant, particularly in a remote Scottish glen, "keep your hands off" (Cheverton 2003, 3), today celebrities want us to put the hands on every product they endorse and owe. While many celebrities own their corporations (Trump, Oprah, Martha Stewart, Jamie Oliver) and they keep on expanding, the domain of celebrity theory (branding, entrepreneurship, extension) finds itself in the position where "the celebrity territory as a whole, has been tremendously underexamined." (Gamson 1994, 3).

We live in an almost "buy-able" society. Consumption is good, out in the open, for everyone to partake in, whether actually or vicariously (Firat and Dholokia 2009, 1). We shop for milk, better cars, good psychological service, nuclear bombs, diapers and more recent even for a

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new nose or a new pair of breasts. We wash our hair with shampoo that will make our hair full of volume as Salma Hayek's, we want to buy an Omega watch just as James Bond had, the dream car is like the one Eminem drives in the SuperBowl commercial, we diet just as Catherine Zeta Jones and out Pilates DVD is featuring Cindy Crawford. Everything that is covered with celebrity glitter sells and many of us dream of becoming the Next American Idol. And we enjoy it all. But the companies who produce all those products enjoy it even better!

Wally Ollins claims that "we live in a world dominated by brands and that their significance has never meant as much to consumers as it does today" (2003, 69). And he is right. We are what we wear, we are who whose style we imitate, we aim to become. And companies capitalize on our desire of consumption. One strategy that has started in the 50's and has never stopped growing is brand extension, it possesses benefits and disadvantages but all in all it is like a staircase... you never know where will it lead you" (Kapferer 2001).

2. Brand equity

Everyone agrees that brands are valuable – but why, exactly? What makes one brand more valuable than another? (Miller and Muir 2005, xvi). Some companies have long believed in the value of the brand. Coca-Cola is one of the best known: it owns the recipe and the intellectual property but not the factories in which its product is made and bottled. As one executive puts it, "If Coca-Cola were to lose all of its production related assets in a disaster, the company would [survive]. By contrast, if all consumers were to have a sudden lapse of memory and forget everything related to Coca-Cola, the company would go out of business." (Baskin and Earls 2003, 8).

How did it all begin? James Webb Young was the first person to use the term "added values" to describe the psychological benefits of brands as perceived by their users. (Jones and Slatter 2003, vii). Marketers as well as academics regard brand equity as a platform upon which to build and maintain a competitive advantage, considerable future earnings streams and nevertheless shareholder wealth (Keller 1998; Kerin and Sethuraman 1998). Several conceptualizations of brand equity concept have been proposed over time and a diversity of measurement approaches have been brought to the public attention. Each one has its ups and down and should be analyzed according to the brand management's purpose. Regardless of a particular idea, measurement and tracking over time and across international boundaries are crucial to manage and control brand equity effectively (Shocker, Srivastava, and Ruekert 1994).

Kevin L. Keller's well-known approach is described from a customer-based point of view and in his perspective brand equity is "the differential effect of brand knowledge on consumer response to the marketing of the brand" which involves customers' reactions to an element of the marketing mix for the brand in comparison with their reactions to the same marketing mix element attributed to a fictitiously named or unnamed version of the product or service (Keller 1998, 45).

The most cited definition is Aakers', a definition that describes brand equity as being formed out of having five components: brand loyalty, brand awareness, perceived quality, brand associations and other proprietary and brand assets (1991). We have chosen not to present them in this section since they will be amply discussed in the rest of the paper. So we opted for Feldwicks' perspective as he brings forth a 3 folded classification of the different meanings of brand equity as seen in the picture below.

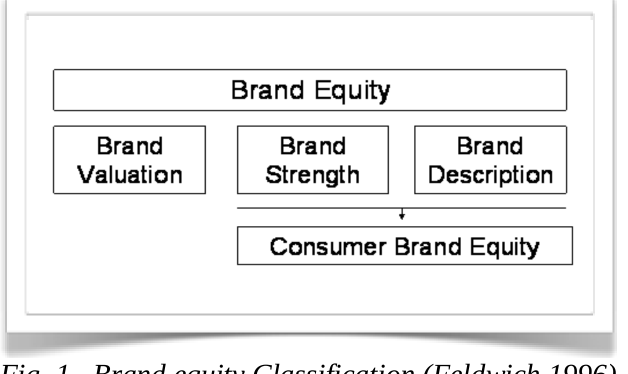

Fig. 1. Brand equity Classification (Feldwich 1996)

Brand valuation/ brand value. The accountants can now calculate the complete value of a brand which is regarded to be a distinct possession. As discussed earlier in this chapter, Coca-Cola owns the brand but not the factories where it is produced the drink and has always been ranked in top 10 most valuable brands of the world. Intangible assets seem to be more valuable than the tangibles ones, at least in this case.

Brand strength and deals (most times considered synonymous with loyalty). It regards the measurement of the power of the consumers' devotion to a certain brand.

Brand description – the brand equity is defined in terms of the association and beliefs the customer has about the brand that also is denoted brand image. The two groups, strength and description, are meant to separate them from the asset valuation meaning, sometimes referred to as “consumer brand equity” (Wood 2000).

Measuring brand equity

The idea of putting a separate value on brands is now widely accepted. For those concerned with accounting, transfer pricing and licensing agreements, mergers and acquisitions and value-based management, brand valuation plays a key role in business today (Clifton & Simmons 2003, 34) and in all odds will continue to do so.

Unfortunately, there is a lack of structured approach to the measurement and determination of brand equity that can in some cases lead to an improper management of the brands. Most companies do not do a brand evaluation and if they do, they tend to limit it to just a few important brands in their portfolio. Lukovitz (2008) argues that more than half (55%) of senior marketing executives lack a quantitative understanding of brand value within their organizations, according to a recent survey by the Association of National Advertisers and global branding consultancy Interbrand.

The most efficient way to monitor your brand is to combine consistent real world research with the use of quantitative models to measure and even predict change in key variables (Gregory 2004, 57). In this respect the most frequently utilized metrics are:

Changes in brand awareness	81%
Changes in market share	79%
Changes in consumer	73%
Purchase intent	59%
Return on objective	36%
Lifetime customer value	23%
Changes in the financial value of brand equity	20%

(ANA, state of ROMI measurement, 2007)

3. Brand extensions

In spite of the fact that brand extension cannot really be named a recent phenomenon, it has been enjoying quite a lot of popularity in both the real world of practice and the researchers' one. This started in the 1980’s and for this reason it occurred simultaneously with the emergence of the concept of brand equity we have talked about in section 2.1.

(Ambler and Styles 1997). The two concepts are analogues; while the brand equity of a brand influences the outcome of the extension (Rangaswamy et al. 1993), the extension has a lot of importance for the equity of the brand (Dacin and Smith 1994).

The documented interpretation with brand extensions gaining popularity finds its reasoning in the evolution of brands as an important asset to the company. This evolution finds its foundation, as specified by Uggla (2002) in the industry focus. During the 60's and 70's, the main focus was on the product and brand invention as action plan for success, but with the new trends and changes (ethical issues, environment movement, financial crisis) companies started approach the idea that its assets could find a different use and be recapitalized.

Looking at the brand as a tactical resource that could bring success to business made their usage and development a priority for the companies. The desire for profit with the use of brand extensions it is therefore understandable. Aaker and Keller (1990) opines that there are many embryonic extensions that have had a surprisingly outcome, but in the same time many brand extensions that have been well planed, but turned out to be total failures. Recent extensions of car brands prove the fact that even planned actions can prove to be nothing more than a fiasco. Despite that, Uggla (2002) argues that extensions that have been planned have better chances to be successful on the long run.

Brand extension is the "use of established brand names to enter new product categories or classes" (Keller and Aaker 1990, 35). Just a couple of years ago, Klink and Smith (2001) have warned about a limitation in current research on consumer attitudes towards brand extensions, stating that "in this area, as is often the case during the initial stages of knowledge development, concerns about external validity have taken a back seat to those about internal validity" (Klink and Smith 2001, 326).

To illustrate what brand extension is, we might think of Ben and Jerry's ice-cream: rich, flavored, tasty ice-cream. But that was just the start; today we can enjoy frozen yogurt, sorbets, ice-cream bars, frozen yogurt bars, sorbet bars, and even liqueur (Joiner 2007). Or an even more illustrative example, we can fly with Virgin, eat with Virgin, read with Virgin or even watch movies with Virgin, Richard Branson being the master of extensions, and so far this strategy has worked mostly well (see Virgin Coke failure), for his company.

As stated earlier, a brand extension is often made so that the company can reach a new market segment or a new consumer group. If this brand extension is able to create awareness of the brand within this new segment, than the brand extension will strengthen the parent brand, since a new segment has now become aware of the brand as well (Apéria 2004). According to Murphy (1990, 110), “to develop new brands is extremely expensive, highly risky and takes a long time”. When he speaks about expenses, Murphy (1990) does not only mean the cost with creating a new brand concept but also the costs with advertising in order to launch the new brand on the market as well as to support it during its whole life cycle. Murphy (1990, 110) considers that “the process of branding is one whereby a bond is created between the brand and the consumer and, generally the consumer has little interest, at least initially, in the brand proposition”. Sustained advertising and promotional investment is therefore required to create this bond and reassure the consumer that the brand proposition will endure; such ongoing support is expensive.

3.1. Reasons for introducing brand extensions

Brand extensions represent a high percentage of the products introduced to the market every year. According to Keller (2003), as much as 90% of new product launches are extensions of brands. It makes more economic sense to launch a new product under an existing name than to create a completely new brand name. The reason lies in the excessive costs needed to introduce a novel brand name. “The cost of introducing a new name in some consumer markets can range from 50 million dollars to well over 100. And even such levels do not guarantee success. In fact, the percentage of new products that are successful is not at all reassuring. In contrast, using an established brand name can substantially reduce the introduction investment and increase the probability of success” (Aaker and Keller 1990, 47). To introduce a new consumer brand in the world’s three main markets (USA, Japan and Europe) was, in 2006, estimated at one billion dollars, 10 times more than Aaker estimated 16 years before. As a consequence, leveraging an existing brand name is the strategy for 90 to 95% of the innovations that are launched in the US each year (Kalamas et al. 2006).

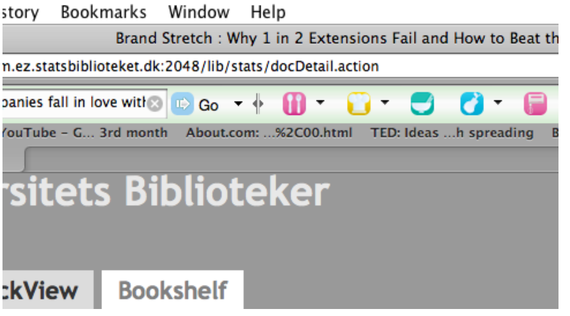

Fig. 2. Extensions vs. new brand (Taylor and Nichols 2003)

As seen in the figure above only 2% of the new brand launched on the market are completely new creations and this shows again that it is very difficult and expensive for a company to come up with a new brand name for a new product (Kotler 2006, 298). Hence, a brand extension gives companies an opportunity to put a new product in the market in a more inexpensive way. But even if the cost issue could somehow be solved with the use of this strategy, far from all brand extensions are successful. Figures from 1997 show that 28 % of the line extensions failed and the corresponding figure for category extensions were at 84 %. (Völckner and Sattler 2002, in Uggla 2002). Peter (1996) is even more pessimistic stating that only about 1 in 100 of the launched products will make it in the market.

3.2. Benefits

Kotler and Keller (2006) assert that a brand extension makes the probability for a new product to be a sensation higher than if a company is trying to launch a whole new product without the help of a parent brand. One of the grounds for this is that the consumer can construct some expectations to the new product based on the prior grasp that the consumer has about the parent brand. These expectations will reduce the risks which the consumer is associated with when he or she buys a new and unknown brand (Kotler 2006). If a company is capable to successfully make a brand extension, then this successful brand extension can be of use as a kind of branch mark for further extension (Kotler 2006). This might be the reason has made a successful brand category extension and then later decides to take this category extension and make a line extension to further compliment the initial extension of the brand.

A specific promise – this is what powerful brand are expected to deliver. If an extension is well executed it can use this reputation to generate a captivating value proposition in a recently developed segment or market. A survey by the brand gym made known that 58 per cent of United Kingdom's consumers would be more likely to venture in the trial of a an unknown new product from a brand they knew, versus only 3 per cent for a new brand.

The extension benefits of awareness and reputation mean that you do tend to get ‘more bang for your buck’ compared to new brands. Studies show that the cost per unit of trial is 36 per cent lower and that repurchase is also higher (Taylor 2004, 1-2). Research (ACNielsen’s 2005) indicates that 7 out of 10 shoppers plan their purchases before going to a groceries store, and that 8 out of 10 shoppers will usually buy their best-loved brand in the store. This magnifies the predilection of companies for brand extensions as opposed to new brands, and this is driven by the time (and cost) it takes to establish each of the two alternatives in the minds of consumers (Aaker and Keller 1990).

3.3. Disadvantages

Taylor identifies three negative outcomes of brand extensions, as seen in the figure below.

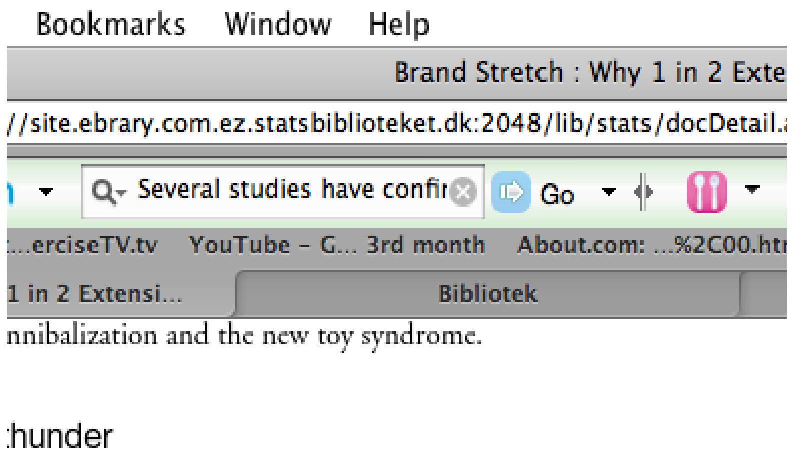

Fig. 3. Damage on you brand health (Taylor 2004, 24)

Cannibalization

The desirable status of a company is obviously to increase the amount of sales at the expense of competitors, but to take as little sales opportunities away from your own brands. This phenomenon is referred to as cannibalization (Randall 2000, 146). As the name suggests, this is the risk of an extension eating up other family members. The biggest risk occurs with range extensions that are 'brand clones', lacking differentiation from the existing products. Kotler and Keller talks about cannibalization when the brand is no longer associated with a specific product or a group of similar products by the consumers, and this will result in the consumers starting to think less of the brand (2006, 298).

Stealing thunder

Extensions can benefit from exiting innovations that would have been better off revitalizing the existing core range. (Taylor 2004, 24)

New Toy Sindrom

One manager enthusiastically told how his brand new extension had added 100 000 extra units of sales. However, he seemed to have overlooked the fact that growing the 4 million units of the core version by 2.5 per cent might have delivered a better return on investment. He felt in love with his "new toy". Sometimes the new toy syndrome happens when brands stretch into totally new areas and fund this out of the core product range's budget. It is also a risk for mono-product brands, when attention is moved away from an anchor version onto new versions, such as formats or flavors (Taylor 2004, 26).

4. Conclusion

Having a starting point in the branding literature as to better understand the creation of brand extensions, this article has set itself to supply the literature stream on brand with a subject that is perceived as novel. Summarizing, our conclusions seem to suggest brand extensions is a creative way for companies to capitalize on their existing brand equity, one that offers a whole new range of perspectives to be discussed and analyzed. During our search for information we could notice the scarcity of well documented data on the subject. The effects of brand extension on the mother brand as well as the impact of celebrity brand extension are areas that we consider that are interesting enough to be investigated further.

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