Understanding brand equity for successful brand extension

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Introduction

The costs of introducing a brand into a consumer market can be considerable, ranging above $50 million. It is a considerable investment and like most investments carries no guarantee of success. The recession of the early 1990s focussed marketing managers on cost-saving tactics to increase competitiveness. One of the most important effects was to make brand extensions more compelling. Leveraging the brand equity of a successful brand promises to make introduction of a new entry less costly by trading on an established name. In essence, companies can be tantalized by the prospect of reaping a second dividend from their initial investment in advertising, research, and product development costs. As support for this alternative, studies of consumer brands in different markets found that successful brand extensions spent less on advertising than comparable new name products. Against the costs and considering the savings, brand extension may seem like the only alternative for some companies.

Brand extension could create synergy

Successful examples such as Diet Pepsi and Diet Coke benefited from the brand franchise of their parent products. Arguably, further advertising the extension might even create synergy between it and its parent brand. In fact, after initially resisting brand extension, Coca-Cola introduced six extensions and captured a larger market share than the original brand. As an extreme example, one of the extensions, Cherry Coke, was successful despite a near absence of advertising support. Recent history shows that more than half of the new brands marketed during the 1980s were extensions of existing products, marketed under existing brand names. As a result, there is even more pressure toward brand extension. While successful product extension can reap benefits, management should not forget the risk of extension failure.

Potential problems

History shows the potential of brand extension problems which range from outright failure to partial failures such as brand cannibalism. Instead of success, the failed extension might tarnish the image and reduce the market share of the parent product. Extensions such as the Cadillac Cimarron serve as examples of the price of a mistake. While the Cimarron was not actually a failure it did cast a shadow on the core product. The model was popular in a market segment which could not afford luxury sized Cadillacs. Owners of luxury sized models lost their sense of the car’s exclusivity. Consumers seemed to think that if anyone who could afford a Chevrolet could afford a Cadillac, a full sized Cadillac seemed to be worth less. The lesson taught by the Cimarron example is that it is important to know what consumers think of the core product and what they will think of the extension. Other failed extensions warn of potential problems and dissipation of corporate family fortunes. Still, the lure of brand extension benefits continues to attract attention.

Managers seem to be aware of the dangers and benefits of extending their brand franchise. Yet the number of failed extensions in the past few years indicates that some refinement in our knowledge of the brand extension process is needed. This article attempts to synthesize concepts from both the brand extension and brand equity literature to yield managerial insights into the process underlying brand extension.

Brand equity

Brand-focussed marketing

The concept of brand equity has been the subject of a number of studies and has been viewed from a number of perspectives. It has been described frequently as the value a brand name adds to a product. That value can be a halo extending beyond the current product category to other product classes. Generally, brand equity results from all the activities needed to market the brand. Therefore, it can be viewed in terms of the brand-focussed marketing effects of those activities. It has received a great deal of attention recently for several reasons, the foremost of which is the increasing strategic pressure to maximize marketing productivity. That pressure yields managerial attempts to gain advantage by increasing efficiency. In addition, references to marketing success based on synergy, consistency, and complementarity (Park and Zaltman, 1987) have tended to support a deeper understanding of the underlying components of products, and have awakened marketing managers to survival opportunities in an era of flat markets, increasing costs, and greater international competition.

The literature on brand equity shows two major focuses. Some authors have focussed on the financial aspects of brand equity, more pertinent to determining a brand’s valuation for accounting, merger, or acquisition purposes. Others have focussed on the consumer behavior effects specific to a particular brand. For marketers, the consumer effects are the appropriate focus and include a number of cognitive effects.

Consumer memory

The underlying basis of brand equity is consumer memory. Much of the cognitive psychology literature has been devoted to the study of memory structure and the process of memory. Most of the widely accepted work involves a conceptualization of memory structure involving associative models. An associative model views memory as consisting of a set of nodes and links (Wyer and Srull, 1989, but see Keller, 1993). Nodes are stored information connected by links of varying strengths. When the consumer thinks about a product, or recognizes a problem, a “spreading activation” process connects node to node and determines the extent of retrieval. For example, if a consumer’s automobile is damaged in an accident, he or she will encode the information in a node in memory, which may activate other nodes including those devoted to insurance agency information, the dealership which sold the last car, advertising information about a new model, and others. The factor which mediates which and how many nodes are activated is the strength of association between the nodes. Once the consumer thinks of the need for a new car, specific information most strongly linked to the new car model will come to mind. The information will include features like price, styling, the consumer’s past experience with it, word of mouth, and other information.

Components of brand equity

Various authors have described brand equity in terms of components of brand knowledge. Of all the definitions, the most relevant treats it as the differential effect of brand knowledge on consumer response to the marketing of the brand (Keller, 1993). Brand equity represents a condition in which the consumer is familiar with the brand and recalls some favorable, strong, and unique brand associations. This definition focusses on the individual consumer and the consumer's reaction to the marketing of a particular product. In addition, Keller describes what consumers know about brands and what such knowledge implies for marketing strategy. Before completing a definition of brand equity, it is important to explore its foundation.

Create brand awareness

Keller (1993) conceptualized brand equity using an associative memory model focussed on brand knowledge and involving two components, brand awareness and brand image, described as a set of brand associations. Using this conceptualization of brand equity, the manager's first job is to create and enhance brand awareness, then build on this foundation and craft a salient image composed of a group of positive associations about the brand. The typical marketing tools used to create brand image include the choice of advertising budgets, messages and media, as well as packaging, pricing and distribution channels. Proper management of these elements helps to create a level of awareness in the target audience, and careful creative activities can form a brand's identity in the consumer's mind – its brand image.

Brand awareness

There are several levels of brand awareness depending on the ease with which a consumer can recall the brand. Consumers exposed to advertising, word of mouth, and other promotions, who are able to recall the brand only with some kind of cue achieve a low level of brand awareness, recognition, also called aided recall. Aided recall is insufficient to generate a consumer choice by itself, since the consumer is unable to generate a picture of the brand. A consumer would have to encounter the brand and recognize it as a potential purchase choice. The associative memory model would describe the strength of association between the brand and the situation as relatively weak. However, since the consumer can recognize the brand when confronted by it, the marketing efforts may still have a positive effect. If consumers make decisions in the store for a group of products, recognition will be very important in shaping the purchase of those products.

Brand recall is critical for success

Consumers who are able to recall a brand name without aid achieve a high level of brand awareness, often termed unaided recall. In this situation, the associative model of memory would describe the strength of association of a brand name with a situation as strong. In the classic consumer behavior model, consumers who recognize a problem and engage in internal search can use unaided recall to generate alternative product choices, or even to engage in routine product choice. Because recall determines which alternatives are generated, those not recalled cannot be part of the consideration set of products, the subset of products that receive serious consideration for purchase. Thus, for many products, brand recall is critical for success.

Brand awareness is important for other reasons besides its role in generating a consideration set. For some low involvement products, brand awareness is sufficient to create sales. Since consumers spend little time or effort on the consumption decision of low involvement products, familiarity with the brand name may be enough to determine purchase. The most important aspect of brand awareness is the formation of information in the memory in the first place. A brand awareness memory node is necessary before any brand associations can be formed. Without an established brand node in the memory, it is impossible to build a brand image.

A strong brand image is essential

Brand image

After creating brand awareness, a manager must create a set of positive associations of the brand in the consumer's mind. This task is the essence of creating a positive brand image. Brand image can be defined as the perceptions about a brand as reflected by the brand associations held in consumer memory (Keller, 1993). Moreover, there are three important aspects to brand image which determine the different consumer responses to different products. The dimensions are the favorability, strength, and uniqueness of brand associations. A positive brand image is vital for defining a target market, determining a product's position, and measuring market response. For example, years of advertising have established NyQuil's position as the night-time cough medicine. Successful positioning has created a unique, favorable, and strong brand image. NyQuil is the single brand to be used at night, which makes it unique. It quiets a cough and "helps you get to sleep and stay asleep", which puts it in a favorable light. Finally, since most consumers will answer the question, "What is the night-time cough medicine?" with the brand, NyQuil, its image is strong.

Aspects of brand associations

Brand associations can span a variety of classifications. As noted above, positive brand associations should be unique, strong, and most important, favorable. Unique brand associations have been classified into three major categories: attributes, benefits, and attitudes.

Attributes. In general, attributes relate to product performance. They can be further divided into product related and nonproduct related attributes. Product related attributes are connected to the product's physical characteristics and vary by product category. They are familiarly called features. As an example, components, materials, on-screen programming and stereo sound are all product related attributes of a video cassette recorder. Non-product related attributes are defined as external aspects which relate to a product's purchase or consumption. They include four types of information: price, packaging, the identity of the typical consumer, and where and in what situations the product is used.

Brands often have a personality

Consumers recognize attributes in products and with many product categories, especially shopping goods, actively compare alternatives. The nonproduct attributes have little to do with product function, but may serve as important cues to help create further associations. For example, consumers often associate price with quality. It is likely that, in their minds, they may group products in a category by price. Packaging usually does not affect product function, but serves as a cue to product quality. Quality products are usually sold in quality packages. Associations with the other two nonproduct attributes can be formed by consumer observation, and often can reflect some consumer inferences. Often brands have a personality, like "rugged", "dependable", or "youthful". The brand personality can result from creative advertising, and/or consumer inferences about the user or usage situation.

Benefits. Benefits represent the want satisfaction that product features convey. They are often specific and represent what specific consumers value. Benefits like high gasoline efficiency may be highly attractive to some automobile buyers, but less important to others who value low purchase price. Benefits are often further classified as functional, experiential or symbolic (Park *et al*., 1986). Functional benefits pertain to the intrinsic features possessed by the product and are often linked to relatively low level needs. Experiential benefits are also linked to features and pertain to how it feels to use the product. They represent experiential needs like stimulation, sensory pleasure, or novelty. Amusement parks, water beds, ice cream, and other products convey experiential benefits. The last type, symbolic benefits, relate to consumers' self-concept and can be linked to higher order needs like social or self-esteem needs (Maslow, 1970). Thus, consumers may value durability and simplicity or, in contrast, exclusivity and prestige, if these pertain to their self image.

Brand attitudes. The last and most important association is a consumer's attitude toward a brand. Brand attitudes have been conceptualized as a multiattribute expectancy value model (Fishbein and Ajzen, 1975). The model views attitudes as the sum of all the salient beliefs a consumer holds about a product or service, multiplied by the strength of evaluation of each of those beliefs as good or bad. An important implication of the model is that many positively evaluated beliefs can be overcome by a few strong negatively evaluated beliefs. For example, if consumers view a diet soft drink as tasting good, and having no calories, they may evaluate each of these beliefs as good. However, if they also believe that the sweetener causes cancer, they may evaluate that as very bad, so bad that their overall evaluation is negative and they avoid the product. The literature on brand attitudes has been related to both product related and nonproduct related attributes.

Brand association can vary

As noted above, these brand associations can vary according to their favorability, strength, and uniqueness. It is the purpose of the marketing program to create associations with those characteristics with mechanisms like product positioning, advertising, and others. However, not all associations will be relevant in a purchase situation. For example, the Sprint long distance phone company has engendered many brand associations like high satisfaction, inexpensive rates, and fiber optic quality. It has also created another less relevant association, namely that Candice Bergen is the celebrity spokesperson. Most consumers will not consider this in the purchase process.

In addition, the purchase situation may affect how consumers evaluate the favorability of brand associations to the other factors. When under time pressure, consumers may evaluate speed more importantly than when time pressure is low. Under normal conditions, a consumer may value low price more favorably except when time pressure intervenes and speed becomes more important.

One other observation about the strength of brand association is noteworthy. Brand association strength is thought to be correlated with the quantity and quality of cognitive processing a consumer devotes to the information. The more elaborate the processing, the more likely a consumer is to recall it. As an example, successful advertisers have tried to increase the amount of consumer involvement by asking questions, and using teaser quizzes, just to get them thinking. These commercials and the product copy points are remembered much more than ordinary ads.

Even the best marketing programs will not be able to achieve a clear set of brand associations with all consumers in a segment. In fact, as the number of competitors in a segment increases, it becomes very difficult to distinguish a unique set of associations. Like clutter in advertising, too many competitors can cause blurring of the brand image among brands.

Assess consumers' brand association

In summary, associations that are unique to the brand, strongly held, and favorably held, are vital for success. However, since the specific associations a consumer holds are dependent on personal values and individual purchase situations, managers must learn what they are and when they operate.
In addition, competitive offerings blur the uniqueness of the brand's associations. Therefore, it is important, on a product by product and situation by situation basis, to assess consumers' relevant brand associations (Sharp, 1993).

Brand equity implications
As mentioned above, consumer based brand equity is the differential effect of brand knowledge on consumer response to the marketing of the brand. Thus, a brand will have positive brand equity if consumers react more favorably to its marketing mix elements than they do to the identical elements attributed to an unnamed brand (Keller, 1993). Thus, brand equity signifies something extra, namely the favorable status of the brand in the consumer's mind.

The importance of brand equity is that it increases the probability of brand choice, leads to brand loyalty, and insulates the brand from a measure of competitive threats. There are several implications of this. First, a positive image should help solidify its position, differentiate it versus competition, and move it more toward the specialty product category. Thus, it should be able to command higher prices, and encourage consumers to search for it. Second, brand equity implies high levels of awareness which should increase the effectiveness of marketing communications.

Brands and brand extensions

Brands are important assets of a company

Successful brands are the most important assets of a company. Specifically, those assets represent the knowledge created in the minds of consumers as a result of all of the marketing programs executed for those brands. In one sense it can be viewed as the result of the total resource investment in marketing the brand. All the marketing activities including product development, market research, advertising, promotion, distribution, sampling, and others act to create a brand image in its target audience. Firms may choose from among three main branding strategies which link products to the company (Kotler, 1991). One strategy employs individual brand names for different products without an explicit connection to the company or to each other. Procter & Gamble has employed this branding strategy with brands such as Tide, Bold, Cheer and many others. Each brand has its own brand identity and can develop its own brand equity. In the unlikely event of a Procter & Gamble product catastrophe, each brand would be rather insulated from adverse publicity. Indeed when toxic shock syndrome claimed users of one of Procter & Gamble's brands, there was virtually no link to the company's unrelated brands. One difficulty is that the company's identity is so removed from individual brands that a consumer looking for Procter & Gamble quality might wonder whether Fab (Colgate-Palmolive) or Dash (Procter & Gamble) is a Procter & Gamble brand.

Umbrella names

A second strategy involves umbrella or family brand names in which the company name is on every product. Black & Decker have chosen this strategy, which has benefits and risks. When the company name connotes quality, dependability and value, each new product gains immediate positive brand associations. However, an unfavorable product issue, accident or recall might taint the entire line (Sullivan, 1990). Black & Decker experienced a special problem with family branding. The firm, noted for its quality power tools, developed many brand associations with quality, masculinity, dependability, ruggedness, and use in construction. Black & Decker used its family brand strategy for its newly acquired General Electric small appliance line which included hand mixers, toaster ovens, and other kitchen appliances. Kitchen appliances like hand mixers convey a less rugged image, which clashed with power tools. Black & Decker's experience serves as another example of the need to assess brand associations carefully.

The third strategy, a combination of the first two, is a sub-brand strategy in which a company name is combined with an individual brand name. Thus Kellogg's Raisin Bran is distinct from Post Raisin Bran or a local food retailer's Giant Raisin Bran. Family and combination branding can leverage positive associations consumers feel for the company. The sub-brand strategy allows differentiation and the opportunity to create specific brand beliefs.

Brand equity has a finite life

Viewed as an investment, it is tempting for management to consider reaping the rewards of that investment by extending it to another product. As an investment, brand equity has a finite life. It is subject to growth and reinforcement, or decay, and assault by competitors. It can even be harmed by the well intentioned actions of management. Recently, concerns about the negative effects of brand extensions on brand equity have been raised. It is generally agreed that there may be negative effects on the core product if a brand extension is unsuccessful. The negative effect of unsuccessful extensions is termed brand equity "dilution" (Loken and Roedder John, 1993). However, even successful repeated extensions might diminish or exhaust a core product's brand equity. This process of repeated extensions yields equity "wear-out". In most cases, dilution, the negative effects of an unsuccessful extension, are stronger. Nevertheless, some experts have warned that repeated successful and unsuccessful extensions may result in the total extinction of a brand's equity (Gibson, 1990). It seems reasonable that overdoing anything, including brand extension, can have adverse consequences. Thankfully, managers are not often faced with such extreme conditions. The typical situation a product manager must consider is an individual introduction of a brand, given one or more existing brands.

Brand identity and extension

In competitive environments, pioneering products and product lines often represent the most successful new product introductions. They take advantage of the military axiom to hit the enemy where it is weakest.

The ultimate weakness is a category without entries. Initially, they can exploit an unfilled consumer need without the interference of rivals. Since they can establish a distinct brand image they can each be the first brand to occupy a position in the consumer's mind, creating awareness and a brand image. In addition, pioneering products have an advantage over follower products because, without interference from competitors, they can dominate the consumer's association of the brand with benefits. If successful, those products can thereby dominate the category. Because of the potential category dominance, pioneering products also promise eventual rewards in the form of greater consumer acceptance and higher prices. Even though pioneering products offer great potential, they account for a fraction of all new product launchings. Most "new" brands are simply modifications or improvements on existing products. A likely reason for this is that risk, the potential for failure, is inherent in any new product development. Since there is no guarantee that consumers will respond to the underlying benefits of a pioneering product, a measure of risk exists. Thus, the apparent emphasis on improvements of successful products is an expression of managerial risk avoidance. The literature on brand extensions echoes the managerial fascination with capitalizing on a brand's equity to attract new market segments. After all, marketers are in the business to maximize returns and reduce risk.

Brand extension benefits

Core brand associations are conveyed to extensions

Consumer evaluation of a brand extension is frequently described by a transfer process in which core brand associations are conveyed to the extension. As we have seen, brand associations can vary among consumers, across usage situations, and in different competitive environments. Potentially, the core brand may provide a group of salient, positively evaluated, relevant associations which are valid within or across product categories. Ideally, a core brand's associations can contribute a complex, yet well-defined image to an extension. A well-established brand usually has a well-defined brand image. A great benefit of brand extension is the instant communication of a salient image. For example, H.J. Heinz acquired Weight Watchers and introduced the Weight Watchers line of low calorie foods. The Weight Watchers name contributes recognition and many positive brand associations to the food line.

In addition to brand associations, extension can convey quality associations. To avoid advertising battles based on product specifications, one can compete on the basis of perceived high quality. Hewlett-Packard has used this strategy by extending its name to numerous products and thereby has extended its umbrella of quality to them. When quality is perceived to be high it is valuable to share the benefits of a core product with an extension. Without perceived high quality, however, the task is impossible.

Another benefit of extension is the cross fertilization which advertising the core brand can bring. Undoubtedly, Diet Cherry Coke benefited from the advertising and familiar packaging of Diet Coke. Without ever seeing a television ad for Diet Cherry Coke, consumers could easily recognize the package and realize that it was a distinct product, yet was familiar.

That familiarity also provides consumers with another benefit in the form of reduced risk with a new product. Consumers confronting Diet Cherry Coke for the first time would know that it was a Coca-Cola product of assumed high quality. In reported tests of new products, most support the fact that an established brand name enhances initial consumer reaction, interest, and trial.

Enhancing the core product

The final benefit of extension is enhancing the core product. Like a successful offspring, an extension may reinforce the core product's brand image instead of weakening it. Diet Cherry Coke is clearly positioned as a tasty, low-calorie soda and reinforces Diet Coke's association with low-calorie content and good taste.

Brand extension problems

The potential for a core product contributing a clearly defined image is really only an assumption. In fact, it has been shown that some positively evaluated core product associations are liabilities for extensions. These negative associations can spell trouble for an extension and need to be assessed clearly beforehand. For example, Crest toothpaste's flavor was positively evaluated in Crest mouthwash. However, for a Dentyne-like product, Crest chewing gum, the "Crest" flavor was a liability. Crest reduced that liability by highlighting the flavor "containing Spearmint and Peppermint". In other cases, like the failed extension, Bill Blass designer chocolates, the Bill Blass name was supposed to add distinction to the chocolates, but was not a salient association to consumers.

Concept testing

A worthwhile lesson is that testing may reduce the number of inappropriate, ineffective, or negative brand associations passed on to extensions. Prospective customers could give their impressions of an extension in the context of the extension category. If, in a concept test, consumers had evaluated the potential for a Bill Blass designer chocolate line, information about their perceptions and preferences might have been valuable, and helpful to management. Such findings might allow modifications to reduce the problem.

Aaker and Keller (1990) found several instances in which negative associations might be reduced by adding a second brand name or elaborating on the concept. A second name might provide distancing, as well as the right connotations. They report that Campbell's Soup called its line of spaghetti sauces Prego after they found that consumers associated the name Campbell's with being watery and orange. They suggested that another extension might be able to use the Campbell's name if coupled with a second name like Special Torino. Thus the name, Campbell's Special Torino Spaghetti Sauce, might combine the quality associations from Campbell's with associations appropriate for spaghetti sauce. The second name would convey a feeling of rich, thick, and "Italian" – better associations than orange and watery.

Reduce negative associations

Negative associations can also be reduced by providing a brief elaboration of an extension attribute about which subjects may be uncertain and which has the potential to damage the extension (Aaker and Keller, 1990). For example, antibiotics have a number of side-effects. When the Upjohn Company introduced an antibiotic, thought to have an adverse side-effect, for use in debilitated penicillin-allergic patients, doctors were given elaboration information. The information that the side-effect occurred less frequently than with penicillin avoided undue negative associations.

Brand extension dimensions

Brand extensions can be accomplished in a variety of ways. One of the most obvious differences is whether the extension is in the same or different product category. Thus they can be classified as either vertical or horizontal extensions.

Horizontal extensions

Extend a current brand name to a new product

Typically, horizontal brand extensions either apply or extend an existing product's name to a new product in the same product class or to a product category new to the company. There are two varieties of horizontal brand extensions which differ in terms of their focus (Aaker and Keller, 1990). They are termed line extensions and franchise extensions. Line extensions involve a current brand name which is used to enter a new market segment in its product class. Diet Coke and Diet Pepsi are examples of line extensions since they focus on the diet conscious segment for colas not served by their parent products. In contrast, franchise extensions use a current brand name to enter a product category new to the company (Tauber, 1981). Jell-O Frozen Pudding Pops exemplifies a franchise extension from Jell-O gelatin dessert. Most of the recent research in brand extension has focused on horizontal extensions.

Extension distance

One brand extension variable studied recently is the distance of the extension from the core product. Close extensions may be in the same product category and share the same feature set as the parent product. Distant extensions may be in unrelated product categories and rely on overall quality associations from the parent for success.

Horizontal extensions lend themselves to natural distancing. Distancing is the purposive increase in the perceptual distance of the extension from the core product. Unsuccessful horizontal extensions are less likely to damage the core brand than vertical extensions since horizontal extensions are often in different – and more distant – product categories. Typically consumers will recognize that such horizontal extensions are not closely related. The downside to distancing is that distancing reduces the amount or strength of the brand associations and reduces the halo effect of the extension.

Importance of associations

Horizontal extensions may suffer if the core and extension are perceived to be too distant from each other. Brand associations cannot stretch over too large a gulf. Research indicates that if the core product is perceived to be of high quality, and the "fit" between the core and extension is high, then brand attitudes toward the extension will be more favorable (Aaker and Keller, 1990). Without the perceived similarity between the parent and extension, consumers find it more difficult to attribute original brand associations to the extension.

Vertical extensions

In contrast, vertical extensions involve introducing a related brand in the same product category but with a different price and quality balance. They offer very little distancing. Vertical extensions offer management the quickest way to leverage a core product's equity. However, since the new product is in the same category, distancing is difficult and the risk of negative information is higher than with a horizontal extension. As a strategy, vertical brand extension is widely practiced in many industries.

For example, within automobile brands, the various models attempt to offer distinct price-quality bundles to attract a variety of market segments. Often a product will be extended in an attempt to garner more of the market.

Type of product extended

Brand images

Two main types of products undergo brand extension: products with function-oriented brand images and products with prestige-oriented brand images. Function-oriented products are visualized in terms of brand unique aspects that are related to product performance. In contrast, a prestige-oriented brand is visualized primarily in terms of a consumer's expression of self-image. Thus, a Gillette Trac II or Sensor razor is a function-oriented product because consumers are most concerned with performance, that is, whether it shaves well or not. Conversely, consumers would be more concerned with the prestige aspects of a Mercedes Benz 560 SL. Each type of product has unique brand associations and lends itself to different forms of extension.

Some of the studies have examined the consumer evaluation of the extension and the core brand name. For both function-oriented and prestige-oriented brand names, the most favorable consumer reactions can be expected when brand extensions and core brands have high concept consistency and high product feature similarity (Park *et al*., 1991). This reinforces the need for fit between the core product and its extension.

Vertical extension direction

Upscale or downscale

Vertical new product introductions can extend in two directions, upscale, involving a new product with higher price and quality characteristics than the original; or downscale, involving a new product with lower quality and price points. Maxell's standard videotape was the object of an upscale extension with the EHG brand, Cadillac's Cimarron was a downscale introduction from the luxury-sized models. The vertical extension is the type of new product introduction which seems to carry less risk and seems more appealing to management. The new product is in the same category as the parent, aims at a similar market segment as the parent, and may enjoy the same acceptance as the parent.

Downscale vertical extensions. Downscale vertical extensions may offer the equivalent of sampling to a new market segment, and bring some market share enhancement. Functional products, like computer software, offer some unique opportunities. Delrina software's WinFax Pro is a first class fax modem program with a significant market following. It was extended downscale, with the introduction of WinFax Lite. WinFax Lite has fewer features than its parent product and has a much lower cost. In fact, it is often bundled free with fax modem hardware. The Lite product is clearly inferior to WinFax Pro, but the price-quality balance is appropriate – one gets fewer features at a lower cost.

Potential benefits of downscaling

The potential benefit of a "Lite" functional product with a subset of features is that the new segment will learn about and gain experience with the product. When companies promote clearly the "Lite" product's lack of some features, coupled with an appropriate low price, they effect both users of the extension and of the core product. New consumers may react favorably to the free or inexpensive product. Core consumers who use the full-featured product will understand that their price-quality balance is higher, and should not resent the low-cost, low-quality extension. When users of the downscale extension need more power, it is less costly in terms of retraining and search costs to trade up to the full-featured product. Thus, if the downscale extension is successful, the company will have foreclosed competitors from the new user market segment. If, on the other hand, the extension is not successful, new users will probably avoid the core product entirely. This is another situation in which managers should craft extensions carefully, and foreknowledge of consumer reactions is vital.

Prestige may be tarnished

With prestige-oriented products, the reverse is true. Downscale extensions usually bother the core audience. If consumers view the downscale extension as a cheaper version of “their” prestige product, the prestige is tarnished and core consumers may feel cheated.

A significant amount of recent literature examined aspects of vertical extensions. In general, downscale vertical extensions of function-oriented products may be accepted, while downscale extensions of prestige-oriented products will probably damage the core product’s image.

Upscale vertical extensions. Functional products seem to allow downscale but not upscale extension. Conversely, prestige products allow upscale but not downscale extensions. An example of a functional product, the Gillette Trac II razor, offered a successful downscale extension, the Good News disposable razor. The product and its advertising reflected a cheap, disposable concept which offered much of the functional benefits of the Trac II, with less cost. In contrast, Gillette attempted an upscale extension, a gold-tone plated luxury Trac II razor in a hinged prestige gift box, with little success. Consumers valued the cheap disposable for situations like traveling, but would not pay a premium price for the functions of a “decorated” but otherwise ordinary razor.

Upscale extensions enhance prestige

Upscale extensions of prestige products seem more acceptable. The limited or luxury editions of various automobile models seem to be popular, even at a higher price. Consumers seem to recognize and accept the enhanced prestige brand image of such upscale extensions. Numerous prestige brands like Lexus, Accura, and Infinity are direct upscale extensions from other models and have been well accepted.

Managerial implications and recommendations

Basic implications

First, the foremost implication for managers is to continue to concentrate on consumer perceptions, beliefs and associations. The nature of a target market’s perceptions determines the managerial actions which can influence them. It is no surprise that managers influence the brand perceptions of consumers by a number of methods, including pricing, packaging, promotion, and distribution. What is noteworthy is that managers must know a segment’s existing brand knowledge and beliefs, as a baseline, as well as the effects of their marketing actions on that baseline.

Second, the price of tarnishing brand image and reducing core brand equity may actually be worth it. If, for example, a downscale extension is evaluated unfavorably by the core segment, and the core image is diminished, the new downscale segment may embrace the extended product and the net effect on company sales may be positive. In this case, managers must be managers and judge whether equity erosion is acceptable or not. If it is, then the decision comes within the purview of management. If it is not, then management might avoid squandering company resources and refrain from or modify the extension.

Avoid poor implementation

Third, poor implementation must be avoided. This statement sounds overly simplistic and needs clarification. Knowledge of consumer-based brand equity will increase managerial understanding of the value and potential of specific products. In addition, companies which assess the brand equity of each of their products can evaluate the past effectiveness of their marketing activities and improve if necessary. Thus, a thorough understanding of consumer evaluations and associations for core products and new extensions can avoid mistakes and reduce risk.

Fourth, assessing consumer-based brand equity can allow cost-benefit analysis of the value of extension. Managers can assess the equity of the core product, and assess the specific brand associations for the extension in the context of the extension, and determine the possibility of success. Overall, if the core product’s brand associations are relevant and positive for the extension, brand extension may be appropriate. However, if there are few positive or weakly held positive associations extension would not be as favorable. Similarly, if the core product’s image is overall negative for the extension, resources should be devoted to building or buying an individual brand identity. Alternatively, for the case in which resources are insufficient to build a new brand image, licensing or acquiring a brand might achieve the desired effect. If creation of an appropriate image is unlikely using these methods, it would be prudent to forgo an extension and devote the resources to building equity for a new brand.

Specific implications

When considering vertical extensions, certain principles serve as basic guidelines about what to do and what to avoid. For example, if a prestige image among the core target audience is important, prestige products should avoid downscale brand extensions. One of our examples, the Cadillac Cimarron, was actually a popular extension. However, it damaged the core product image and sales in the core audience. In fairness, a dispassionate marketing manager may recognize that, overall, core markets may not matter if a brand extension attracts a lucrative new segment. In Cadillac’s case, the downscale extension probably caused more harm to profits by tarnishing the luxury sized model’s image than it brought in.

Protect the care brand by distancing

Another basic principle is to protect the core brand by distancing the extension. Distancing is achieved by extending into a different product category or by emphasizing a difference between the core and extension. Within the same product category, emphasis on a difference in name or product benefits may provide the distance. The Audi 5000, 4000, and Quattro illustrate the benefits of distancing. When the Audi 5000 suffered a series of unexplained accelerations, one of which was fatal, the attendant publicity damaged its sales. The sales of the Audi 4000, a model without the problem, were also damaged. However, the related Audi Quattro survived with reduced sales losses. Apparently, consumers perceived the Quattro as somehow different from the 5000 and 4000 models. The Quattro achieved some brand distancing by emphasis on the Quattro rather than the Audi. While distancing may be a safety measure in brand extension, it seems to contradict the reason for extending in the first place, namely reusing the carefully crafted brand equity of the core product.

Another specific implication is that function-oriented products seem to allow downscale but not upscale extension, while prestige-oriented products allow upscale but not downscale extensions. While every rule or implication has exceptions, this guideline seems to operate in more cases than not. The real implication is that consumer testing and more consumer testing of the core and extension may show underlying conditions which cause exceptions. Otherwise, it is probably best to avoid the wrong extension direction entirely.

Is this trip worth it?

The final implication takes the form of the question, "Is this trip worth it?" The apparent ease of brand extension should be tempered by the attendant risk of wear-out or dilution of equity. Managers can use focus groups and other research techniques to investigate the consumer perceptions and specific brand associations of a core product. They should also estimate the specific brand associations of potential extensions. Armed with that information, it is possible to perform a cost-benefit analysis to support either a brand extension, or its converse, establishing a unique new brand.

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