

Perspectives for Managers

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How far can you stretch your brands?



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Over the last decade, brand extension has become one of the hottest subjects in brand management. Recent international surveys conclude that 60 to 80 percent of marketing directors favor brand extensions over new brands while about 10 to 15 percent give equal consideration to extensions and new brands and less than 5 percent prefer launching new products.¹ Unlike traditional line extensions (i.e. moving from Coke Classic to Coke Diet), a brand extension leads into new and often unknown territory that may be dominated by entrenched competitors.² As many reputable companies have learned; stretched brand extensions can easily go wrong. Take the following examples: McDonald's wanted to get a slice of the pizza business but failed to convince consumers to follow in this new category. Xerox tried unsuccessfully to transfer its brand equity from copiers to computers. For Heinz, it was getting from ketchups to mustards and for Bic, it was extending its brand from disposable pens to shavers, perfumes, windsurf boards and even... disposable panties!

The examples of dismal failures are countless and the risks of brand stretching into a new category are such that several brand experts suggest that brand extensions should be avoided as much as possible.³ However, for almost every example of failure, many successful counter examples can be found! Think about the Philips brand on very different business categories such as coffee machines, digital TVs; semiconductors and medical systems; GE's name on aircraft engines, gas turbines, plastics and financial services; Yamaha stretching its brand from pianos to marine engines, motorcycles and skis. How do these companies manage to get it right? They seem to follow one simple golden rule: They just make sure that every brand extension brings meaningful perceived value to the consumers they target!

Managing Growth: The logic of brand extension

In order to grow a business, extending a brand into a new category to capitalize on brand recognition and consumers' trust can be a sound strategic choice for several key reasons: It helps to lower costs. It accelerates speed to market. It adds extra profits relatively fast while limiting financial risks; and ideally marketers expect that several products will promote each other under the same brand name.

In many industries, launching or acquiring a new brand is getting so costly that piggybacking on an existing name sounds like a logical and economical way to quickly gain credibility. The effects of economies of scale, in lowering communicating costs, make this option particularly attractive. At the same time, it takes less time to educate the market with the extended services of an existing brand than to launch a new name from scratch. (Think about Nestlé taking advantage of its reputable corporate brand to get into various food categories – i.e. yogurts, coffees and mineral water – versus trying to launch totally brand new names in each one of these categories.)

Brand extension is often considered by many managers as a relatively fast way to add more to the bottom line in a relatively short period of time. As suggests the CEO of a luxury watch company: "Short term, you can make a great deal of money through the licensing of a prestigious name."

There are also enough examples of brand extension, which appear to be relatively successful, to reinforce the conviction that brand extension is less risky than introducing a brand new name. Just think about supermarket chains such as Tesco in the U.K.

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and Migros in Switzerland becoming financial service providers, Caterpillar's brand extension from bulldozers to footwear, or the more than 200 companies carrying the Virgin brand from planes to colas! Clearly, not all Virgin ventures have been great winners. However, when a number of brand extensions look successful, many managers are quick to assume that the name is the primary reason behind the brand lift. As adds an experienced marketing manager: *“If Sir Richard Branson can run 200+ businesses under the Virgin brand, it's an easy step to assume that you can probably get into one or two new product categories under the same brand!”*

The limitations of brand extensions

As we all know, the pressure on executives for short-term results is not going away and reinforces a growing temptation to grow the business with brand extensions. Even though risk limitation seems to be what many marketers aim at when go for brand extension, unfortunately too many companies fail to execute brand extension properly. Here are three classical challenges:

Challenge No 1: Are you “Brand Building”, “Brand Borrowing” or “Brand Milking”?

“Brand borrowing” seems particularly acute in the fashion industry. Mont Blanc, the leading German pen specialist moved from writing instruments to desk accessories, watches, jewelry, eyewear and fragrances to become a lifestyle company. However, as suggests a senior executive from another leading luxury firm: *“I still wonder how much equity is truly being added to the original brand each time management decides to enter a new lifestyle category... You may also wonder how many lifestyle companies the world really needs and whether or not these brands may not lose their original identity and focus and values the way Gucci or Cardin did at one point of their history.”*

Indeed, from Versace's Barbie doll to Lacoste customizing a Citroën car and Bulgari's entry into the hotel industry in Italy (in collaboration with Ritz Carlton), lateral thinking seems to become the engine of brand extension!⁴ The danger for many lifestyle firms is not to fall in the excess of Pierre Cardin who, in the 1980s, had lent his

name to up to 800 products from shirts, wines, chocolates, cosmetics, Japanese tatamis, bicycles and.. toilet-seat covers!)

“Brand milking” (stretching the brand to maximize cash, short term) or “brand borrowing” (an attempt to generate more cash mid-term) at the expense of “brand building” (reinforcing the long term brand equity) are not unique to the fashion industry and can be found in other business sectors such in the fast moving consumer good industry. However, brand stretching can have disappointing results. Kellogg's, a brand leader in breakfast products, has had great difficulties in getting outside of its traditional cereals business. Launching an orange juice for breakfast failed in most European markets and has limited success in the USA. New research on brand extension indicates that reasons for failure are not new and always point into the same direction: limited differentiation and value for consumers, too many “me-toos”; not enough brand building, too much brand borrowing and too much “brand milking”!⁵

Challenge No 2: Is Your Brand Really What Customers Think You Are?

Many examples of poor brand extension suggest that it can also be very risky to re-define your business core competences or brand positioning “in a way that may sound logical to your management but is not obvious enough to consumers!” For example, there seemed to be nothing illogical when McDonald's executives decided to get a foot in the pizza business on the argument that *“We're not in hamburgers, we're in fast food!”* Bic could also rationally argue that its core competences were in “marketing affordable disposable products”. Bic Perfume wanted to associate disposable convenience linked to the Bic brand to consumers who wanted non-designer fragrances. However, the logic of Bic's management escaped consumers who hated doing the splits! Remember that your brand isn't what you say you are. Your brand is what your customers think you are!

Challenge No 3: Is Your Brand Genuinely Perceived as Expert in Its Category?

A close look at the global brand scoreboard published every year by BusinessWeek⁶

“Your brand is what your customers think you are!”

suggests that most of all the 100 top brands are very focused on a particular product category and have become “the leading experts of their category” in terms of, credibility, and innovation (be in terms of new products or new forms of communications, for example). Indeed, Coca Cola is a special kind of carbonated drinks, Intel focuses on a particular type of computer components, and Nokia on one particular segment of consumer electronics: mobile phones. Brands are meant to simplify consumers’ choice.⁷ Consequently, many marketers argue that consumers are more likely to buy from trusted “expert brands” than from names that claim to be good in different product categories. As comments a former senior marketing executive from a major food company: *“In my whole career in the FMCG industry, I’m still waiting to witness a single big brand dominating different product categories. We thought that it’d be easy for Heinz to extend its brand from ketchup to mustards, but when we did, it turned out to be a major flop.”* Some marketers, we interviewed even argue that brand extension in areas where firms have not demonstrated their clear expertise can only confuse consumers. Beyond the classic lack product differentiation, a closer look at brand extension that ended up as flops suggests that another factor often explains the failure: Competitive brands are perceived as better experts than you claim to be. According to insiders we interviewed, McDonald’s failed in the pizza category mainly because McPizza offered products that were not differentiated enough from existing value propositions already in the market. The McPizza offer was poorly differentiated from the competition and consumers perceived Domino Pizza and Pizza Hut as the “real experts” of the pizza category. In fact, Domino Pizza claims not to be the expert not of pizzas but of “home delivery pizzas!” This classic conception of branding is often referred to as “Procterism”: In the classic P&G tradition, one brand equals one product equals one promise: i.e. Ariel is one product category and one promise while Pampers is another.

How to successfully execute a brand extension: A few tips

Are we back to “Procterism” and back to basics again? While some companies seem to prefer to adhere to the P&G principles, other

leading companies rely on the strength of the corporate brand or make use of sub-brands. To correctly assess how far a brand can be stretched, one has to rely on a combination of market research (to test consumer’s acceptance of the new value proposition); experience and good common sense.⁸ In particular, bringing meaningful value to customer seems to be the key golden rule to make it work!

Tip 1: Take advantage of your corporate brand

Generally, a corporate brand has much greater “stretch potential” than a product especially if it’s linked to a narrow product category. GE, Samsung or Nestlé, as corporate brands, stretch much further than product brands such as Pampers, Lipton Tea or Tabasco, for example. Asian companies have been great champions at this game. The Samsung or Mitsubishi names have been printed on more products than any other names in business history (from construction, to paper, oil, steel, logistics, paper mills, financial services, banks, cars, etc.) However, the obvious risk is dispersion of the brand credibility such as in the Pierre Cardin example. Aware of this risk, Samsung recently decided to refocus its brands on a few product categories (semiconductors, mobile phones and flat screen TVs).

Tip 2: Think of using sub-brands

In the 1990s, as it expanded into various sectors of consumer electronics, Sony realized that its corporate brand could hardly be perceived as being expert in everything. Consequently, Sony pushed sub-brands such as Playstation for its computer games, Vaio for its computer lines, Wega for flat screen TVs; Cyber-Shot for digital cameras; etc. Other adepts of this strategy include Nestlé with Nescafé for its line of soluble coffee, Alcon for its ophthalmologic products and Purica for pet food. An obvious drawback of this strategy is cost since every brand needs to be fed with money to get both visibility and credibility.

Tip 3: Bring Meaningful Value to the Customer

Being bold can also pay off. Yamaha successfully transferred its corporate brand from pianos to motorcycles, marine engines and even snow skis. Back in the 1950s, when Yamaha decided to move into the

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motorcycle business, the industry wasn't exactly short of competition. More than 50 players were fighting aggressively for top position. Out of this competition, only four players survive today: Honda, Suzuki, Kawasaki and Yamaha. Every time, Yamaha's management made a bold move in a new business field, it made sure that it was bringing something truly unique and distinctive to the market (i.e. the MT100 multi-purpose engine for bikes, the FRP technology for Marine engines and the PROTO-SL ski that enabled Christian Jagge of Norway to win a gold medal in the Albertville Winter Olympics in 1992).

Kao, another Japanese company offers a more recent example of brand extension boldness. In late 2004, the soap company introduced *Healthya® Hot Green Tea*, a hot type containing high levels of tea catechin. Kao had zero experience in marketing healthy drinks. However, after long-term research on the metabolism of nutrition and obesity, Kao discovered the positive effects that high levels of tea catechin have on body fat. Based on this finding, Kao obtained approval to label its effect on body fat as a Food for Specified Health Use (FOSHU) by the Japanese Ministry of Health, Labor and Welfare. Initially launched in May 2003, it achieved a turnover of approx. €146 million in fiscal 2003 and €290 million in 2004.

Kao's experience confirms that a product's differentiation and perceived value are more important to consumers than any other factor.⁹ Executives often believe that it takes years or decades to develop a brand. Not exactly true. Amazon.com, Google and eBay have been able to develop global brands within an incredibly short period of time simply because of the meaningful value the products or services they offer customers. The same seems to be true for brand extension. If the value proposition of the brand extension is truly valuable and genuinely meaningful to customers, brand extension opportunities are likely to be unlimited. To illustrate this point, let us

imagine that tomorrow an unrelated company to the pharmaceutical industry (let's say US Steel, Shell, Toyota, Amazon.com or a totally unknown company) develops a safe pill that stops human hair loss, what would consumers value most? Would it be the corporate brand or what the product does? For many marketers, the answer sounds obvious; the brand would probably be a second consideration for buying the product.

Conclusions

Brand extension is a very convenient way to quickly get a foot or two into a new product category. Yet, transferring the original values of great products to a new one is often a difficult exercise and one must know where the fine line not to cross is. Brand stretching should not be seen as a panacea to growth. Brand extension is more an art than a science. As such, there seems to be a single common sense rule: Just make sure that your brand stretch brings real value to the customer!

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1 Research International: "Stretch to Innovate", September 2001

2 See "Growth Through Brand Extensions" in "The New Strategic Brand Management" by Jean-Noel Kapferer, Kogan Page, 2004

3 See Jack Trout: "Big Brands, Big Trouble", John Wiley & Sons Inc., 2001 and also: Al Ries and Laura Ries: "The 22 Immutable Laws of Branding", Harper Business, 2002

4 Suzy Menkes: "Extending the brand: Designers take it to the limit" The International Herald Tribune, 29 June 2004

5 See in particular: "Brands, channels and the perils of proliferation", McKinsey Quarterly, Number 4, 2004

6 BusinessWeek, "The 100 Top Brands", 2 August 2004

7 Sicco van Gelder: "A View on the Future of Branding", Brand Meta, April 2002.

8 See "Brand Stretching" in "Competitive Branding" by Torsten H. Nilson, Wiley, 1999.

9 See "New brands versus extension" at www.kellogg.northwestern.edu/news/hits/041206bs.htm