How to stretch your brand without sacrificing appeal

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In today's markets where competition is as fierce as it is global, how can a brand open up without losing its appeal?

Global competition has forced the great majority of markets to function at breakneck speed. Only the fastest and strongest triumph: those who innovate or maintain a product well, and who are able to renew its production and distribution.

In this environment, there is no rest, with the added difficulty that, as imitations abound, it is becoming harder to be different. It is brand names that carry intangible benefit in the face of imitations.

In "Extending the Brand" ("Extensión de Marca"), IESE marketing professor Juan Manuel de Toro and research assistants Marta Mira and Carlos Pérez discuss the advantages and dangers implicit in the decision to build on an image.

There are various alternatives on the route to brand extension. A product line can be extended, for example, by introducing new flavors or sizes. Breaking into a new sector is also an option: insurance from the supermarket chain Carrefour, or Porsche sunglasses are examples of this kind of horizontal extension.

Vertical extension consists of changing the market segment, moving towards higher or lower prices. Such options can be combined to offer a wider range of possibilities. New clients can be sought without changing products.

Whatever the decision, it has to be well thought out.

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An extended family

Extending the product line is the easiest and most natural of the options to carry out. The principal product is maintained in essence, and this pulling power is used to establish more versions of the same, such as new sizes or uses. Danone liquid yogurt, Aquarius cola and Nivea face cream have all taken this route. This kind of extension offers the possibility of variety, and demonstrates an energetic attitude and a certain capacity for innovation.

The problems come when a company overdoes the new products, inundating the market with an excess of variations. The consumer is thus confused and product profitability is reduced. The management of 20 products is much more costly than dealing with only one. The company needs to ask itself if the profit margins of the new product range can withstand the additional cost, and if the consumer will understand what the new product represents. The question needs to be: "Does the new product offer something to the client"?

When to jump sideways

Horizontal brand extension consists of associating a brand with a product other than that of its origins. This is a decision with inherent risks, since brand identity could be damaged. The dangers may be apparent - no one would launch a baby cream under the brand 3-in-One Oil, for example - but often the borders are more fragile or imperceptible, and thus hazardous.

There are also some brands that are difficult to extend in this way, given their strong association with one product category - Kleenex, for example. It is easier to extend the brand when the values that sustain it are abstract. Keeping within the same segment allows the changes to be smoother, as the brand can take advantage of a client base that already knows the initial product and its qualities.

This kind of extension has a clear benefit over the launch of products under a new brand name: cost saving. Advertising costs are infinitely reduced, since the mere use of a known image does most of this work. Furthermore, cost saving goes across the production scales - in packaging, for example. This option is limited, however, by the customers' desire to take on board more and more products.

The consumer will happily accept Wilson selling tennis balls alongside its rackets, but might fail to be convinced by ballpoint pens sold alongside surfboards, and may even lose interest in the surfboard, so companies need to think carefully what they choose to associate with a brand.

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Cadbury squandered its image of high-quality chocolate when it entered the market of instant potatoes and powdered baby milk, soups and d
rinks. Lacoste stuck its famous crocodile on too many articles, thus losing part of its appeal.

This is not to say that the leap is impossible: Danone, for example, successfully launched a range of ice cream - seemingly the antithesis of its yogurt range - in the United States.

Inventing consumers

Opening a brand to new customers for the same product is often seen in the case of launching a product in a neighboring country, or when a men's clothing line is re-aimed at an adolescent market, for example. The product remains unaltered, except for essential changes.

The advantages of this option are self-evident: volume of business, economies of scale. But, once again, there are drawbacks. Sometimes, the slightest change to a product can cause habitual clients to reject it suddenly. A case in point would be the print media, which must fight to attract a younger readership without losing the original identity that attracted readers in the first place. In such circumstances, it is often easier to launch a new product.

Growing downward

Vertical extension is one of the most complex and difficult maneuvers that exist in this field. The risks are potentially as substantial as the advantages. The intention is to get a foothold in a segment of greater or lower pricing, but the capital of the brand name, based on its perceived image, is put at risk.

Downward extension gains the company volume of business. For example, millions of consumers see that they can also own a Mercedes. Economies of scale come out favorably, and in many segments, can even act as protection against the highly feared, so-called own-brand products like those found in supermarkets.

However, the risk is that of losing reputation. Traditional customers might give up the brand that is no longer so exclusive, or favor the newer, cheaper product. Such would be a form of unprofitable cannibalism, which is what happened to Kodak and its Funtime camera film, which knocked its star product, Gold Plus, out of the top position.

This danger can be avoided by launching a new brand. But this is an expensive solution, not only in the introduction, but in the high costs involved in establishing a difference from an

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existing product. It requires outlay in distribution, sales infrastructures and management.

Even so, sometimes downward extension is necessary. In this case, the company might choose simply to reposition the existing product - reduce the price and drop it into a lower segment. Image and prestige are in its favor, but profit margins are reduced - it is difficult to explain that a reduction in price does not mean a reduction in quality.

A more common solution is to create a sub-brand, using the original name. Thus, image credibility is retained at the same time as endorsing the new product. Such cases include the John Deere Saber lawnmower, Gillette Good News disposable razors and the Mercedes C-Class range.

If downward extension is a complicated step, movement in the opposite direction is infinitely more so. The intention is to achieve higher profits, but few make the leap successfully. Credibility is the essence, and even big companies such as Holiday Inn with its Crowne Plaza chain failed in the attempt.

The most workable option, once again, is a sub-brand, based on the original. The Gold, Platinum and Gourmet labels are famous examples of this. More common is the option to buy out and develop a brand, as Toyota did with Lexus, clearly positioning it with separate distribution and concessions.

Brand extension, then, is a process with a great many possibilities and many approaches. However, the question must always be asked: "How much can we take?" Rarely can a company carry out brand extension through an entire market sector with total success, with the notable exceptions of perhaps Sony and a few others. Limits must be defined and respected regarding the position of the brand in the market and the consumers' perception of it. Pushing too hard only leads to failure.

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