Articles

To Extend or Not to Extend: Advantages and Disadvantages of Brand Extension Strategy

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Summary:

Launching new products is one of the most used strategies for companies to grow. While line extension is the less risky one, more companies are using the strategy of brand extension as offering more opportunities for the business. The following article is intended to present the strategy of brand extension with its advantages and disadvantages. The purpose is to drive the attention of the management to what they can achieve while entering more categories with the same brand and which are the main risks they have to try to prevent or overcome and how they can do so. The main advantages being investigated are transferring of the brand associations to the new product, increased brand awareness, decreased marketing budget, economies of scale, increased brand visibility, consumer acceptance, prolonged brand life cycle, increased brand equity. On the other hand the company should be careful against diluting the image of the parent brand, adding negative associations, cannibalization, increased consumer expectations and the possibility of increased costs. By maximizing the first ones and minimizing the second group the brand can find place amongst some of the best practice examples which are to be seen in the article.

Key words: brand extension, brand, new product launch, brand extension

JEL Classification: M310, M110, M300

1. Introduction

Launching new products is one of the most used strategies for companies to grow. Nowadays consumers have access to information any time of the day and night, they can compare prices, characteristics and reviews for products, they can shop online any time they want. All this makes competition between brands even stronger. By the transition from an offline to online world, brands need to change their behavior and also the brand becomes even more important for consumers – as a credibility factor for making the right choice. This makes the strategy of brand extension even more attractive for companies. However it hides some risks which if the company is aware of in advance, it can try to minimize and leverage. The article is intended to present the strategy of brand extension with its advantages and disadvantages and to give some hints how the companies can benefit from it without getting into the trap of the associated risks.

2. Brand Extension

2.1. Definition

Brand extension has long been part of consumer research. Although there are different definitions for what brand

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extension is, only the most important ones will be marked here. In the existing literature there are three main directions in which the authors study the brand extension:

2.1.1. Brand extension based on the situational factors - the main factors of the environment are being investigated as playing a major role in defining the success or failure of the extension. The main factors which have been researched are: previous brand extensions (Keller and Aaker 1992; Shine, Park, and Wyer 2007), acceptance by retailers (VÖlckner and Sattler 2006), competitive brands (Oakley et al. 2008) and competitive environment.

2.1.2. The second direction is studying how **consumer behaviour, attitude and perceptions** influence the extension performance. The main derections being investigated are brand expertise (Broniarczyk and Alba 1994), motivation (Ahluwalia 2008) and innovation (Klink and Smith 2001).

2.1.3. Company related factors - the way the company understands and satisfies consumers' needs and how the brand tries to satisy these needs.

Kapferer (2001) defines brand extension into three main categories (his examples will also be added in order to better illustrate the theory): 1) products which are existing products in new application form (e.g. NIVEA launches body lotions in the form of sprays); 2) the product is offered in a new size - e.g. family packages (e.g. NIVEA 1 litre body lotion); and 3) products with different scent or taste (e.g. NIVEA sunprotection body lotion). Although what Kapferer describes can be classified rather as line extension than brand extension, it is good if all theories are displayed.

Aaker (1996) describes 4 brand extension strategeies from the company's perspective:

- **Line extension** - new products in the same category (e.g. new scents, new colours, new sizes, new or additional ingredients, etc.). Such examples can be NIVEA shower gel with honey and milk, bottom ointment in tube (existing ones are in jars), new 400/750 ml shampoo, new shower gel with charcoal, etc- they are all product line extensions).
- **Vertical brand extension** - new product launches in the same category, but at different price levels or quality or both or just different brand positioning. There are many examples here - the apparel company Inditex having brands like Bershka and Stradivarius (which have the same price level but different brand values), Zara with higher price positioning and Massimo Duty in the highest price segment for clothing.

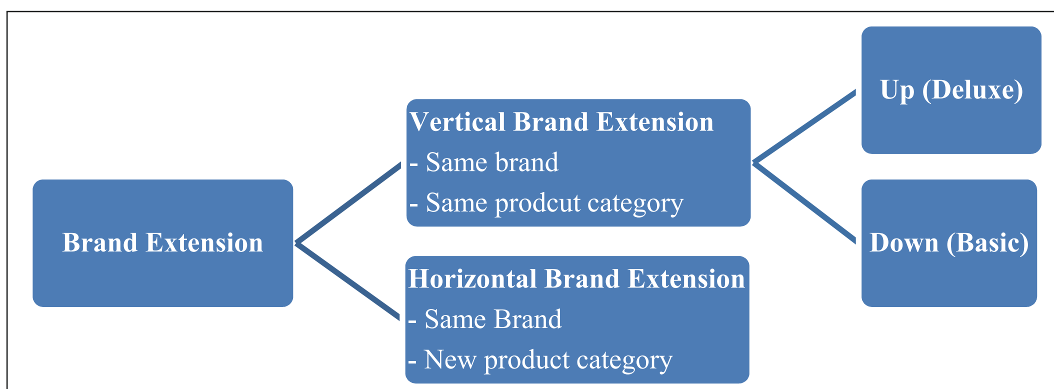

Fig. 1. Brand Extension
Source: Adapted from Kim, Lavack & Smith (2001)

- **Co-branding** - combining two brands in one product- it is a very popular strategy for limited editions or short-therm partnerships (chocolate Milka with Oreo), but can also be long term (especially when two brands or companies merge) - Sony-Ericsson.
- Brand extension via **entering a completely new category** in which the brand hasn‘t been present so far. NIVEA launches female shaver - the company has neither been in the male razors segment, nor in anything related to women shaving.

Figure 1 above shows another understanding for the types of brand extension which is also shared by Martinez and Pina (2003) and Xie (2008). According to the first group of authors, the horizontal brand extension is an introduction of the existing brand into a new for the company category (Ivory soap brand in the dishwashing liquids category). In their view, the second type of brand extension involves the introduction of a sub-brand that is positioned differently and usually under a different price level. The given example is from the car industry in which we have a lot of examples (Toyota Corola and Toyota Yaris; Volkswagen Passat and Volkswagen Polo, etc.). The vertical brand extension can be in either a lower or higher price or quality compared to the corporate brand or the parent product.

According to Park (Park et al. 1986), there are three directions for brand extension based on the three brand concepts - functional, symbolic and based on experience. In the first one externally generated needs are being satisfied, the second one is related to the need for the consumer to be part of a certain group (highly relevant for prestigious brands which reflect the consumer’s status or society belonging - Rolex watches, Mont Blanc pens, Porsche cars, Furla bags) and the last one is based on experience - related to the consumer’s own experience with brands (it is based on his/ her own needs for stimulus or variety).

As it is visible from the abovementioned theories, there is no common understanding for what brand extension is. For the needs of the article by brand extension we will mean the entering of the brand into new categories, in which it has not been present so far.

2.2. The advantages of using the brand extension strategy.

The main strengths of the brand extension strategy will be described in the next paragraphs.

2.2.1. Transferring of the brand associations to the new product. This is one of the main reasons why companies use the brand extension strategy. Brand associations (or a set of associations) represent not only the underlying value of the brand, but also the meanings that consumers assign to brands and brand names. Based on the brand associations a purchase decision can be taken and later on it can be transformed in brand loyalty (Aaker 1991). The brand associations actually form the brand image. Although there are a lot of theories on how to measure brand image, one generally accepted view is that brand image can be defined as perceptions about a brand as reflected by the cluster of associations that consumers connect to the brand name in memory (Belén del Río, Vazquez & Iglesias, 2001). Understanding how consumer’s brain and the decision making process acts is crucial for achieving the company and brand goals.

The extent to which the brand associations can be transferred to the newly launched product depends in most of the cases on the category fit to the parent brand and on the type of the association. Broniarczyk and Alba’s research (1994) proves that the brand-specific attributes

will most probably be transferred to the extension irrespective of the category fit. By brand-specific attributes they mean those attributes which are specific for this brand only (NIVEA is meant to be a caring brand and this is its POD to the other cosmetic brands, Volvo is the safest car, Marlboro are the strong men's cigarettes).

Another widely researched reason for transferring parent brand associations onto the extension is the perceived fit between the parent and the extended category. In some researches the fit is limited only to products - specific features while others go beyond physical attribute similarity. According to Tauber (1981), 'consumers accept the new product as logical and would expect it from the [parent] brand' (p. 28). Buil (2009) proves that 'extensions close to the original brand that have a high degree of similarity with the existing product categories of the parent brand and maintain a coherent image will benefit from a more favourable attitude. Likewise, the negative effect of the extension on the parent brand equity is lower when consumers perceive high fit. Consequently, firms can use perceived fit to reinforce consumers' attitude towards brand extensions and protect the equity of the parent brand' (p. 1316). Völckner and Sattler (2006) differentiate between two groups of factors which influence the success of the extension - essential and not relevant. The perceived fit belongs to the first group of factors. They also prove that the advertisement can contribute to strengthening the perception of fit, especially if it shows how the parent brand characteristics help the extension provide what it promises to. Dodds & Romeo (1991) also point out that in general the more similar the extension is, significantly more desirable it is. In case of dissimilar extension, manufacturers should strive to prove their ability to produce the extension.

Takeaways:

- *The higher the perceived fit between the parent brand and the extension, the higher the chance of transferring brand-specific associations to the extension.*
- *If the parent brand category and that of the extension are not that close, the company should prove its ability to produce the extension via advertising.*

2.2.2. Increased equity of the parent brand. Brand equity is 'the attempt to define the relationship between customers and brands' (Wood, 2000). Although there are a lot of discussions between marketing and finance on how to exactly measure it, a good summary is given by Feldwick (1996) about the different meanings of brand equity - it can be defined as 1) the total value of a brand as a separable asset when it is sold, or included on a balance sheet; 2) the measure of the strength of consumers attachment to a brand; and 3) the description of the associations and beliefs the consumer has about the brand. The brands with high brand equity have higher brand loyalty, more brand awareness, more perception of quality, higher brand associations, and other resources such as patent and channel relationships (Kotler et al. 1996). It has already been discussed that the extension can strengthen some of the abovementioned brand equity assets (like brand associations), others are self-explanatory - like name awareness. The more categories the brand is presented, the more often consumers hear and see its name. Consumers lsten to Garnier brand constantly from the TV screen and they hardly recognize that the brand is communicating up to 4 different categories (shampoo, face care, sun care and deodorants).

When it comes to brand loyalty in most of the research it is mentioned that the brand loyalty helps the extension. Everything comes from the definition of loyalty - it is the willingness of consumers to buy more and

mainly products from the same brand as well as their openness to share a positive word-of-mouth. By being present in more categories the brand can afford to organize more attractive promotions and loyalty programs schemes which can make consumers stick to it. One modern example is the practice of the droggeries (dm and lilly) - their private labels are present in many categories of the assortment they offer which allows them to play different combinations when executing promotions and thus make consumers stick to their brand (this is how dm make its young 20-year old private label brand Balea more liked in Germany compared to the purely German and loved NIVEA brand with 100 years of history[1]).

Awareness is one of the most important components in the brand equity as mentioned above. It means that the brand finds a place in the consumer's mind and it can also be described as a consumer's ability to recognize and remember a brand. According to Aaker (1996), the other products of the brands with high awareness, which are placed on the market by brand extension, are in more demand. By adding more products to the existing brand, it increases the associations consumers have with it, but also it is visually presented more often (consumers see the brand more often at POS, on TV and Internet, OOH). The increase of the touchpoints consumers have with the brand increases its popularity respectively awareness which as proved above is one of the reasons for the success of the extension.

Takeaways:

- *The more categories the brand is present in, the higher the awareness.*
- *The higher the awareness for the brand, the higher the demand for the extension.*
- *The higher the loyalty for the brand, the higher the chance for the extension to succeed.*

2.2.3. Decreased marketing expenses. One of the first to-dos when introducing a product under an existing brand name is evaluating its sales potential. Buday (1998) has proved that using the brand extension strategy allows marketers to make more use of the financial budget which allows them to reduce budgets and earn a reasonable return on even small-volume products. It is logical that when advertising a brand, the wider portfolio it has, the lower the expenses per single product are. By advertising the whole brand, the effect spreads over all the products with the same brand. According to Ambler and Styles (1997), brand extensions decrease the cost of building up awareness by capitalizing on the core brand's already known reputation. When introducing a new brand, consumers should be informed about it, which in many cases requires high investments (especially in FMCG, banking, telecom sectors). If the new product is introduced under an existing brand, part of these costs will not be necessary.

Takeaways:

- *The brand extension strategy allows earning reasonable return even with small-volume products;*
- *The more products a brand has, the lower the costs for building awareness.*

2.2.4. Economies of scale. This advantage is quite similar to the previous one. According to Nilson (1998), the major appeal in extending a brand lies in the economies of scale. The rationale behind this is what was already explained in the previous point - the usage of one brand name across more products lowers the communication investments per unit. The responsiveness of awareness to media spending is higher for brand extensions due to the consumers' familiarity with the already existing brand name.

[1] Brand Health Tracking, IMAS Brand Monitor, Beiersdorf AG, 2014

The economies of scale are higher in the specific case of line extension due to the highest similarity between the parent category and that of the extension. Although some might argue that this is also valid for the production of a product with a different brand, this is not fully correct. Different brands should differentiate between each other, which means different packaging (also in terms of materials used), different labelling and logo, different communication materials, attracting and serving different target groups, etc. If the existing products and the new one are produced with the same technology, this will result in lower costs for all the above mentioned assets.

Kapferer (2001) goes further beyond and he talks about the extension of the brand across different markets. Some markets are more profitable than others due to different reasons - be it the cost of production, distribution, communication or the different price levels based on the existence of local or private label brands. Thus the revenue the companies make differs in every market, which means that they are not equally profitable. The company should extend a brand if there is a hope that by allowing it to penetrate other markets with a more advantageous profit and cost structure, the brand will be recognized.

Takeaway:

- *The higher the fit between the parent brand and the extension categories, the bigger the economies of scale.*

2.2.5. Increased brand visibility. Although there isn't much literature on the topic and the visibility is often mixed with awareness, the visibility can be defined as the possibility the consumer has to spot the brand. It can be applied to either media or POS channels. The brand visibility contributes to the brand awareness, but the two things are not the same. Consumers can be exposed to a certain brand on the Internet and it might have high visibility, but if the message is not strong, then it will not contribute to increasing the awareness of the brand. However, if there is high visibility both in media and physical presence (wide distribution) of the products, in general the awareness is increased.

According to Aaker (2004), when a brand appears in another field it can "be a more effective and efficient brand-building approach than spending money on advertising". It is also true that by being present in several categories the brand gets to more consumers which might not use its products from the other categories (if Dove hasn't entered the male cosmetics segment, the male consumers would hardly know about its existence).

Takeaway:

- *The more categories the brand is present in, the higher the visibility.*

2.2.6. Consumer acceptance. As mentioned in the very beginning consumers use the brands as a form of risk reduction (when trying new products/categories) and as a certain quality of proof. 'Favorable brands possess greater positive attitudes among their consumers, which in turn, facilitate the acceptance of a new product bearing the favorable brand name due to a transfer of attitude from the parent to the extension' (Bhat & Reddy, 2001).

Xie (2008) goes a bit further and investigates the connection between the consumer innovativeness and the inclination to try new products (consumer innovativeness is the characteristic of the early adopters - the people on whose opinion in some of the cases the product success depends). What he found is that consumer innovativeness appears to be more positively related to the acceptance of new brands than to that of brand extensions, although consumer innovativeness can be positively related to both. 'Consumer innovativeness also exerts an influence on consumers' acceptance of brand extensions when extension distance and types of

extensions (i.e. horizontal or vertical) are examined. When extension distance is considered, innovative consumers are more likely to choose distant brand extensions than close extensions. In addition, innovative consumers are more likely to choose horizontal than vertical brand extensions and consumer innovativeness appears more positively related to upscale vertical extensions' (Xie, 2008).

However, special attention should be paid when extending the brand vertically (both step-up or step-down- e.g. Mercedes launching A class). Kim, Lavack & Smith (2001) prove that when extending the brand vertically (in both cases) this might have negative implications not only on the extension, but also on the parent brand. They make the analogy that introducing a new product in the same category with a different price of quality is a kind of misleading information which confuses consumers and this leads to unfavorable evaluation.

Takeaways:

- *The stronger the brand, the higher the chance of consumers to accept the extension.*
- *The more innovative the consumers are, the higher the chance of also accepting more distant extensions. Companies could target early adopters when introducing unfitting extensions in order to create a positive buzz and initial acceptance for the product.*

2.2.7. Longer brand life cycle. Some products have in general a short life-cycle. The entire processes of new product developments take significant days/months and efforts to bring about success. Instead of working up from a zero point, it can be started from an established ground-base. From a marketing point of view, brand extension strategy is a solid base and perceived as a main choice to continue the legacy of a successful parent brand. It also optimizes the economic scale of the company's intellectual property.

Sullivan (1992) conducts an interesting research in which the stage of the product category life cycle extension should be introduced. According to her, 'Consumer information requirements and product failure rates change over the market life cycle'. For this reason the new products should have different entry points in time. She finds out that brand extensions which are introduced at a later stage (i.e. in mature markets) normally achieve higher market shares compared to entering a new product category. In most of the cases existing brands which try to extend the brand into newly formed categories tend to fail.

Product categories have their own life cycle. Nowadays this cycle is much shorter than it used to be in the past. In order to ensure long term relevance to consumer needs and expectations, brands should be ready to meet what is coming to the market. Widely used is the example of Sony being late while trying to produce a smaller portable disc device while its competitors moved to the digital music player category (only thanks to being present in other categories it could compensate the loss).

Takeaways:

- *The more categories the brand is present in, the higher the chance it stays relevant to the consumers' needs for longer.*
- *Brand extensions which are in already existing categories are more successful compared to brand extensions in completely newly formed ones.*

2.2.8. Risk leverage. An extension can prevent competitors from gaining or exploiting a foothold in the market and can be "worthwhile even though it might struggle" according to Aaker (2004). What is more, the company can leverage the risk of one of her businesses losing ground - again the example with Sony. The more categories the company is present in, the

easier it is to leverage and to compensate the difficult periods in some of them with others. Of course the brand can hedge the risk by being present in one category in several geographical markets, but this will just save it time until the category gets in decline everywhere.

Risk can be considered also from the point of view of consumers. By buying a new product, consumers are taking a risk - of trying something that they will not like, something that will not meet their expectations of quality. The presence of a well-known brand on the new product reduces this level of uncertainty and consumers become more willing to try the new product. This is especially valid when entering into completely new for the whole market categories.

Takeaways:

- *By being present in several categories, the brand leverages the risk of becoming irrelevant in one/ some of them - the losses can be compensated by the gain in the other/s.*
- *The more categories the brand is present in, the more discouraging for competition it is (when categories are close to each other).*

2.2.9. Customer relations improvement (decreased time to market). Even at the beginning of the 90's retailers had increasing power. They are the ones that had to decide to list a new product on their shelves or not. In the end the manufacturer still had to pay, but the first retailer was the one to take the decision. For retailers it is better to have brands on the shelves which consumers like and which will potentially bring more consumers to their stores. Listing a product from an existing brand is definitely less risky than launching completely new brands (the effect is even higher when it comes to totally new for the whole market products). Furthermore retailers should avoid creating the impression that their assortment is incomplete due to listing only some but not all products of one brand. It is also assumed that image transfer and stronger awareness might not only be gained with customers, but also with retailers themselves (Sattler et al. 2010).

Introducing more products of a successful brand (which are also supposed to be successful due to the transfer of brand associations and the probability of higher consumer acceptance) improves the relationship with customers. In the end if the extension proves to be successful for the company, it will as well bring on top sales for the retailer. As the main goal for retailers is also profit, this will be a win-win situation for both parties.

Takeaway:

- *An extension of a well-known brand has a higher chance of being easily accepted by the retailers.*

2.2.10. Premium pricing. Related to the higher brand equity that extensions are supposed to bring to existing brands is the fact that brands with higher brand equity have higher margins. This allows the company to have premium pricing and be less dependent on promotions (Aaker, 1991). The elements of a high-equity brand serve to support this premium price positioning. On the contrary, a brand with lower brand equity will have to invest more in promotion activities sometimes in order just to remain in the distribution channel. Del Vecchio (2005) distinguishes between three types of risk which consumers associate with when trying new products - financial, social and performance risk. In his research he not only confirms the logical assumption that companies can request higher prices for new products with the same brand compared to the same products under a new or a brand with lower brand equity, but he also defines some conditions which might affect "the magnitude of brand-extension price premiums". He found that the perceived fit

can influence positively the price premium only when the extension category has a high financial or social risk.

Companies with strong brands can seize the advantage to charge a premium price of about 17 per cent on products, which can be applicable to new products derived from brand extensions (Buday, 1989). Sattler et al. (2010) also test the extent to which consumers are willing to pay a price premium for an extended product compared to an unbranded equivalent product. They come to the conclusion that investing in parent brand quality increases not only consumers' attitudes toward the extension product but also the price premium which consumers are willing to pay for it. They find that if the parent brand quality is increased by one unit (on a seven-point scale), this enhances the brand extension price premium of typical FMCGs (the average price of the product they test is €2.04) by € 0.208 (around 10%). In the same research a monetary value of the perceived fit and the availability of the extension is given - brands can charge € 0.150 more for the same product if it is similar to the parent brand category and € 0.126 more if consumers are aware of its existence. This means that instead of focusing on generating awareness for the extension, managers could shift the advertising budget to retail marketing. The authors also recommend that 'it is reasonable to target experts or frequent users of the extension category because they tend to evaluate the extension product more favorably and therefore are more willing to pay a price premium for an established brand' (Sattler et al., 2010).

Takeaways:

- *The brand extension product can be highly price positioned compared to PLB or new brands (at min 10% higher).*
- *Categories with high financial or social risk companies can put higher price premium for brand extensions.*
- *The frequent users are the ones who are willing to pay a price premium for product from an existing brand (therefore it is worth targeting them in communication).*

2.2.11. Encourage new product testing. As stated above, consumers associate new products with a certain level of risk. The presence of an established and well-known brand on a new product reduces the uncertainty - it is a promise for a certain level of quality and features which the brand stands for. Thus, the extension is "a compelling value proposition in a new segment or market" Taylor (2004, p1). Chen, & Liu (2004) conducted a research with a brand producing health care soap. They tested whether the brand name will stimulate consumers to test both horizontal extension (a deodorant) and vertical one (whitening soap). The research showed that all the three variables tested - experience with the parent brand, product displays and advertisement contribute to the new product testing with the first having the highest impact. According to a Brandgym survey in 2003, '58% of UK consumers will be more likely to try a new product from a brand they knew, versus only 3% for a new brand', Taylor (2004, p1).

The research in the field of testing new products focus mainly on the acceptance and the attitude of the consumers towards the new product and not on the willingness to test it. In general, for products which are new to the market, consumers look for something which reduces at least one of the risks that were mentioned above. Definitely the brand name is one of the factors which reduces the risk and thus the trial is "safer" for them. Ambler and Styles (1997) argue that the trial rate of a new product with a familiar brand name is higher than for a new brand to the extent that the parent name provides consumer reassurance over and above the merits of the product itself.

Takeaway:

- *When introducing an extension, companies should firstly try to "sell" the extension to its existing consumers - they will be more willing to test it.*

2.2.12. Further brand extension. This advantage can be seen into two directions. The first one is described by Völckner & Sattler (2006) as the positive effect that the previous extensions have on the consumers' perception for the extension. Of course the authors make the remark that the interaction which consumers had with the previous extensions should be positive, but it is also true, that if the interaction was negative, then these brands will not survive the marketplace. Prior research has also found support for a positive impact of the history of previous brand extensions and parent brand experience on parent-brand conviction. It might be expected that consumers' exposure to the brand name increases as the number of previous brand extensions increases. If we assume that experiences are positive, greater exposure to the brand name may generate greater liking for and trust in the brand name. Therefore, the history of previous extensions might have a positive effect on brand conviction (DelVechio, 2000).

The second aspect refers to the fact that with every extension of the parent brand new associations to its image are being added. The more the associations, the broader the image of the brand. If the latter are used wisely enough, this means that the brand can add much more new categories under the same brand name.

3. Disadvantages

Together with all the benefits and positive aspects of the brand extension strategy there are very important risks which can put the brand in survival mode rather than into growing one. The most important ones are described below.

3.1. Negative brand associations. 'Amidst the enthusiasm for brand extensions, however, have come concerns about the negative effects that extensions may have on brand names in the long run' say Loken and John (1993). Völckner, Sattler & Kaufmann (2008) find strong evidence that even when the extensions are successful, negative image feedback effects can occur. Their research is based not only on imaginary extensions (as it is the case in most of the other research), but also on real ones. They prove that this happens mostly in reference to perceived quality - when the extension fails to meet the quality level of the parent brand (this happens especially in the cases of strong brands as the quality perception for them is higher). The likelihood of negative feedback effects decreases as the level of perceived fit and consumers' perceptions of the general extendibility of the parent brand increases. Another contribution of their research is that managers cannot moderate image feedback effects (or at least not immediately) with the help of advertising support. However, consumers become more influenced by the extension communication in the long run and the feedback image for the parent brand becomes less important.

By putting a brand on a product, the company promises a certain level of quality and characteristics to the consumer. If the product does not meet customers' expectations, a negative perception about the parent brand is created. This might result in adding weak brand associations. However, there are some positive proofs that the failure of the extension cannot influence that strength of the parent brand (applicable mainly for the strong brands). Martinez and de Chernatony (2004) classify the brand image into two main categories - general brand image also known as parent brand image and product brand image also known as extended brand. According to their model and results, failure of extended brand image

cannot affect the parent brand if parent brand is well established and strong enough (they give examples with Nike and SONY).

Takeaway:

- *The more stretchable the brand is (the wider the set of associations) and the closer the perceived fit between the parent and the extension category, the lower the chance of forming negative associations. The brand can start with introducing closer extensions and step by step get to those that are far from the initial category.*

3.2. Brand dilution. This is the second most researched risk which can be associated with the brand extension strategy. As the extension can contribute to the success of the parent brand, it can at the same time dilute its image. According to Park, McCarthy & Milberg, (1993, p60) the positive and negative consequences of the brand extension are "reciprocity effects" and defined as "a change in the initial customer's behavior regarding the brand after the extension". A dilution of the brand capital can happen due to undesirable associations or due to the weakening of the existing ones. Loken & John (1993) investigate which are the cases in which such brand dilution can occur. They come to the conclusion that brand extension which is moderately typical of the parent brand category carry higher risk of diluting family brand beliefs compared to extensions which are clearly different. In the same research, it was also found that some beliefs are more exposed to being diluted than others - e.g. the gentleness ones were more "vulnerable" compared to the quality ones, or those which are more global and less distinctive are difficult to be changed. Based on the findings in their research, Loken & John recommend two strategies in case such dilution appears - either communicating the extension as atypical for the parent brand, or stressing upon the parent brand beliefs as consumers tend to favor their initial beliefs rather than the new information.

Most of the research in relation to brand dilution concentrate on the cases in which the extension fails, is of low quality or is atypical of the parent brand category. Kumar (2005) studies one different aspect of the brand dilution - he proves that even a successful extension can be harmful for the parent brand image. He studies the so called counter-extension strategy - when brand A (present in category 1) enters a category 2; later, a competitor which is currently present in category 2, launches a new product in category 1 (the latter is counter-extension). This, according to Kumar, can carry as high risk of diluting the brand as a failed extension can. His recommendation is that brands should 'avoid categories that are dominated by large brands that are capable of mounting strong counter-extensions as well as those that may facilitate secondary counter-extensions because they are already well linked to others categories' (Kumar, 2005, p193).

Aaker (2004, p211) points this problem when he argues that "the associations created by an extension can fuzz a sharp image that had been a key asset, and at the same time reduce the brand's credibility within its original setting". So he claims like the former authors that companies have to be careful of the confusion in the customer's mind when making extensions.

Ahluwalia & Gürhan-Canli (2000) investigate what the impact of brand extension information on dilution or enhancement of the parent brand image is. The research proves that positive extension information about a far extension may enhance family brand evaluations. Ahluwalia & Gürhan-Canli say that consumers may be exposed to the extension information at some point in time, which they consider later (e.g., while making a purchase). Besides this information, they consider other inputs such as past experience. The relative diagnosticity of the extension information will determine the likelihood of its use. This means that negative extension information is likely to be used as an input only when it relates to a close category and

positive extension information when it relates to a far extension category.

John, Loken & Joiner (1998) go even a step further and they focus not only on the parent brand image, but also on the image of the flagship or other products of the same brand. Although the flagship products are most immune to changing the beliefs for, different products are under this risk depending on the strength of the attribute belief under attack. Although this risk is valid mainly for the line extensions, depending on the category fit, it can also occur in the brand extension strategy.

Takeaways:

- *Companies should be more careful with extensions which are close to the parent brand as they are the ones which carry higher risk of diluting the parent brand rather than the atypical ones.*
- *The gentler the attribute is, the more focus the brand should put on it as it is more likely to be diluted by the extension (the more global ones are quite stable).*

3.3. Cannibalization. It can appear when both the extension and the parent brand are in the same categories (especially in the case of line extension) or they are in a close market. Cannibalization occurs when sales of the extension are increasing and this leads to a decline in the sales of the existing products of the brand. In most of the cases the good sales figures for the extensions cannot compensate the damage produced to the original brand's equity. The latter is mainly valid for brand extensions, as Reddy, Holak & Bhat (1994) prove that for line extensions the incremental sales of the extension can more than compensate the loss due to cannibalization (although the research refers only to the cigarettes industry, they prove that the results are also valid for other categories). On the other hand if the brand does not offer to consumers what they are looking for, they will turn to a competitor's brand. In this sense cannibalization shouldn't be seen as that harmful.

The abovementioned cannibalization is mainly valid when there is vertical extension - i.e. the same category but entering into a new price level (very popular for some FMCGs like toothpastes, toilet paper, cheese, clothes). When talking about extending the brand into completely new categories, then cannibalization can be reckoned as cannibalizing the parent brand sales. As the extension is actually the star product of the company, it needs additional resources in order to succeed. Unless the company receives external budget, it has to pay for this itself. The parent brand or the flagship product are the cash cows - by investing the budget into supporting the new product, the first one is suffering. Then the less successful the new product launch is, the more difficult it becomes for the company to support it long term.

Takeaway:

- *The companies shouldn't fall in the "new toy syndrome"- focusing all the efforts and advertising budget on the extension, while the existing products are the cash cows for the company.*

3.4. Increased expectations towards the brand. The increased expectations can be seen in two directions - expectations towards the products (that they should contain the specific for the brand attributes) and expectations towards the brand as a whole. 'When the new extension is launched, consumers evaluate it on the basis of their attitude towards the parent brand and the extension category. If a consumer does not know the parent brand and its products at all, he/she will evaluate the new extension solely on the basis of his/her experience with the extension category. Conversely, if the extension product category is new to his/her, an attitude towards the extension will be formed only on the basis of his/her attitude towards the parent brand. In this relation if the brand is well known for very high quality and long-term traditions in the production of the parent brand category, then consumers will expect

high quality of the new product' (Islam, 2007). NIVEA is a brand with long-term experience in producing skin care products, it is known to be the expert in this category. Consumers know it as mass market brand offering good-value-for-money products. When the company steps into the decorative cosmetics business, the quality of the products is not what consumers would expect them to have (at least not the way quality in this category is perceived to be) - the 'caring' concept of the brand does not match the long-lasting needs for nail polish or strong colors in lipstick category. This leads to failure of these products and the brand takes the decision to exit them from the market.

The second dimension of the expectations is towards the brand as a whole and its long term strategy - consumers get used to the way a brand launches new products and enters new categories. It is perceived as innovative, having wide assortment. That is why consumers prefer the brand against its competitors. Once the brand "forgets" to offer something exciting to its consumers, they will not wait and they will most probably switch to its competitor.

Takeaway:

- *Consistency in the long-term extension strategy is a key factor for managing consumers' expectations correctly.*

3.5. Missed opportunities. By using the strategy of brand extension the company misses all the advantages that the new brand offers - mainly this is the possibility to build different from the existing associations (which can after that help the brand expand into other categories). In the literature Toyota and its high class vehicle case is often mentioned as a relevant example of this risk. The brand could have sold expensive cars, but it could never be able to sell them at the price it is now selling Lexus.

Another benefit the new brand offers is the life cycle duration. The brands just as the products also have their life (although very different from that of the products). By just launching the product under an existing brand, the company misses all the first stages of the excitement when something new appears on the market. The last one can bring the company free PR and save a lot of money for advertising.

Milberg, Park & McCarthy (1997) identify that one of the possible solutions in order to prevent this risk (and some of those mentioned above) is by introducing a sub-brand. The sub-brand on one hand puts certain differentiation between the extension and the parent brand. In some of the cases consumers even have the perception that the extension is produced by a subcontractor (which is especially useful when the two categories are very far from each other). On the other hand the presence of the parent brand on the product/ service provide all brand equity benefits associated with this growth strategy.

Takeaway:

- *Introducing a sub-brand is a balance between an extension strategy and launching a new brand. Although it slightly decreases the benefits of using the same brand, it also minimizes the risks.*

3.6. Increased costs. It has already been said in the previous section that the brand extension helps the company reduce its marketing costs (mainly due to the fact that the brand is already known to consumers and it is not necessary to introduce it at least to the existing consumers). However the brand extension strategy requires budget. Here the comparison is not versus introducing a new brand, but rather using the brand extension strategy at all. Depending on how different the category of the extension is, the company might need to increase its budget for additional sales force, new market research to get expertise in the new category, new production facilities, new personnel, separate marketing budget (especially if the target group is different from that of the parent brand), etc. If the brand is just extending in terms of new line extensions, only the costs for new raw materials are added (as normally the line

extension is related to introduction of new scent, new packaging, etc.). If the company enters a completely new category, then all the above mentioned investments have to be made. The company should carefully make these calculations and decide whether it can afford them with what is expected to be the ROI level and whether it can be covered from the other businesses of the company.

3.7. Force majeure. Aaker (2004, p212) explains force majeure as a "disaster which cannot be controlled by the firm" – the example that he gives is with the Firestone tires which Ford Explorers used. 'They were potentially unsafe, but of course it can happen to any brand'. The more extensions the brand has, the more significant the damages will be in case the company is not handling the crisis situation properly. Another example from the car industry is the recent case with Volkswagen and its practice of covering bad gas emissions in one of its car models. Although it refers to one of its models, the whole company suffers and the negative attitude of consumers (especially in Germany) is transferred to all car model variations. When using umbrella brand the company should be very careful and should establish a well-thought-off crisis-management plan in order to prevent the spread of the negative results to all existing categories.

Takeaway:

- *Strong crisis-management plan/ policy is a must-have when the decision for extending the brand is taken.*

4. Conclusion

As seen from the presentation above the brand extension can bring a lot of benefits for the company and in general the advantages are more than the disadvantages. However the advantages should not be taken for granted and in order to ensure they would happen, the company should perform the necessary steps before taking the decision to extend the brand. Besides doing market and consumer research in order to evaluate the potential of the extension, the company should also be aware what the equity and the image the parent brand has in consumers' minds is. Only by knowing the starting point, it can evaluate later on whether the extension was successful or not and what its impact on the total brand is.

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